The Implementation of Privatisation Policy: Case Studies from Nepal

Inaugural-Dissertation
zur
Erlangung der Doktorwürde
der
Philosophischen Fakultät
der
Rheinischen Friedrich-Wilhelms-Universität
zu Bonn

vorgelegt von

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aus

Baglung, Nepal

Bonn, 2006
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Tag der mündlichen Prüfung: 22 December 2005

Diese Dissertation ist auf dem Hochschulschriftenserver der ULB Bonn
http://hss.ulb.uni-bonn.de/diss_online elektronisch publiziert
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<th>Full Form</th>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>ATF</td>
<td>Agricultural Tools Factory</td>
</tr>
<tr>
<td>BBF</td>
<td>Bhaktapur Bricks Factory</td>
</tr>
<tr>
<td>BJM</td>
<td>Biratnagar Jute Mills</td>
</tr>
<tr>
<td>BLSF</td>
<td>Bansbari Leather and Shoe Factory</td>
</tr>
<tr>
<td>BPM</td>
<td>Bhrikuti Paper Mills</td>
</tr>
<tr>
<td>BOOT</td>
<td>Built-own-operate and transfer</td>
</tr>
<tr>
<td>BTI</td>
<td>Balaju Textile Industry</td>
</tr>
<tr>
<td>CCD</td>
<td>Corporation Coordination Division</td>
</tr>
<tr>
<td>CPN (UML)</td>
<td>Communist Party of Nepal (Unified Marxist and Leninist)</td>
</tr>
<tr>
<td>CPN (ML)</td>
<td>Communist Party of Nepal (Marxist and Leninist)</td>
</tr>
<tr>
<td>CRPS</td>
<td>Council of Retired Public Servants</td>
</tr>
<tr>
<td>DFID</td>
<td>Department for International Development</td>
</tr>
<tr>
<td>FC</td>
<td>Finance Committee</td>
</tr>
<tr>
<td>FNCCI</td>
<td>Federation of Nepalese Chamber of Commerce and Industries</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GEFONT</td>
<td>General Federation of Nepalese Trade Unions</td>
</tr>
<tr>
<td>GON</td>
<td>Government of Nepal</td>
</tr>
<tr>
<td>HBTF</td>
<td>Harisiddhi Brick and Tile Factory</td>
</tr>
<tr>
<td>HLPC</td>
<td>High Level Privatisation Commission</td>
</tr>
<tr>
<td>HMG/N</td>
<td>His Majesty’s Government of Nepal</td>
</tr>
<tr>
<td>HOF</td>
<td>House of Representatives</td>
</tr>
<tr>
<td>HTF</td>
<td>Hetauda Textile Factory</td>
</tr>
<tr>
<td>ICPE</td>
<td>International Centre for Public Enterprises</td>
</tr>
<tr>
<td>IIDS</td>
<td>Institute of Integrated Development Studies</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>ML&amp;J</td>
<td>Ministry of Law and Justice</td>
</tr>
<tr>
<td>MOC</td>
<td>Ministry of Commerce</td>
</tr>
<tr>
<td>MoF</td>
<td>Ministry of Finance</td>
</tr>
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</table>
MOI        Ministry of Industry
MoU        Memorandum of Understanding
NBBI       Nepal Bitumen and Barrel Industry
NBL        Nepal Bank Ltd.
NC         Nepali Congress Party
NFDC       Nepal Film Development Company
NFI        Nepal Foundry Industry
NJTDTC     Nepal Jute Development and Trading Company
NKP        Nepal Kanoon Patrika (Nepalese Law Bulletin)
NLO        Nepal Lube Oil
NPC        National Planning Commission
NPM        New Public Management
NSP        Nepal Sadbhavana Party
NRS        Nepalese Rupees
NTUC       Nepal Trade Union Congress
OAG        Office of the Auditor General
PAC        Public Administration Campus
PC         Privatisation Committee
PEs        Public Enterprises
PSE        Public sector enterprise
RHCDC      Raw Hide Collection and Development Corporation
RJM        Raghupati Jute Mills
RNAC       Royal Nepal Airlines Corporation
RPP        Rastriya Prajatantra Party
RPP (Chand) Rastriya Prajatantra Party (Chand)
RPP (Thapa) Rastriya Prajatantra Party (Thapa)
SAP        Structural Adjustment Program
SC/N       Supreme Court/Nepal
SCOPE      Society for Constitutional and Parliamentary Exercises
SOEs       State Owned Enterprises
TDC        Tobacco Development Company
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>TU</td>
<td>Tribhuvan University</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Program</td>
</tr>
<tr>
<td>UNESCAP</td>
<td>United Nations Economic and Social Commission for Asia and the Pacific</td>
</tr>
<tr>
<td>UNIDO</td>
<td>United Nations Industrial Development Organization</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
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<tr>
<td>WB</td>
<td>World Bank</td>
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Dedication

To My Parents and My Wife
Acknowledgements

I owe a debt of gratitude to a number of people and organizations who made it possible for me to complete this study.

I would like to express my appreciation to the DAAD (German Academic Exchange Service) for providing financial support throughout my study in Germany. I also thank ZEF (Center for Development Research) for providing me with financial support as well as a sound academic environment throughout my study. I am also grateful to the Ministry of General Administration, His Majesty’s Government of Nepal for granting my study leave and providing an opportunity to do my research work in Germany.

I am greatly indebted to my supervisor, Professor Dr. Hans-Dieter Evers for his encouragement and guidance during my study. He has really given this work all the care and attention it needed. I have benefited tremendously from his professional guidance through the useful suggestions, criticism and moral support which made this dissertation possible. I am also greatly indebted to Prof. Dr. S. Gerke, my second supervisor, not only for her academic advice on my study but also for her administrative support and cooperation in order to overcome all the administrative procedures, including my PhD enrolment at the faculty. I am grateful to Dr. C. Schetter, my tutor, for his encouragement and valuable suggestions for my work. I would also like to express my gratitude to Dr. G. Manske, Ms. R. Zabel, Ms. H. Peters, Mr. V. Merx, Mr. T. Krebs and my other colleagues at ZEF for their inspiration and cooperation throughout my stay in Germany. My special thanks are also due to Dr. Thomas Döhne and his family for providing me with a useful suggestion regarding my study as well as other practical things throughout my stay in Germany. Whenever I was in their home, I felt like I was at home in Nepal. It was always a special occasion for me to be with them and to discuss not only my study but also many other aspects of the peace and development in Nepal.

Many individuals helped me in the data collecting process during my fieldwork in Nepal. I would like to thank Dr. Narayan Manandhar, Rabi Bhattarai and Privatisation Cell
family, Ganesh Pandeya, Keshav Pandey, Lekh Raj Bhandari, Bharat Gautam, Mohadatta Timilsena, Maheswor Kafle, Dolendra Sharma, Shravan Timilsena, Yam Nath Sharma, Salik Ram Acharya, K. B. Bohara and Manju Thapa for their help in collecting data. I owe thanks and gratitude to my interviewees/key respondents, who were very helpful and cooperative during my fieldwork. My special thanks also go to Prof. Dr. Ulrich Heimenz for reviewing of my dissertation and offering valuable comments and suggestions; Dr. Pratyoush Onta for his valuable comments on some of the chapters of my dissertation; and my guru Associate Prof. Shiva Mani Upadhaya and Prof. Chuda Raj Upreti, PAC, TU for their constant encouragement for my study and generous help and support during data collection. I benefited greatly from their suggestions and help. I am also grateful to D. B. Thapa, Sushil Ghimire, Hari Datta Pande, Eak Narayan Aryal, Arjun Sharma, Rajesh Gautam, Santosh Dahal and Ram Pd. Sapkota for their help and cooperation.

I am thankful to all of my Nepali friends in Bonn, especially at ZEF—Dr. Luna Bharati, Dr. Kavita Rai, Dr. Junoo K. Tuladhar and her family, Dil Rahut and Ramesh Parajuli at the University of Bielefeld and Kirti Bilas Pant and his family at the University of Reading, the UK, for their moral support and encouragement throughout my stay in Bonn.

Last, but not least, I would like to express my sincere gratitude to my family members and all my relatives for their active encouragement and all their support, which enabled me to continue my study at the current level. My special thanks are due also to my wife Kshama for her continuous support and encouragement for the completion of this study.

I am grateful to many individuals and institutions. None of the above, however, bears any responsibility for the interpretation of events presented in this study. Any such errors are solely my own.

Hari Paudel
Bonn, 7 November 2005
Abstract

This dissertation deals with the implementation process of privatisation policy in Nepal. The main objective of the study was to explore the implementation process of privatisation efforts, to identify the problems that have been met in the process of privatisation and to identify the prospects of privatisation policy for a developing country such as Nepal. Inline with the objectives the main research assumption was the policy has been implemented due to the internal and external factors to achieve some stated goals but due to some implementation barriers, they have not been achieved as expected. The theory of policy implementation, the concept of privatisation and strategic group analysis has been chosen for the analysis of data - to compare and contrast the Nepal’s situation.

The main findings show that due to the deteriorating conditions of the PEs and the ideological shift of the new government with the advice and suggestions of the international donor community, the government formulated and implemented the privatisation policy in Nepal. There were different actors/strategic groups who contributed to formulate and implement the policy. They were policy elites including the Prime Minister, the Finance Minister, the Vice-Chairman of the National Planning Commission, high ranking government officials, the members of parliament, the business community and the donor agencies. However, some of the strategic groups such as employees of the privatised enterprises and trade union representatives were against the privatisation. The main objectives of the policy have not been met in Nepal due to some implementation barriers. Despite explicit opposition from the political parties regarding policy content as such, the problems of implementation were more closely related to the process of implementation and other factors, such as evaluation of the enterprise, selection of bidders, political instability, lack of developed capital market, lack of investors and poor conditions of public enterprises. Although the overall impact of privatisation in Nepal is not very promising, it is necessary for the overall development of the country, as the government cannot continue to run such loss-making enterprises in the age of globalisation and liberalisation, nevertheless it should be implemented in a cautious and selective manner.
Chapter One

Implementing Privatisation Policy in Nepal: Introductory Discussion

1.1 Privatisation from a Global Perspective

In popular usage, ‘privatisation’ means the transfer of government assets or ownership and activities to the private sector. The term ‘privatisation’ has been used to describe a range of actions designed to broaden the scope of private sector activity, or the assimilation by the public sector of efficiency-enhancing techniques generally employed by the private sector. Essentially, privatisation is a process that covers the transfer from the public to the private sector of the ownership and/or control of productive assets, their allocation and pricing, and entitlement to the residual profit flows generated by them (Adam et al., 1992:6). In Nepal, The Privatisation Act, 1994 defined the term ‘privatisation’ as “involving private sector in the management of the enterprise, or to sell or lease it, or to transfer government ownership into public ownership, or an act to infuse participation by any means, either wholly or partly, or private sector or of the employees or workers, or of all desirous groups” (Article 2.b).

‘Privatisation’ implies a move toward the divestment of total ownership by the government to the private sector. At the broadest level, privatisation refers to the introduction of market forces into an economy. ‘Privatisation’ may be defined as the transfer of a function, activity, or organisation from the public to the private sector (Cowan, 1990:6) and involves both the ends and the means of this process. The means of privatisation range from replacing public ownership with private ownership to the introduction of private management techniques into the public sector. Although much attention has been focused on specific examples of the first kind of strategy, for example, in the sale of huge public enterprises, it may be argued that the most extensive type of privatisation is the search for internal reform within the public sector under the influence of private management models (Lane, 1995:184-185).

Several major influences have propelled the privatisation movement: pragmatic, economic, ideological, commercial, and populist. The goal of the pragmatists is better
government in the sense of a more cost-effective one. Economic affluence reduces people’s dependence on government and increases their acceptance of privatised approaches. The goal of those who approach the matter philosophically—some would say ideologically—is less government, or one that plays a smaller role as in a private institution. The goal of commercial interests is to get more business by having more government spending directed toward them. However, the goal of the populists is to achieve a better society by empowering people so they can satisfy their common needs, while diminishing the power of large public and private bureaucracies (Savas, 2000).

The process of privatisation may assume a number of forms. In complete divestiture publicly owned assets may be completely transferred by sale to private individuals or firms, after which the government bears no further responsibility for the operation of the assets. Alternatively, in partial divestiture the state retains partial ownership of the divested assets by means of public stock flotation. The assets may also be removed from the direct control of the government by management contracting, which places operations in the hands of an outside management group, while leaving ownership in government hands; its major purpose (as is the case with leasing or franchising) is to restore an ailing firm to profitability (Cowan, 1990).

The consensus on the question of privatisation is that it is generally a more efficient way of running commercial operations than when they are run by the government (Vickers & Yarrow 1985:20 cf. Nelson 1996:17). It is usually found that privatisation brings about reductions in cost and price, improvement in service, increases efficiency and efficient resource allocation, and reduces monopoly. Most studies from middle- and high-income countries show positive results after privatisation, as far as profitability measures are concerned. Even some lower income countries have been successful in improving profitability through privatisation (UNCTAD, 1995). Success stories of the United Kingdom and other Western countries have been cited as evidence that privatisation can reduce subsidy costs and increase the productivity of formerly state enterprises. Attempts have been made to prove that privatisation is a viable policy option for developing countries to better their performance.
Vickers and Yarrow (1988) observe that privatisation as a policy option has been adopted with the following aims:

   a. improving efficiency;
   b. reducing the public sector borrowing requirement (PSBR);
   c. reducing government involvement in enterprise decision making;
   d. easing problems of public sector pay determination;
   e. widening share ownership;

Vuylesteke (1988) argues that the most commonly used methods of privatisation are: public offering of shares, private sale of shares, new private investment in an SOE, sale of government or SOE assets, reorganisation (or ‘break up’) into component parts, management/employee buy out, lease, and management contract (1988:8).

The 1979 general elections in the UK were a watershed in making the transition from public ownership to privatisation. Prime Minister Margaret Thacher decided to move in the direction of the ‘New Right’ doctrine, which led to widespread privatisation. The UK’s experience of privatisation has been considered by many as a role model for other countries. 19 major privatisations took place in the UK during the period of 1979-1993, with gross sale proceeds of £56,847 million (Narain, 2003:354-56), which included British Petroleum (1979), British Aerospace (1981), Britoil (1982) Cable and Wireless (1983), British Telecom (1984), British Gas (1986), and British Airways (1987). Compulsory tendering (required competitive bidding) of local government services in Britain was mandated in 1988 (Savas, 2000:15).

Despite an ambitious array of privatisation proposals unveiled by the Reagan Administration in 1985, in the United States relatively little privatisation by sale took place at the federal government level, in part because the United States had few government-owned enterprises. Conrail, the government-owned freight rail network, was sold but President Reagan’s effort to sell the United States Enrichment Corporation,
which prepared enriched uranium for nuclear reactors, was blocked by a Democratic Congress (President Clinton, supported by a Republican Congress, accomplished this a decade later). Considerable contracting out of support services (for example, data processing, food service, building maintenance, etc.) was carried out by federal government agencies, and privatisation by contracting continued to grow in local governments, both for support services and for direct services to the public (waste collection, street cleaning, ambulance services, etc) (Ibid: 15-16).

In March 1986, after the political right won the election in France, the new prime minister announced that he would de-nationalise. The Privatisation Commission, comprised of seven members recognised for their competence and independence, was set up. However the price for the shares to be sold, as fixed by the commission, was subject to review by the minister of finance, who had the right to increase it (not decrease), which he exercised in many cases. The privatisation scheme was to sell 10% shares to employees, 15% to foreigners, 50% to the public and about 25% to 10 large shareholders comprising a ‘stable nucleus’, who were to pay 5% more than the ordinary buyer and agree not to sell the shares for at least two years. Seven major privatisations took place in the first phase 1986-87 and 21 in the second phase 1993-96 (Narain 2003: 361-364).

The role of transferring the social system into a market system in East Germany was assigned to the state-owned trust named Treuhandanstalt (THA), founded in 1990. It temporarily became the owner of about 8000 companies, with more than 45,000 plants; 33,000 shops, hotels, restaurants, pharmacies and cinemas; as well as 3.9 million hectares of agricultural and forest land. By law, THA was required to privatise its assets as fast as possible, as privatisation was considered to be “the heart of the transformation process”. The law also instructed THA to restructure and break up companies in order to create smaller units for the ease of privatisation. It should be noted that all manufacturing in East Germany was concentrated in 221 Kombinate, horizontally or vertically integrated conglomerates of plants. Some of these Kombinates employed up to 60,000 workers. When THA was closed down by the end of 1994, about 75% of the former state business
had been privatised. Most of the remaining companies were in liquidation and some had been offered for sale (Ibid 367-68).

In 1991, for the first time Mr. Yaswant Singh, finance minister in the Chandra Sekhar government (November 1990 - June 1991) in India, stated in his budget speech that the “government would disinvest up to 20% of its equity in selected public sector undertakings in favour of mutual funds and financial or investment institutions in the public sector”. Similarly, Dr. Manmohan Singh, finance minister in the Narshimha Rao government (June 1991 - May 1996), announced in his budget speech in July 1991: “In order to raise resources, encourage wider public participation and promote greater accountability, up to 20% of government equity in selected public sector undertakings would be offered to mutual funds and investment institutions in the public sector, as also to workers in these firms” (Ibid). The Indian government has fired the first salvo for privatisation by disinvesting shares of 31 public enterprises in order to raise Rs. 2500 crore in two phases in December 1991 and February 1992. During the first phase of disinvestment, bids were received from 9 parties totalling Rs. 1427 crore; 51.62 crore shares constituting 4.7% of the equity were sold. In the second transaction in February 1992, bids were received from 19 parties for Rs. 1611 crore; 35.59 crore shares constituting 3.3% of the equity were sold. The total shares disinvested during 1991-92 thus comprised 8% of the total government share holding in the 31 public enterprises and the total amount realized was Rs. 3038 crore (Bastra and Bhatia, 1995 cf. KC 1999:96-97). Thus, India has also formally embarked on its privatisation policy.

Hence from a global perspective, in the 1970s the privatisation movement was realised and gathered momentum in the ‘80s and ‘90s. Nepal could no longer remain the exception to this widespread transition and embarked on its own massive privatisation program in 1991, when the new government formed after the restoration of democracy in 1990.
1.2. Privatisation Process in Nepal

Public enterprises (PEs) are usually defined as government-owned entities and active operation of agencies engaged in supplying goods and services to the public which otherwise might be supplied by privately owned profit-motivated firms. The term emphasises government ownership without a profit motive. Presently it covers:

- Industrial, commercial and economic activities,
- State ownership,
- Self-contained managerial care, i.e. autonomous (Satish Chandra, 1997).

The first public enterprise to have legal validity in Nepal was the Nepal Bank Limited, established in 1938. After the inception of the bank as a public enterprise, a series of additional PEs was established. In total 64 PEs were established in Nepal. In spite of this impressive growth in the number, role and scope of public enterprises in Nepal, their performances—financial or otherwise—has always remained below a satisfactory level (Manandhar, 1998).

His Majesty’s Government of Nepal (HMG/N) has established a number of public enterprises that were supposed to play a catalytic role in the social and economic development process of the nation. HMG/N has been investing huge amounts of resources annually into this sector to achieve the stated objective. By FY 2002/03, the net capital investment in these enterprises totalled Rs\(^1\).97.23 billion (MoF, 2004 Economic Survey 2003/2004:139).

State-owned enterprises in Nepal are in an almost universally poor condition. The standards of PEs are lowered by a series of factors, which include suffering from losses, political interference, frequent changes of board membership and of the chief executive officer, mismanagement, shortage of capital, over staffing and poor financial management and other accounting and record-keeping are the subject of frequent and

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\(^1\) Rupees is an official currency of Nepal and one U S $=70.50 Nepalese Rupees (as of 26th Aug, 2005).
justified criticism. In order to overcome such problems, and with the aim of contributing to national development by raising their efficiency, the privatisation program of public enterprises in Nepal was initiated in the late 1980s and has gained momentum since the early 1990s, when the democratically elected government came into power after the restoration of multiparty democracy.

Analysis of the financial management of public enterprises in FY 1991/92 revealed a total net operating loss of Rs.1,145.5 million. By the end of FY 1991/92, net investment in the PEs totalled Rs. 50,530.3 million. In FY 1991/92, return on investment in the PEs registered a negative 2.4% (MoF, 2000- Economic Survey 1999:74). When the bleak outlook for PEs became apparent, the then-government accelerated the pace of privatisation with great hopes for success. In 1991, an attitudinal survey on privatisation was sponsored by USAID. The ongoing deterioration of PEs compelled the government to introduce an alternative policy option for the improvement of PEs. The then-government introduced a privatisation policy in 1991 by issuing a government concept paper, called a white paper of ‘privatisation policy’, which outlined a set of three broad objectives of privatisation in Nepal: (a) a reduction of the managerial and financial burden on the government, (b) the promotion of functional expertise to enhance productivity and output, and (c) the promotion of the private sector’s role and public employees’ participation in industrial investment. The assistance and pressure from the donor community had, and still have, a major impact on the strategy of privatisation in Nepal (Reejal, 1998). Overall, 24 small- and medium-sized enterprises have been privatised since the program began. Three PEs, namely Bhrikuti Paper Mills, Bansbari Leatherage Ltd. and Harisiddhi Bricks and Tiles Factory were privatised in the first phase 1992. Similarly, seven PEs were privatised in the second phase in 1993-94, six PEs in the third phase in 1996-97 and eight PEs after 1997. Among the privatised enterprises, assets and business of three PEs and share of ten PEs were sold out, nine PEs were liquidated/dissolved, and two were leased out (one for ten years with asset sale and another for 50 years).
Despite the legal provision and initiation for better privatisation, critics argue that the program has not been properly implemented. There is no consensus among the various political parties concerning the program. Critics have also argued that the privatisation objectives have not been achieved and the privatisation policy is not a viable policy option for developing countries such as Nepal.

On the one hand, “the majority of public corporations, where billions of rupees of this resource-poor country have been poured, have failed to deliver expected services, their productivity is low and quality of their products are short of standard. The returns are negligible. They are still plagued with the government intervention in professional matters like recruitment of personnel, investment, procurement, etc. Professionalism for good governance is still not a reality in these corporations…” (MoF, 1999a- Budget Speech, 1999:4).

On the other hand, “…most of the privatised enterprises had faced adjustment problems during the first twelve months after privatisation owing to labour resistance, delay in handing over of the enterprise to the private sector and management, etc. The picture is more disappointing for all 5 enterprises privatised in phase II (on all fronts capacity utilisation, employment and employee productivity).” (Reejal, 1998:223-24).

In addition, in the context of Nepal's privatisation program, there are two prominent points of criticism. The first criticism is directed towards the privatisation policy of Nepal, which has resulted in the complete withdrawal of the government from a particular sector after its privatisation, whereby the government no longer even acts as a regulator to ensure the supply of goods and provision of services to the consumers at an affordable price. The second criticism concerns the privatisation process, for which the government has been accused for its improper approaches to issues such as: under-valuation of the sold enterprises, lack of transparency, and improper and unbalanced utilisation of the revenue generated from the proceeds of the sick SOEs. In fact, in the context of the performances of the privatised enterprises, the experience of privatisation in Nepal has been extremely discouraging (Adhikari and Adhikari, 2000). At the same
time, international financial institutions like the WB, IMF, and ADB have compelled the government to adopt and implement the privatisation policy as a panacea for the developing countries.

The failure and success of any policy depend, to a great extent, upon the context of the policy environment and the ability to effectively implement it. Outcomes of privatisation policy in developed countries are different from those in developing countries. Indeed, outcomes may even differ among developing countries.

In the context of this broad scenario, the aim of this study is to explore the implementation process of privatisation efforts, to identify the problems that have been met in the process of privatisation and to identify the prospects of privatisation policy for a developing country such as Nepal. The specific objectives of the study are:

- To examine the influence of administrative reform on the implementation of a privatisation policy for the improvement of public enterprises.
- To assess the role of the institutional design and legal framework in implementing policy reforms, especially on privatisation policy.
- To investigate the policy characteristics and arena of conflicts on the process of agenda setting to the implementation phase and identify the problems that are encountered in the process.
- To look at the changes brought about by the implementation of the policy to enterprises in Nepal.
- To identify whether privatisation is a success or a failure, a distinction which will enable a conclusion to be made concerning the prospects of the policy in Nepal.

1.3. Research Questions and Hypotheses

1.3.1 Research Questions

This study focuses on the implementation process of the privatisation policy in Nepal and its effects, by analysing privatised enterprises. This might lead to an assessment of the
privatisation policy that is its success or failure, so that we can identify the prospects of
the policy in Nepal. In addition, the following are research questions for this study:

- What are the factors that led HMG/N to adopt the privatisation policy and what are
  the major processes applied to the implementation of the privatisation policy in
  Nepal?
- To what extent is the present legal and institutional setting conducive to the
  implementation of privatisation policy?
- Who were/are the main influential actors/strategic groups to adopt the privatisation
  policy in Nepal?
- What are the main obstacles encountered in the process of implementation of the
  privatisation policy in Nepal?
- What is the impact of the privatisation policy in Nepal?
- What lessons could be learned from the privatisation policy of Nepal (is the
  privatisation of public enterprises essential in Nepal? If so, has it been successful)?

1.3.2 Research Hypotheses
As I have stated in the sub-section 1.2, there is ongoing debate concerning whether the
implementation of the privatisation policy is a viable option in regards to increasing
efficiency, reducing the burden on the government with respect to PEs, generating
employment, market-oriented competitiveness, and so forth. In order to address the above
debate, the main assumptions (hypotheses) of this research are as follows (based on the
available literature related to the Nepal’s privatisation policy):

- Privatisation policy has been implemented not only as a necessity of the
country (internally) but also as a requirement imposed by the donor
community.
- Privatisation policy has been implemented to achieve some stated goals
but they have not been achieved as expected.
- Privatisation policy has some implementation barriers that affect the
policy’s ability to meet its objectives.
- Privatisation has brought about some positive changes, i.e. it has assisted
in reducing the financial burden on the government, contributed to
enhancing the efficiency of enterprises, and facilitated popular participation in management; these benefits, however, are negligible.

- Privatisation policy per se is not necessarily conducive to improving the efficiency of the enterprises.

The above hypotheses will not be tested in rigid terms but they will be checked (falsified) on the basis of the research findings. In summary, by this study I do not intend to prove a theoretical proposition or test quantitative hypotheses, but rather to explore and describe the specific phenomenon of implementing privatisation policy in Nepal.

1.4 Structure of the Thesis

Chapter One is the introductory chapter, which provides a general outline of the thesis. Chapter Two deals with theoretical framework and literature review. In this chapter, the definition of privatisation, the objectives of privatisation, the techniques of privatisation (methods and implementation) and general explanation of policy implementation, brief discussion of the theory of strategic group analysis, among other things, are explained. Also in this chapter various writers’ views of the subject matter are discussed in detail. In Chapter Three public enterprises in Nepal, their performance, the need for reform, and the need for privatisation are discussed. Chapter Four deals with privatisation policy in Nepal and its main issues and goals. The policy formulation process, i.e. agenda setting, decision making and implementation, are discussed based on the model presented by Grindle and Thomas (1991) in “Public Choices and Policy Change; the Political Economy of Reform in Developing Countries”. Chapter Five deals with the implementation of privatisation policy and its impact in Nepal. In this chapter the institutional and legal arrangement are also discussed, as well as the implementation process of four selected privatised enterprises and the impact of the policy (changes made after privatisation). Chapter Six describes the problems encountered in the privatisation process and the prospects of privatisation in Nepal, and the final chapter (Chapter Seven) outlines and discusses the findings of the study on the basis of the descriptions and interpretations already presented in the earlier chapters. The chapter mainly discusses the results, based on the research questions that have framed this research work.
Chapter Two
Implementation of Privatisation Policy: A Theoretical / Analytical Framework

The literature in a research study accomplishes several purposes: (a) It shares with the reader the results of other studies that are closely related to the study being reported. (b) It relates a study to the larger, ongoing dialogue in the literature about a topic, filling in gaps and extending prior studies. (c) It provides a framework for establishing the importance of the study, as well as a benchmark for comparing the results of a study with other findings (Creswell, 1994:20-21).

2.0 Introduction

The main aim of this theoretical chapter is to develop an analytical framework for the analysis of the implementation of privatisation policy in Nepal. As indicated in the first chapter, three approaches (privatisation, strategic group analysis and implementation) have been chosen for the purpose of the data analysis. In order to properly present the study and analyse the data in a comparable form, it is necessary briefly to review the literature on the subject matter in order to gain a clear understanding of the conditions essential for the successful implementation of the privatisation policy.

In the first section, I will begin my discussion by reviewing privatisation-related literature concerning the concepts, forces for adopting the policy, objectives, techniques and methods. In particular, the discussion will be based on “Techniques of Privatisation of State-Owned Enterprises Volume I” (1988) by Charles Vuylsteke, “Privatisation and Public Private Partnerships” (2000) by E. S. Savas, and other prominent writers’ work discussing different aspects of privatisation. In the second section, I will present a brief literature review of the policy implementation, including the definition, approaches, models of implementation and conditions for effective policy implementation. In the third part, concepts of strategic group analysis (Evers, 1966, 1973, 1982; Evers and Schiel 1987) will be discussed in brief.
2.1. Concept of Privatisation

2.1.1 What is Privatisation?
Privatisation has been defined in various ways. In popular usage, it means the transfer of government assets and activities to the private sector.

Privatisation may be defined as the transfer of a function, activity, or organisation from the public to the private sector (Cowan, 1990:6, GTZ, 2004). Privatisation tends to imply a move towards the divestment of total ownership by the government, from the public to the private sector (Nelson, 1996:10). The term ‘privatisation’ has been used to describe a range of actions designed to broaden the scope of private sector activity, or the assimilation by the public sector of efficiency-enhancing techniques generally employed by the private sector. Essentially privatisation is a process that involves the transfer from the public to the private sector of the ownership and/or control of productive assets, their allocation and pricing, and entitlement to the residual profit flows generated by them (Adam et al., 1992:6).

Regarding the political meaning of privatisation, Prof. Paul Starr argues that there may be a broad and a more specific definition of privatisation. “The first, broader definition of privatisation includes all reductions in the regulatory and spending activity of the state. The second, more specific definition of privatisation excludes deregulation and spending cuts except when they result in a shift from public to private in the production of goods and services” (Starr, 1988). He further clarified his definition by pointing out that the public sector includes agencies administered as part of the state and organisations owned by it; privatisation refers here to shifts from the public to the private sector, not shifts within the sector (Ibid). A notable economist Joseph E. Stiglitz (Nobel Prize winner in 2001) argues that privatisation entails the conversion of enterprises formerly controlled by the government into private hands (Stiglitz, 1992: 181). Similarly, Narain (2003:289) defined privatisation as “in the broad sense of the term, privatisation is roll-back of the state in the lives and activities of citizens and strengthening the role of markets. In the narrow sense, privatisation is transfer of ownership from the public to the private sector or transfer of control over assets or activities as in the case of privatisation through
leasing, where ownership is retained, leaving management of assets and activity to private parties.”

‘Privatisation’ means involving the private sector in the management of the enterprise, or to sell or lease it, or to an act to infuse participation by any means, either wholly or partly, of the private sector or of the employees or workers, or of all desirous groups (Article 2(b) of the Privatisation Act, 1994 of Nepal).

The term ‘privatisation’ therefore indicates a transfer mainly of the carrying out of activities economic in nature, either in whole or in part to the private sector, that were formerly carried out in the public sector through different modalities.

2.1.2 Forces that influence Promoting Privatisation

Savas (2000) has mentioned the five forces that influence promoting privatisation, i.e. pragmatic, economic, ideological, commercial, and populist. He summarized the characteristics of these five forces as follows (Savas 2000:5-6):

<table>
<thead>
<tr>
<th>Influence</th>
<th>Effect</th>
<th>Reasoning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pragmatic</td>
<td>Better Government</td>
<td>Prudent privatisation leads to more cost effective public services.</td>
</tr>
<tr>
<td>Economic</td>
<td>Less Dependence on Government</td>
<td>Growing affluence allows more people to provide for their own needs, making them more receptive to privatisation.</td>
</tr>
<tr>
<td>Ideological</td>
<td>Less Government</td>
<td>Government is too big, too powerful, too intrusive in people’s lives and therefore is a danger to democracy. Government’s political decisions are inherently less trustworthy than free-market decisions. Privatisation reduces government’s role.</td>
</tr>
<tr>
<td>Commercial</td>
<td>More Business Opportunities</td>
<td>Government spending is a large part of the economy; more of it can and should be directed toward private firms. State-owned enterprises and assets can be put to better use by the private sector.</td>
</tr>
<tr>
<td>Populist</td>
<td>Better Society</td>
<td>People should have more choice in public services. They should be empowered to define and address common needs, and to establish a sense of community by relying more on family, neighbourhood, church, and ethnic and voluntary associations and less on distant bureaucratic structures.</td>
</tr>
</tbody>
</table>

(Source: Savas, 2000: 5-6)
The common explanation of why privatisation has become so important in developing nations is the debt crisis that emerged in 1981/82 and has been continuing unabated ever since. Ira W. Lieberman, a World Bank senior consultant and privatisation expert, has argued that the following six factors have influenced the adoption of privatisation as a critical feature of countries’ economic policies (Lieberman, 1993:9-11).

The first key factor is the successful economic performance of Japan and the Newly Industrialized Countries (NICs) (Korea, Singapore, Hong Kong and Taiwan). Second, at the time that the growth model of Japan and the Asian NICs was proving so successful, there was growing awareness that other models for economic development, such as the command economy, had outlived their usefulness and needed to be rejected. A third factor that emerged in the 1980s is what some analysts call the fourth industrial revolution, driven by information-based technologies, which requires competitiveness. The fourth factor is the role of state-owned enterprises, which have monopoly status and have generally bred inefficiency and a lack of competitiveness. A fifth factor influencing privatisation in the developing countries is that in the 1980s advanced industrial countries such as the USA and the UK expressed a strong ideological commitment to private enterprise. Finally, since 1989 the political revolution in Eastern Europe and the Soviet Union has lent new impetus to the privatisation process, as the newly emerging democracies in most of these countries are utilizing privatisation as a cornerstone of their economic reform process to create the basis for a market economy.

2.1.3. Objectives of Privatisation

The following objectives are mentioned frequently in connection with privatisation (Lieberman 1993: 11):

- reduce the government’s operating deficit;
- raise cash through SOE sales;
- generate new sources of tax revenue;
- deepen domestic capital markets and broaden domestic equity ownership;
- ‘democratization’ of capital;
- promote domestic investment;
• attract direct foreign investment and new technology;
• increase domestic and international business confidence;
• increase competition;
• create opportunities for employment through real growth;
• increase productive and operating efficiency;
• ‘turn around’ or restructure sick SOEs;
• increase exports;
• improve the quality of services; and
• reduce the role of the state in the economy.

Vickers and Yarrow (1988) observed that privatisation as a policy option has been adopted with the following aims:

• reducing government involvement in industry;
• improving efficiency in privatised industries;
• reducing the public sector borrowing requirement (PSBR);
• easing problems of public sector pay determination by weakening the public sector unions;
• widening share ownership;
• encouraging employee share ownership;

Bennett (1997) has categorized the commonly stated objectives of privatisation as follows:

1. **Political** goals, such as reducing the size of the public sector, restoring or strengthening the private sector, spreading share ownership more widely, and making productive enterprises more responsive and accountable to those for whom they produce;

2. **Efficiency** goals, such as increasing productivity and microeconomic efficiency. The development of capital market institutions, which intermediate between savers and investors, may also be classed as efficiency objectives;
3. **Fiscal stabilization** goals, such as maximizing proceeds of sales, reducing the future drain of subventions and capital contributions from government revenue, increasing tax revenues from higher profits and reducing the public debts;

4. **Resources mobilization** goals, such as promoting foreign investment in the country and releasing limited state resources for investment in other sectors like education and health (Bennett, 1997: 7-8).

Dobek (1993) argued that privatisation is more than merely an economic operation. The decision to privatise may be triggered by political as well as by economic considerations. Even if privatisation is initially undertaken to achieve certain economic goals, the government conducting it has to make this politically viable by generating sufficient political support for a particular privatisation effort. The British case of privatisation is an example of one that was politically motivated from its very inception (Dobek, 1993:4).

Stiglitz argued that privatisation is based on the premise that privately run firms are necessarily more efficient than government-owned enterprises. However recent theoretical and empirical literature has cast considerable doubt on this underlying premise, at least in so far as it concerns large-scale enterprises (Stiglitz, 1992:181).

Privatisation could have several objectives, as discussed above. However, in many cases it has been prescribed and advocated for ensuring the economic and financial objectives as envisaged in the economic policy for the development of a country.

**2.1.4. Techniques of Privatisation**

Pirie (1988) has identified a number of privatisation techniques categorized according to the five dimensions of privatisation as follows:

A. Changes in ownership

B. Changes in performance arrangements

C. Changes in the financial base

D. Deregulation by introducing competition
E. Measures to remove or reduce opposition to privatisation (Pirie, Madsen 1988, cited from UNESCAP, 1999:8).

UNIDO (1994) argued that the privatisation of state enterprises can be accomplished by a public offering of shares, the sale of shares to private buyers, the free distribution of shares to the company’s workforce or other people or institutions, the restitution of assets to former owners, and by management buy-outs or other forms of ‘self’ privatisation. The effective implementation of any of these means of privatisation calls for a proper institutional framework in order to manage and monitor the process of privatisation. Given the underdeveloped financial systems in most developing countries, the administrative arrangements may be very demanding (1994:10).

Privatisation policy, as an economic policy, has been adopted not only by developed countries but also by developing ones. As a result, there has been a gradual transfer of government assets and functions to the private sector. The most commonly used methods of privatisation are: public offering of shares, private sale of shares, new private investment in an SOE, sale of government or SOE assets, reorganisation (or ‘break up’) into component parts, management/employee buy out, and lease and management contracts (Vuylesteke, 1988:8, Parker and Saal, 2003:33-36).

The above basic methods, as well as their characteristics and procedures, are summarized briefly in the following table:
Table 2.2: Summary of the Different Privatisation Methods

<table>
<thead>
<tr>
<th>Methods</th>
<th>Characteristics</th>
<th>Procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public offerings of shares</td>
<td>Distribution to the general public of all or part of shares in public limited company (as a going concern)</td>
<td>If PSE is in required condition, standard processing of public offering is on the basis of prospectus. If not in required condition, then readying process is necessary. Offer can be on fixed price or tender basis.</td>
</tr>
<tr>
<td>Private sale of shares</td>
<td>Sale of all or part of government shareholding in a stock corporation (as a going concern) to a single entity or group. Can take various forms such as a direct acquisition by another corporate entity or a private placement targeting institutional investors. Can be full or partial privatisation (i.e. transformation into joint venture).</td>
<td>Sale may be result of negotiation or competitive bidding process. May be done ad hoc or may be subject to mandatory country procedures or guidelines on valuation, prequalification, evaluation of proposals, terms of payment, etc. In some cases, prior restructuring is necessary. Involves investor search.</td>
</tr>
<tr>
<td>Sale of government or enterprise assets</td>
<td>Sale of assets (instead of shares); private sale</td>
<td>Alternatives: sale of assets by government; disposal of some assets by PSE; dissolution of PSE and sale of all assets; other procedures for private sale of shares generally apply.</td>
</tr>
<tr>
<td>Fragmentation</td>
<td>Reorganisation of a PSE into several entities (or one holding company and several subsidiaries). Each entity will then be privatised separately.</td>
<td>Depends on structure of PSE.</td>
</tr>
<tr>
<td>New private investment in PSE</td>
<td>Primary share issue subscribed by the private sector (dilution of government’s equity position).</td>
<td>Public offerings or private issue of new shares on basis of standard procedures for new issues possibly in conjunction with disposal of government equity. New private investment may be for capitalization of new company embodying assets transferred by government.</td>
</tr>
<tr>
<td>Management/employee buy-out</td>
<td>Acquisition by management and/or work force of controlling interest in PSE. Leveraged management/employee buy-out consists of purchase of shares on credit extended either by seller (government) or by financial institutions.</td>
<td>Negotiations by government, management, employees and lenders to cover wide range of issues.</td>
</tr>
<tr>
<td>Leases and management contracts</td>
<td>No ownership transfer. Under lease, fee is payable to owner of productive facilities; lessee assumes full commercial risk. Under management contract, owner pays for management skills, while manager has full management and operational control. Many variations exit.</td>
<td>No standard method.</td>
</tr>
</tbody>
</table>

(Source: UNESCAP 1999:22)

The main characteristics of the various methods of privatisation, procedures, preferred applications/ special features and implementation issues which are not discussed here will be discussed in subsequent chapters to avoid the duplication (although they have been discussed very briefly in above table).
Methods and procedures for privatisation will be largely determined by:
(a) the objectives of the government; (b) the current organisational form of the SOE;
(c) the financial condition and record of performance of the SOE; (d) the sector of
activity of the SOE; (e) the ability to mobilize private sector resources; (f) the degree of
development of the capital market; and (g) Socio-political factors.

Vuylsteke (1988) has extensively explained the above issues, care of which should be
taken while implementing the privatisation policy. The issues will be discussed when the
specific implementation process of selected enterprises is explained.

2.2 Implementation of Policies

2.2.1 What is Policy Implementation?

Policy implementation encompasses those actions by public and private individuals (or
groups) that are directed at the achievement of objectives set forth in prior policy
decisions. This includes both on-time efforts to transform decisions into operational
terms, as well as continuing efforts to achieve the major and minor changes mandated by
policy decisions. The implementation phase does not commence until goals and
objectives have been established (or identified) by prior policy decisions; it takes place
only after legislation has been passed and funds committed (or after a judicial ruling and
accompanying decrees) (Van Meter and Van Horn, 1975:447).

Implementing a public policy may include a wide variety of actions: issuing and
enforcing directives, disbursing funds, making loans, awarding grants, signing contracts,
collecting data, disseminating information, analysing problems, assigning and hiring
personnel, creating organisational units, proposing alternatives, planning for the future,
and negotiating with private citizens, business, interest groups, legislative committees,
bureaucratic units, and even other countries (Edwards, 1984:2).

Implementation may be viewed as a process of interaction between the setting of goals
and actions geared to achieving them. Policies imply theories. Whether stated explicitly
or not, policies point to a chain of causation between initial conditions and future consequences. Implementation, then, is the ability to forge subsequent links in the causal chain so as to obtain the desired results (Pressman and Wildavsky, 1984: XXIII).

If we consider implementation as a process of putting policy into effect, it is, according to Barrett (2004) and Barrett and Fudge (1981), fundamentally dependent on:

1. Knowing what you want to do
2. The availability of the required resources
3. The ability to manage and control these resources to achieve the desired result
4. If others are to carry out the tasks, communicating what is wanted and controlling their performance (Barrett 2004 and Barrett and Fudge, 1981: 13).

According to Lane (1995) implementation assessment focuses on the operation of a public policy and its consequences. It includes three logically separate activities: (a) clarification of the objectives involved (the goal functions), (b) statement of the relationship between outputs and outcomes in terms of causal effectiveness (the causal function), and (c) clarification of the relation between objectives and outcomes in order to affirm the extent of goal achievement (the accomplishment function) (Lane, 1995: 98-99).

### 2.2.2 Approaches to Policy Implementation

Elmore (1982) identifies two distinguishable approaches to implementation analysis, i.e. forward mapping and backward mapping. Forward mapping is the most apparent strategy when considering how a policy maker might try to affect the implementation process. It begins at the top of the process, with as clear a statement as possible of the policy maker’s intent, and proceeds through a sequence of increasingly specific steps to define what is expected of the implementers at each level. At the bottom of the process, it is stated with as much precision as possible what a satisfactory outcome would be, measured in terms of the original statement of intent (Elmore, 1982:18).

Backward mapping shares with forward mapping the notion that policy makers have a vested interest in affecting the implementation process and the outcomes of policy
decisions. However backward mapping explicitly questions the assumption that policy makers ought to, or do, exercise a determinant influence over the implementation process. It also questions the assumption that explicit policy directives, clear statements of administrative responsibilities, and well-defined outcomes will necessarily increase the likelihood that policies will be successfully implemented.

Sabatier (1986:22) describes the top-down and bottom-up approaches to implementation research. The essential features of a top-down approach are that it starts with a policy decision by governmental (often central government) officials and then asks:

1. To what extent were the actions of implementing officials and target groups consistent with (the objectives and procedures outlined in) that policy decision?
2. To what extent were the objectives attained over time, i.e. to what extent were the impacts consistent with the objectives?
3. What were the principal factors affecting policy outputs and impacts, both those relevant to the official policy as well as other politically significant ones?
4. How was the policy reformulated over time on the basis of experience? (Ibid: 22-23).

In contrast, the bottom-up approach to the policy implementation, starts by identifying the network of actors involved in service delivery in one or more local areas and asks them about their goals, strategies, activities, and contacts. It then uses the contacts as a vehicle for developing a network technique to identify the local, regional, and national actors involved in the planning, financing, and execution of the relevant governmental and non-governmental programs. This provides a mechanism for moving from street-level bureaucrats (the ‘bottom’) up to the ‘top’ policy makers in both the public and private sectors (Hjern et al., 1978; Hjern and Porter, 1981; Hjern and Hull, 1985 cf. Sabatier, 1986: 32; O’Toole, 2004). Comparisons between top-down and bottom-up approaches are made in the following table (Ibid 33).
Table 2.3: Comparison between Top-Down and Bottom-Up Approaches

<table>
<thead>
<tr>
<th></th>
<th>Top-Down (Sabatier &amp; Mazmanian)</th>
<th>Bottom-up (Hjern et al.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial focus</td>
<td>(central) government decision, e.g. new pollution control law</td>
<td>Local implementation structure (network) involved in a policy area, e.g. pollution control from bottom (govt. and private) up</td>
</tr>
<tr>
<td>Identification of</td>
<td>from top down and from govt. out to private sector (although importance attached to causal theory also calls for accurate understanding of target group’s incentive structure)</td>
<td>From bottom (govt. and private) up</td>
</tr>
<tr>
<td>major actors in the</td>
<td></td>
<td></td>
</tr>
<tr>
<td>process</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Evaluation criteria</td>
<td>Focus on extent of attainment of formal objectives (carefully analysed). May look at other politically significant criteria and unintended consequences but these are optional.</td>
<td>Much less clear. Basically anything the analyst chooses, which is somehow relevant to the policy issue or problem. Certainly does not require any careful analysis of official govt. decision(s).</td>
</tr>
<tr>
<td>Overall focus</td>
<td>How does one steer system to achieve (top) policy maker’s intended policy results?</td>
<td>Strategic interaction among multiple actors in a policy network.</td>
</tr>
</tbody>
</table>

(Sources: Sabatier, 1986:33)

2.2.3 Models of Implementation

Several models have been discussed in implementation literature but here I would like to discuss only some of those which are quite relevant to the present study.

The following diagram shows the general model that is called a rationalist model of policy implementation (Dunsire, 1990:15).

**Diagram 2.1: Rationalist Model of Implementation**
The writer stated that if a government has arrived at a correct and appropriate policy objective (assuming), a ‘failure in implementation’ might occur because:

(a) an inappropriate implementation strategy was chosen; or
(b) within an appropriate strategy, inappropriate government agencies or machinery were selected; or
(c) although that was well done, an inappropriate instrumentality was selected.

Continuing: although all these choices were correctly made,
(d) the programming within the bureaucracy was faulty; or
(e) the operationalisation of the intention was poorly executed at one or more points; or
(f) there were communication errors, mistakes in transmissions; or
(g) although all these dangers were surmounted, nevertheless something went wrong at operation level, the ‘shop floor’ of bureaucratic process, the ‘output’ or ‘production’ stage of government action; or
(h) (this area alone accounts for many problems) even if everything up to this stage were ‘perfect’, the response or reaction of those affected was different from what had been calculated.

Alternatively, if implementation actually occurs, if things go right, then it ‘must’ be because (by whatever processes of decisions; overt, intuitive or habitual) the choices made at all these points have been ‘appropriate’.

Another impressive model for implementation has been presented by Van Meter and Van Horn (1975). This model consists of six variables that shape the relationship between policy and performance. This model not only specifies the relationship between the independent variables and the ultimate dependent variable of interest, but also makes explicit the relationships among the independent variables (Van Meter and Van Horn, 1975: 462). Due to the complexity of the model, I do not intend to use it in this study. Hence, the details of the model have not been presented here.
Grindle and Thomas (1990, 1991) have discussed two separate models of implementation—linear and interactive. A roughly linear model of the policy process is implicit in many analyses of, or proposal for, reform. According to this view, a proposed reform gets on the agenda for government action, a decision is made about the proposal, and the new policy or institutional arrangement is implemented, either successfully or unsuccessfully (Grindle and Thomas, 1991:122). The model is as follows:

**Figure 2.1: The Linear Model of Policy Reform**

The figure illustrates this model in a decision tree format: the decision is seen as the critical choice and becomes the focus of the policy maker and donor attention and concerns about appropriate policy analysis, while implementation is either ignored or considered to be the responsibility of another group—the managers. All too often, implementation is thought to be a matter of carrying out that which has been decided upon, and successful implementation is viewed as a question of whether or not the implementing institution is strong enough for the task. If implementation is unsuccessful, the usual remedy is to call for greater efforts to strengthen institutional capacity.

Analysis of implementation feasibility should become an essential part of policy analysis. The linear model treats this as a technical matter or even omits such considerations. But the case studies of Grindle and Thomas led to an interactive model in which policy is viewed as a process rather than a series of discrete stages (Turner and Hulme, 1997:79). Grindle and Thomas have argued that their ongoing observations, as well as their
research, indicate that implementation is often the most crucial aspect of the policy process and that the outcomes of implementation efforts are highly variable, ranging from successful to unsuccessful, but including also an almost unlimited number of potential outcomes. The range of outcomes results from the fact that implementation is an interactive and ongoing process of decision making by policy elites and managers in response to actual or anticipated reactions to reformist initiatives (Grindle and Thomas, 1991:125). The alternative model presented by the writers is an interactive model.

In this model, the writers begin with the assumption that a state of equilibrium surrounds an established policy set. This equilibrium results from the acceptance of existing policy or institutional arrangements by those who are affected—positively or negatively—by it. Efforts to alter existing policy upset that equilibrium and will elicit some response or reaction from those affected by the change. Reaction to policy change may come at any point in the process of decision and implementation. However, reactions are more than likely to occur farther into the process, since the effects of the change will become more visible as the nature and impact of the new policy become more evident. The nature, intensity, and location of those reactions will determine whether the reform is implemented and sustained (Ibid: 125). The model is as follows:
The central element of this model is that a policy reform initiative may be altered or reversed at any stage in its life cycle by the pressures and reactions of those who oppose it. Unlike the linear model, the interactive model views policy reform as a process, one in which interested parties can exert pressure for change at many points. Some interests may be more effective at influencing high-level officials in government, while others are more effective at influencing the managers of the implementation process or those who control the resources needed for implementation. Understanding the location, strength,
and stakes involved in these attempts to promote, alter, or reverse policy reform initiatives is central to understanding the outcomes (Grindle and Thomas, 1991: 126).

Firstly, in this model pressures to put reform issues on the policy agenda come from many sources, including frequent ‘reform-mongering’ by policy elites, and the agenda represents a stockpile of proposed changes. Some items on the agenda are acted upon, but many are not, often because of the preferences, perceptions, and actions of policy elites and their appreciation of the economic and political environment they face. The agenda always contains many more issues than will be acted upon, as well as issues that have been acted upon but not implemented (Ibid: 126).

According to Grindle and Thomas, some issues receive active consideration by policy makers, but the point of an actual decision is hard to determine precisely. The authorisation process may move through one or more stages of the bureaucracy and may have to be confirmed at some level of political decision making. They go on to say that once an affirmative decision is made, it may be reversed at a higher level or at some point in the implementation process, and the issues may be returned to the agenda. Thus, the decision needs to be envisaged as a series of formal and informal stages, with numerous actors who have distinct interests and concerns.

The effects of a change in policy become more visible as implementation proceeds, and there are likely to be more challenges to the original conception of the reform. In this process, the characteristics of the policy will have an important influence on the nature of the reaction or response to change. In fact, the characteristics of a reformist initiative have a powerful influence on whether it will be implemented as intended or whether the outcome will be significantly different (Ibid).

Lastly, in the implementation process, political, financial, managerial, and technical resources are likely to be needed in order to sustain the reform. Mobilising these is part of the challenge to decision makers and policy managers. Those opposing the policy change may attempt to block access to the necessary resources, thus stalling the reform and
returning it to the policy agenda. At this stage choices by policy elites and managers may have an important bearing on the eventual outcome of the reform initiative (Ibid: 128).

2.2.4 Perfect/Effective Implementation

The ineffective implementation of policies and programs in developing countries has not only proved problematic, but also been a major concern to governments and writers of public policy. The factors that influence policy implementation have not been given adequate attention in developing countries due to the fact that many of those who formulate policies assume that once policies are announced, they will be implemented and that intended objectives would be achieved in a technically competent way. However, experience with the implementation of policies in developing countries indicates that implementation is not merely a technical process of carrying out preconceived plans, but is a dynamic and somewhat unpredictable process of interaction (Adjei, 1996:12).

What preconditions would have to be satisfied, then, if perfect implementation were to be achieved? Gunn (1978) has suggested ten preconditions (Kendal, 2002), as follows:

First, that there are no crippling constraints (Gunn, 1978:170; Kendal, 2002); sometimes influential factors controlling a policy lie outside the control of implementers because they are external to the policy concerned. The nature of such obstacles may vary; they may be physical as in the case when an agricultural program is set back by drought, or they may be political in that either the policies or measures needed to implement it are not acceptable to the interests, which have the power to veto them. There is little that administrators can do to overcome such obstacles, except by ensuring that such obstacles are borne in mind during the policy-making stage.

Second, that there are adequate time and resources available for the program. This condition partly overlaps the first in that it often comes within the category of external constraints (Gunn, 1978: 170). Third, that not only are there no constraints in terms of overall resources but also that at each stage the required combination of resources is
available (Gunn, 1978:170). Acute bottlenecks may be created within a sophisticated program when essential combinations of resources are not available when needed (Ibid).

Fourth, that the policy for implementation is based upon a valid theory of cause and effect (Gunn 1978:171). A policy may be based upon an inadequate understanding of a problem or otherwise be misguided. In such circumstances policies when implemented fall short of the mark. Fifth, that the relation between cause and effect is direct and that there are few intervening links. In other words, due to the reciprocal relations involved the more links in the chain the greater the likelihood of poorly conceived and executed implementation (Ibid: 171-172). Simplifying the implementation chain can redress such inadequacies.

Sixth, that there is a single implementer or agency which need not depend on others for success or, if other agencies are to be involved, then the dependency relationships are minimal in number and importance. Seventh, that there is complete understanding of and agreement about the objectives to be achieved and that this condition persists throughout implementation (Ibid: 173; Kendal, 2002). Difficulties can arise in the implementation process when objectives are misunderstood. This can arise when communication is poor both within an organisation and also from the organisation to the outside world. Other impediments can also arise when fundamental goals are displaced over time (Gunn, 1978:173). Such difficulties can be overcome by ensuring that actual and achieved objectives are integrated.

Eighth, that in satisfying objectives it is possible to specify in detail and perfect sequence the tasks to be performed by each participant (Gunn, 1978: 173). Perfect knowledge and foresight would be required if this condition of perfect implementation were to be attained. Also it is desirable that there should be some room for direction and improvisation in even the most carefully planned program (Gunn, 1978: 173). Ninth, that there is perfect communication and co-ordination (Gunn, 1978: 174); modern organisations feature many impediments to this condition. Tenth, that there is perfect obedience to those in authority (Gunn, 1978: 174); attainment of this condition means
that those in power would secure total compliance. However, every administrator knows how difficult it would be to achieve this condition of perfect obedience or compliance (Gunn, 1978: 175).

The conditions necessary for perfect implementation cannot be expected to be fulfilled entirely in the real world. In that case, under what conditions can the objectives of what is to be implemented be effected i.e. achieved? Sabatier and Mazmanian have analysed the circumstances that must apply and have nominated five key conditions for effective implementation (Sabatier and Mazmanian, 1979: 481-504; Mazmanian and Sabatier, 1981; and Mazmanian and Sabatier, 1983). A statute or policy decision will achieve its objectives if (1) it incorporates a valid theory linking target-group compliance to those objectives, (2) it contains policy directives that are unambiguous and focus the implementation process to maximise target group compliance, (3) the leaders of implementing agencies support the objectives and utilise resources skilfully, (4) the program enjoys the support of constituency groups and key legislators, with the courts being neutral or supportive, (5) the program is not undermined by changing conditions (Sabatier and Mazmanian, 1979: 500). Sabatier and Mazmanian state that if all these conditions are met then any statute can be effectively implemented.

Hence, the perfect implementation is not expected to occur in its entirety, but effective implementation is not unachievable if one can ensure the fulfilment of the conditions as suggested by the writers. The challenge is how familiar the policy implementers are with this and whether they are willing to invest their crucial time and resources for the best implementation, despite their personal likes and dislikes.

2.3 Concept of Strategic Group Analysis

The basic objective of the original version of strategic group analysis was the transformation of ‘quasi-groups’ with unrecognised common interests and goals of appropriation into strategic groups. Group cohesion, solidarity and social integration emerge on the basis of a common lifestyle, increasing self-recruitment, and the

“Neither the upper classes nor any other segment of society has a monopoly of strategic action. Individuals, families, clans, cliques, patronage systems, associations, non-government organisations, labour unions etc.—they all do not merely react spontaneously to events in their environment but also pursue plans and try to have an effect on future developments. The exclusion of group formations among the dominated strata is conceded as a ‘desideratum’ of the theory by Evers and Schiel” (198813; 264 cf. Berner, 1995:2). According to Evers and Schiel strategic groups are defined only by the fact that they act strategically. They further stated that their theoretical approach attempts to identify why and for what goals strategies are pursued, and which successes and failures of the collective strategies can possibly be the outcome (Evers and Schiel, 1989: 567 cf. Berner 1995:2). In their discussion Evers and Schiel have treated strategic groups, strategies and strategic action as more or less synonymous. Berner said, “Neither the rehabilitation of ‘grand theories’ nor a restriction to purely empirical-descriptive procedures is adequate in face of the heterogeneous and fast-changing developing societies.” He further proposed to conceptualise strategic groups as “organised networks of collective actors” which emerge on the basis of common or complementary interests and struggle to participate in the dominance system. Their determinative characteristic is not the appropriation of surplus but rather access to material and non-material “strategic resources”, which are seen as the precondition of dominance. Strategic theory is, in his view, complementary to other sociological approaches like those of Gidedens, Murphy and Parkin (Ibid).

Strategic group analysis in industries, however, can be discussed in a different way from the way in which it is explained above. The meaning and strategies are quite different from the concept of general strategic group analysis presented by Evers and Schiel (1988, 1989). For example, “Strategic group analysis is a subset of industry analysis that looks specifically at the different groups of rival firms clustered around a similar competitive approach or strategic position. It is used, among other things, to determine the:
• different competitive positions that rival firms occupy
• intensity of competitive rivalry within and between industry groups
• profit potential of the various strategic groups in an industry
• implications for the competitive position of the firm under analysis.”


Although the concept is different, for our purpose the general concept of strategic group analysis presented by Evers, Schiel and Berner is used as an analytical tool for understanding who are the actors-/strategic groups in the process of privatisation policy formulation-to-implementation stage in Nepal. It will enable us to analyse how some groups favour or oppose the policy for their own benefits, how they affect the success or failure of the policy, and so forth.

2.4 Summary and Plan for Using the Idea in the Thesis

In this chapter, I have discussed three specific issues; concept of privatisation, the implementation of policies, and the concept of strategic group analysis. In the first part of the chapter, I briefly discussed the concept, forces that influence the promotion of privatisation, objectives, and some frequently used methods/techniques of privatisation. The concepts discussed here and other related issues will also be referred to in the data analysis chapter discussing the Nepalese situation, four specific cases and the impact of the policy.

In the second part of the chapter, implementation-related issues and some models have been discussed. Although this chapter is a basis for the data analysis of the thesis, not all concepts and models will be used; selected ones that are relevant in the Nepalese context will be used, as well as the literature reviewed here enables us to become familiar with the research and subject matter. Primarily, I intend to use the interactive model of implementation for the privatisation policy analysis. This is because the interactive model of implementation provides an alternative way of understanding and analysing the process of implementation, as it describes the positions and interests of those who support
or oppose the policy. It also allows us to understand the possibilities of disagreements over policy reforms.

In the third part, the concept of strategic group analysis has been discussed in brief. This concept will help us to identify the strategic groups involved in the formulation-to-implementation stage of privatisation policy in Nepal. It also identifies who favours the policy and who opposes it, according to their strategies and the resources at stake. Berner’s discussion of ‘civil society’ as a strategic group (Berner, 2005; also Thomson, 2005, discussed students as a strategic group), will give us an understanding of how different strategic groups compete in the way of development discourse (in our case in regards to privatisation).

Thus implementation, strategic group analysis and privatisation-related concepts will be used in the subsequent chapters for the data analysis. The following chapter will discuss public enterprises in Nepal—their origin, performance, the necessity for reform, and so forth.
Chapter Three
Public Enterprises, Performance and Necessity for Reform

3.0 Introduction

The concepts of privatisation, policy implementation and strategic group analysis have been discussed as a theoretical framework in Chapter Two. In this chapter I will continue my discussion by giving an overview of the evolution, performance, problems and necessity of reform of public enterprises in Nepal.

In this chapter, I will first define what public enterprise is, in short, then, continue the discussion of public enterprises in Nepal. The main aim of this chapter is to discuss how public enterprises have been established in Nepal, the level of performance of such enterprises, what types of problems they are facing and why we need the implementation of reform agenda, and so forth. This will give a background of the reform process in public enterprises in Nepal.

3.1 What is Public Enterprise?

Public enterprises (PEs) or state-owned enterprises (SOEs) are identified by three characteristics. First, SOEs are classified as part of the public sector. Therefore, they must be owned by the government. Second, SOEs are an enterprise and therefore must be engaged in the production of goods and services for sale. Third, sales revenues of SOEs should bear some relation to cost. Therefore, a public hospital charging a flat fee from its patients irrespective of treatment is not an SOE. SOEs are predominantly businesses, at least potentially self-sustaining, and get their revenue through the sale of goods they either purchased or produced, without much regard to the way they are legally organised (Aharoni, 1986:6). This definition of PEs or SOEs includes those SOEs that supply their services against fees paid by the users of the services, which are intended to cover costs, whether or not they are separately incorporated.
Aware of the definitional problem of PEs, in 1980 the International Centre for Public Enterprises (ICPE) attempted to reconcile and standardise the definition (Manandhar, 1993:14). After exhaustively examining the characteristics underlying the concept of PEs, ICPE proposed a statistical and a conceptual definition as follows:

**Statistical definition of public enterprise** -

“A public enterprise is a productive organisational entity which engages in activities of a business character and markets any of its output and which is publicly-owned to the extent of 50% or more” (ICPE, 1981: 26 cf. Ibid 14).

**Conceptual definition of public enterprise** -

“A public enterprise is an organisation which is:

a. owned by public authorities including central, state or local authorities, to the extent of 50% or more;

b. is under the top managerial control of the owning public authorities, such public control including, *inter alia*, the right to appoint top management and to formulate critical policy decisions;

c. is established for the achievement of a defined set of public purposes, which may be multidimensional in character;

d. and is consequently placed under a system of public accountability;

e. is engaged in activities of a business character;

f. involves the basic idea of investment and returns;

g. and which markets its outputs in the shape of goods and services” (Ibid:15).

In conclusion, based on the above definition, there are two dimensions to defining public enterprise—public and enterprise. In the public dimension, there should be public purpose, public ownership, public control and management accountability. The enterprise dimension includes business character, the concept of investment and return, and marketed the output when its pricing has some relation to the cost. Hence, public enterprise is a combination of both ‘public’ and ‘enterprise’.
3.2 Public Enterprises in Nepal

3.2.1 Growth of Public Enterprises

Public enterprises in Nepal emerged comparatively recently. Most of these enterprises came into existence during the Second, Third and Fourth plans in the 1960s and the first half of the ‘70s. With the initiation of the first five-year plan in 1956, public enterprises have been promoted in Nepal. For the first time the industrial policy of 1957 formally recognised the responsibility of the government in “promoting, assisting and regulating” industrial development in the country and the First Plan intended to establish state monopolies in the fields of transportation, telecommunication, hydro-electric power generation and irrigation, and to run some big industries, such as cement, sugar, cigarettes, textiles, iron and steel (GON, 1956:55). The emergence of public enterprises was stimulated by the inability of the private sector to adequately fulfil national objectives.

The corporate form of public enterprise appeared only in 1952 when the government that came to power after the revolution of 1951 decided to go for the majority holding—from 40% share ownership to 51% in Nepal Bank Limited, the only commercial bank operating in the country. The objective was clearly to control the financial market. Three struggling units (jute, cement and tea) were taken over by the government and two electrical companies were nationalised. Most of the enterprises were either established by the government or established by the donor countries (Manandhar, 1993:46). Similarly, at the same time India was preparing its first five-year plan after it got independence. The plan presented to the government by the Planning Commission in December, 1952 indicated the need for “a rapid expansion of the economic and social responsibilities of the state” to satisfy the “legitimate expectations of the people”. It stated, however, that this “need not involve complete nationalisation of the means of production or elimination of private agencies in agriculture or business and industry”. Only a “progressive widening of the public sector and a reorientation of the private sector to the needs of planned economy” was envisaged (Narain, 2003:21). Hence, the ideology of the
controlling the economy by the government was obvious at that time, not only in Nepal but also in its neighbouring countries.

There was successive growth in public enterprises with the exercise of development planning in the country. Public enterprises in Nepal were established mainly to serve the following objectives:

- infrastructural facilities and services;
- basic consumer and development goods;
- adequate supplies of essential goods;
- managerial support to needy enterprises; and
- entrepreneurial support to needy enterprises (Shrestha, 1990:73).

The entire process of public enterprise growth in Nepal can be divided into four periods—(i) growth period (1952-1975), (ii) period of reconciliation (1975-1980), (iii) period of restraint (1980-1990), and (iv) promise of privatisation (after 1990) (Manandhar, 1993:46).

The following table and chart provide an overview of the growth of public enterprises in Nepal during the various plan periods:

**Table 3.2.1: Growth of Public Enterprise in Nepal during Various Plan Periods**

<table>
<thead>
<tr>
<th>Periodic Plan</th>
<th>Total number</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior to</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>First Plan</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>No Plan period</td>
<td>11</td>
<td>3</td>
</tr>
<tr>
<td>Second Plan</td>
<td>22</td>
<td>11</td>
</tr>
<tr>
<td>Third Plan</td>
<td>34</td>
<td>12</td>
</tr>
<tr>
<td>Fourth Plan</td>
<td>61</td>
<td>27</td>
</tr>
<tr>
<td>Fifth Plan</td>
<td>59</td>
<td>-2</td>
</tr>
<tr>
<td>Sixth Plan</td>
<td>54</td>
<td>-5</td>
</tr>
<tr>
<td>Seventh Plan</td>
<td>63</td>
<td>9</td>
</tr>
<tr>
<td>No Plan period</td>
<td>62</td>
<td>-1</td>
</tr>
<tr>
<td>Eighth Plan</td>
<td>46</td>
<td>-16</td>
</tr>
<tr>
<td>Ninth Plan</td>
<td>43</td>
<td>-3</td>
</tr>
</tbody>
</table>
The above table shows that the majority of public enterprises were established during the sixties and early seventies (1956-1975). The main reason of this was due to the political regime at the time, which focused on the planned economic policy, in which the state was seen as the dominant player, rather than the private sector (Panday, 1999). However, unlike in most developing countries, the growth of Nepalese public enterprises was not based on the nationalisation of private companies, but in many areas new enterprises were created, with the support of external donors, including China, former USSR, the Netherlands, Japan and multinational agencies. In other cases, units already existing as government departments were converted into statutory corporations and other kinds of autonomous bodies.

In total there were 62 public enterprises in Nepal in 1991 (the time when the privatisation policy was being prepared) which were listed under different sectors as follows:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>28</td>
</tr>
<tr>
<td>Service</td>
<td>8</td>
</tr>
<tr>
<td>Public utilities</td>
<td>3</td>
</tr>
<tr>
<td>Trade</td>
<td>9</td>
</tr>
<tr>
<td>Social</td>
<td>6</td>
</tr>
<tr>
<td>Finance</td>
<td>8</td>
</tr>
</tbody>
</table>

(HMG/N 1991).

Though the PEs were established as government tools to provide goods and services to the people at affordable prices, the objectives were never achieved. Hence, pressure from the international donor agencies was vital to reform the economy, which had already been initiated before the adoption of the liberalisation policy in 1991. The then-government had already implemented the structural adjustment program (SAP) in 1986 under the pressure of the World Bank and IMF (Sharma, 2004: 6) as macro-economic crises emerged. The structural adjustment process, which included privatisation, tariff adjustments, liberalisation of industrial licensing, easing of terms for foreign investment and more liberal trade and foreign exchange regimes, was initiated in the FY 1987/88. These policies were supported by loan facilities from the World Bank and the IMF, but due to the trade and transit impasse with India in March 1989, only limited progress could be achieved in structural reforms. The SAP focused on both internal and external
liberalisation. These programs were advocated, applauded and supported by the donor agencies, including the IMF and the World Bank (Acharya et al., 2003:3).

While the reform of the Nepalese economy was initiated in the mid-1980s, it was only in the early 1990s that Nepal introduced far-reaching reform programs when India liberalised its economy. Until the mid-1980s, Nepal's landlocked position and open border with India significantly limited its ability to pursue independent economic and commercial policies. By the mid-1990s, Nepal made significant progress in economic liberalisation. Similarly, a large number of public enterprises was privatised and the agriculture input market was opened up for the private sector (Sharma 2004: 6).

Hence, after the restoration of the multiparty system in Nepal in 1990, the major policy shift had been taken by the new government with the adoption of liberalisation policy. With the implementation of the Eighth Plan in 1992, the government has adopted the privatisation policy instead of public enterprises policy in the country, as it embraced the economic liberalisation policy for the improvement of the national economy.

3.2.2 Performance of Public Enterprises

Performance can be defined as: the degree to which a development intervention or a development partner operates according to specific criteria/standards/guidelines or achieves results in accordance with stated goals or plans. (www.ifad.org/evaluation/guide/annexa/a.htm accessed on 25 Aug. 2005). Linking with the previous definition of performance, the ‘performance’ of a public enterprise could be defined as the attainment of goals by the enterprise. In the context of public enterprises, ‘performance’ refers to the extent to which a public enterprise achieves the objectives that have been set for it. More specifically, performance is interpreted in terms of success in achieving the stated objectives. Performance is thus essentially correlated with the objectives.

The performance of public enterprises in Nepal has been an area of public concern and criticism. Successive government reports, documents and research studies have
unequivocally criticised their poor performance, inefficiency and wastefulness. Some have even questioned their objectives and existence (IDS: 1987 cf. Manandhar, 1993:60).

It is widely believed that in most developing countries the performance of the PE sector has been disappointing. For example, in Nepal, SOEs have become an unsustainable burden on the budget and the banking system, absorbing scarce public resources. Despite measures to improve the performance of SOEs in the 1980s, public sector financial losses remained to constitute an ongoing burden to the treasury and to the economy. In 1992, gross transfers to the SOEs were more than the combined expenditure on health and education and total losses in the public sector were equal to 1% of GDP (Sharma, 1995:7).

Public enterprises in Nepal and elsewhere suffer from similar problems. They are very often over-manned, due to politicians and bureaucrats loading them with supporters, friends and often relatives. Most importantly, bureaucrats and politicians make management decisions for political reasons; profitability, customer service and efficiency should be the primary concerns, but unfortunately these only get the requisite attention when businessmen operate those same businesses (Clarke, 1999). Such allegations could be found in the Nepalese case also, as the PEs are accused of low performance, overstaffing and operating under a lack of autonomy due to political interference, and so forth (Manandhar, 1998; MoF, 1999:6; CRPS, 1995:11; Sharma, 1995:7).

Performance of public enterprises could be measured in various ways; Victor Powel (1987) has explained that there are several indicators for measuring public enterprise performance. However, the indices can be classified into the following six groups (cf. K.C.1999:144):

- General performance indices
- Management performance
- Financial performance
- Investment performance
- Costs breakdown (input co-efficient), and
• Physical performance (i.e. resource use).

All the indices could not be used in the present study; however an attempt has been made to evaluate the performance of Nepalese public enterprises largely looking at the financial performance.

Financial performance is a significant consideration in the performance evaluation of public enterprises. Financial profitability, with regard to the financial performance evaluation, shows that the PE’s “ability to earn profits proves a measure of its market strength, its ability to keep down costs. Profitability also affects the amount of investment, for much industrial investment is financed out of reinvested profits, and hence the contribution of the firm to the overall growth of the economy” (Killick, 1983:183 cf. K. C, 1999:144).

The poor financial performance of public enterprises has had a direct impact on government budgets. Table 3.2.2 shows that government funds dedicated to public enterprises increased significantly (around 22.27% annually) during 1994/95–2001/02, while the flow of funds from public enterprises to the government recorded only a rise of 14.55% during the same period. This clearly shows that public enterprises are a drain of scarce resources rather than a generator of resources, even though the situation improved slightly after 2001/02 in terms of rate of return from the PEs. Similarly, since 2000/01, the government stopped providing the capital subsidy, which can be interpreted as a positive sign.

Regarding the financial performance of PEs, most of them incurred operating losses in FY 2002/03 aggregating Rs. 1.61 billion (see the table 3.2.2). During this period, the profit level of public utility enterprises has been positive, while losses of service and social sector have been transformed into profit. Operating losses of PEs belonging to industrial and trading sectors, however, have gone up. Aggregate operating profit of PEs in FY 2003/04 is totals Rs. 3.89 billion. The table painted a bleak picture of the financial performance of public enterprises, which justified adopting an alternative policy option to minimise the types of losses incurred from this sector.
Nepalese public enterprises have been widely criticised from the viewpoint of financial performance. The government invested huge amounts of capital (1197.2 million in 2003/04) in public enterprises, but the financial return was not satisfactory compared to the capital employed. While public enterprises were supposed to generate investable surpluses for government, they actually often posed burdens on government budgets, in many cases amounting to significant sums.

The percentage of gross profits to the capital employed was much higher in the earlier period (see the table and chart below); it was 5.9% in the year 1970-71. However, for a number of years, it also presented a negative figure. Public enterprises had the greatest negative rate of return on 5.22% in the year 1990-91. However, the rate of return on investment in public enterprises had been improved with a variation for some years.
Table 3.2.3: Profitability of Public Enterprises (1980/81 – 2003/04)
-(Rs in Million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital Employed</th>
<th>Gross Profit</th>
<th>Gross Profit as % of Capital Employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>3331.3</td>
<td>-156.0</td>
<td>-4.68</td>
</tr>
<tr>
<td>1985-86</td>
<td>7399.0</td>
<td>105.0</td>
<td>1.42</td>
</tr>
<tr>
<td>1988-89</td>
<td>17118.0</td>
<td>-38.8</td>
<td>-0.23</td>
</tr>
<tr>
<td>1989-90</td>
<td>18476.2</td>
<td>-244.6</td>
<td>-1.38</td>
</tr>
<tr>
<td>1990-91</td>
<td>35843.2</td>
<td>-1871.7</td>
<td>-5.22</td>
</tr>
<tr>
<td>1991-92</td>
<td>50530.3</td>
<td>-1145.5</td>
<td>-2.27</td>
</tr>
<tr>
<td>1995-96</td>
<td>62010.9</td>
<td>1377.6</td>
<td>2.22</td>
</tr>
<tr>
<td>1999-00</td>
<td>83420.6</td>
<td>2404.4</td>
<td>2.88</td>
</tr>
<tr>
<td>2000-01</td>
<td>82910.5</td>
<td>-1353.2</td>
<td>-1.63</td>
</tr>
<tr>
<td>2001-02</td>
<td>150088.2</td>
<td>-5475.3</td>
<td>-3.65</td>
</tr>
<tr>
<td>2002-03</td>
<td>97232.0</td>
<td>-1614.4</td>
<td>-1.66</td>
</tr>
<tr>
<td>2003-04*</td>
<td>128555.8</td>
<td>3894.8</td>
<td>3.03</td>
</tr>
</tbody>
</table>

* Estimate

(Source: Ministry of Finance, 2004:66)

The table can be seen in the chart as follows:

![Profitability of PES Chart]

3.2.3 Problems of PEs in Nepal

All PEs face some common problems, including objectives, control, pricing, information and financing. The objectives of PEs are not clearly defined. Their goals are ambiguous. Yet without clearly defined objectives it is hard, if not impossible, to pin down what the PE manager is expected to achieve. Similarly, the question of control is another common problem that must be taken into consideration; the right balance between control and
supervision on the one hand, and autonomy and flexibility of business operations on the other, has not yet been found. In many cases, the problem is that legal control is for the purposes of appearance only, and the real control is political and informal (Aharoni, 1986: 378-380). Although there is a legal provision for how PEs operate in Nepal, it is heavily influenced by the ministry under which it operates. The minister and his or her deputies are the real controllers of PEs in Nepal, which reduces/eliminates the autonomy of the PEs. Political interference, especially to employ party supporters in the PEs, is routine. Hence, almost all PEs are overstaffed (MoF, 1999).

The continued inefficiency and ineffectiveness of the SOEs in Nepal have had a profound negative impact on the economy, particularly in the areas of sustainability and their overwhelming demand on government resources. According to Sharma (1995), key problems contributing to the present state of affairs of SOEs include: conflicting objectives, creation of monopolies and protection from competitive pressures, ineffective supervision and control, managerial deficiency (lack of managerial skill and knowledge on board membership), lack of expertise, and so forth.

The problems of state-owned enterprises in Nepal can be summarised as follows:

1. They are a constant drain on the government budget
2. They use their leverage as state-run enterprises to accumulate bad debts at state-controlled commercial banks
3. They are wasteful of scarce resources
4. Their boards of directors are ineffective in representing the interests of the owners who are the government and ultimately the people of Nepal
5. Management has no commercial managerial ability or dynamism, and has a public service mindset under which they ‘administer’ rather than ‘manage’ the companies
6. Companies are bound by, and run along, public service lines and restricted by public service regulation and procedure
7. There is a lack of technical expertise, even in basic areas such as accountancy, labour management, and production planning
8. There is an absence of responsible fiscal management and no sense of responsibility to either the government as the shareholder, or to other creditors
9. Over-manning is practised at every level and is particularly acute in the ‘administrative’ grades
10. There is no consideration for the interest of the consumer
11. There is no consideration for the interest of suppliers or the people with whom the enterprise does business (Sharma, 1995:35-36).

Recognising the problems of SOEs and their financial drain on the economy, the then-government announced policies to reform the performance of SOEs through various means, particularly through privatisation. The particular reasons for adopting this policy will be discussed in the next chapter (in 4.1.1 Agenda Setting).

3.3 Necessity of Public Enterprises Reform

In spite of the early contributions of PEs to the Nepalese economy, their overall performance has consistently lagged behind. These enterprises have failed to function in an efficient manner. Excessive political interference, lack of adequate autonomy and accountability, absence of professionalism, financial indiscipline and conflicting goals have been the main reasons for the poor performance of public enterprises in Nepal (KC, 1999:10).

The World Bank examined the condition of Nepalese public enterprises in 1985. The bank found that the performance of public enterprises had deteriorated steadily since the early 1980s. Many public enterprises were becoming a serious drain on fiscal resources (The World Bank, 1985:30) and the World Bank recommended that Nepal implement SAP, which was carried out in 1986. SAP proposed sound macroeconomic management, effective management of public finances, support for agriculture and light manufacturing, liberalisation of trade, and at the initiation of reforming public enterprises (The World Bank, 1996).
Privatisation was conceived and advocated as a suitable measure in view of the dismal performance of PEs. It gained popularity both in developed and developing countries, particularly in the 1980s and 1990s. The move towards economic reforms and liberalisation has paved the way for privatisation globally. Nepal could not remain fail to conform to the global trend. Therefore, having become aware of the gloomy forecast for PEs in Nepal, the initiation of reform in a global context and the convictions of the new government paved the way for the initiation of reform in Nepal.

After the restoration of a multiparty, parliamentary form of government in Nepal in 1990 and the promulgation of the democratic constitution, the system of governance has been altered to suit the reforms either recommended by the donor community or the rise of expectation of the people to get immediate results. After the first parliamentary election in 1991, the Nepali Congress Party won the majority in the parliament and formed a government under the premiership of G. P Koirala. The newly elected government made a major commitment towards a comprehensive privatisation program of state-owned enterprises as part of an overall program of liberalisation of the economy. This represented a marked departure from previous government policy of undertaking economic development with very little emphasis on private sector development and with state enterprises playing leading roles.

The details of the policy initiation of PEs and the necessity for the introduction of the privatisation policy will be discussed in the next chapter (Chapter Four).

3.4 Summary

In this chapter the definition of PEs in general, as well as the growth, performance and problems of PEs in Nepal and the necessity for public enterprise reforms in Nepal have been discussed in brief. In Nepal there was rapid growth of public enterprises, especially during the Fifth and Sixth Plan periods. In total there were 63 enterprises by the end of the Seventh Plan period (1985-1990) yet their performances were disappointing. During
the Seventh Plan period, returns of enterprises were virtually negative, which led the government to adopt a privatisation policy.

The next chapter will be dedicated to explaining the privatisation policy in Nepal from agenda setting to the implementation phase of the policy process. In first section, agenda setting, decision making and policy characteristics and implementation areas will be discussed and in the second section opposition/obstacles during the implementation process and the opinion of major political parties on privatisation, among other things, will be discussed.
Chapter Four

Privatisation Policy in Nepal: Agenda Setting, Policy Characteristics and Decision Making

4.0 Introduction

In the previous chapter, public enterprises in Nepal were discussed in brief. In the first part of this chapter, privatisation policy in Nepal will be discussed in regard to the model presented by Grindle and Thomas (1991) as: agenda setting, decision making and policy characteristics and implementation. Actors/strategic groups have been identified in line with Evers (1966, 1982), and Evers & Schiel (1988, 1989). In the second part of the chapter, opposition/obstacles encountered during the implementation phase will be discussed, accompanied by some examples of opposition from the general public and discussion of the opinion of the major political parties regarding privatisation, their common ground, and their differences. The analysis is dependent on the survey data collected from the different strategic groups. The discussion begins with the privatisation policy.

4.1 Privatisation Policy in Nepal

In this section, I will discuss the privatisation policy in Nepal, based on the model formulated by Grindle and Thomas (1991). As discussed in brief in the second chapter, the model argues that most policy processes consist of three sets of activities: first, a proposed policy reform has to get on the agenda for government action; second, some kind of decision making activities need to take place that identify a solution to the perceived problem; and third, the decision needs to be implemented (Askvik, 2001:1). The discussion in this section is based on the above framework.

4.1.1 Agenda Setting

Crisis is frequently invoked in explanations of reasons for the adoption and pursuit of major changes in public policy. Certain kinds of policy issues, for example devaluation, tend to be added to decision makers’ agendas only when crisis conditions exist. Other kinds of policies, for example decentralisation, emerge almost uniquely under politics-
as-usual circumstances (Grindle and Thomas, 1991:73). Thus, policy issues tend to get on decision makers’ agenda in two situations; when crisis conditions exist, and as politics-as-usual.

When discussing the Nepalese privatisation policy, we may have difficulty identifying exactly where it stands; as crisis-ridden policy issues or as politics-as-usual. For example, if we look at the situation discussed in the previous chapter—the performance of public enterprises—we can say that the conditions of PEs were severe and the losses of the government in this sector were huge. This created a pressing problem and the government was compelled to take the initiative for the adoption of a privatisation policy. On the other hand, this policy was on the government’s priority when the new government, after the restoration of multiparty democracy in 1990, took office in 1991. When the government formally announced its economic liberalisation policy in 1991, privatisation was understood to be a component of the liberalisation policy. So this policy was also taken as a planning reform initiative introduced by the new government as part of a general effort to improve the performance of government, especially to improve the efficiency of PEs, which were thought to be resource crunches. So it seems that to a large extent the privatisation policy is characterized by what Grindle and Thomas call ‘politics-as-usual’.

In the interactive model presented by the writers, pressures to put reform issues on the policy agenda come from many sources, including policy elites, and the agenda represents a stockpile of proposed changes (Grindle and Thomas, 1991:126). In the Nepalese context, the pressure from outsiders, such as the World Bank, UNDP, IMF, USAID, ADB, etc., was instrumental in putting the issue on the policy agenda.

In 1985 the World Bank examined the condition of Nepalese public enterprises. The bank found that the performance of public enterprises had deteriorated steadily since the early 1980s. It was found that many public enterprises had become a serious drain on fiscal resources (World Bank, 1985:30) and the World Bank recommended that Nepal implement a Structural Adjustment Program (SAP). Nepal implemented SAP in 1986.
One of the components of the SAP was to privatise public enterprises (The World Bank 1996) and donor pressures, especially by the World Bank, United Nations Development Program and USAID, were instrumental in accelerating Nepal’s privatisation program from 1986 (CRPS, 1995:11). None of the governments in Nepal could ignore donor pressure on economic policy adoption, and the then-government was also bound to follow the donors’ recommendations. However, the policy gained momentum after the restoration of the multiparty system in Nepal in 1991. There was, at the same time, opposition from the general public pressuring the government not to implement the policy, although this did not occur on a mass basis. Some lawyers attempted to block the policy by suing in the supreme court of Nepal, which is discussed in the later part of this chapter.

The Actors/Strategic Groups

Actors in the policy process can be either individuals or groups. For the sake of simplification, policy actors may be divided into the following five categories: elected officials, appointed officials, interest groups, research organisations, and mass media (Howlett et al., 1995: 52). The first two reside within the state and the latter three in the society, and together they form the principal elements from which members of specific policy subsystems are drawn.

The elected officials participating in the policy process may be divided into two categories—members of the executive and of the legislature—though the latter often play only a minor role (Ibid: 53). The appointed officials dealing with public policy and administration are often collectively referred to as ‘bureaucracy’. Their function is to assist the executive in the performance of its task, as is suggested by the terms ‘civil servants’ or ‘public servants’ used to describe them. However, the reality of modern government is such that their role goes well beyond what one would expect from a ‘servant’. Indeed bureaucrats are very often the keystone in the policy process and the central figures in many policy subsystems.

Grindle and Thomas propose that policy changes in developing countries are significantly shaped by policy elites. In particular they refer to influential four groups: (i) heads of
state and ministers; (ii) the executive bureaucracy; (iii) legislators; and (iv) influential representatives of social interests. These are general groups; however, depending on what particular policy is being considered the composition of the relevant policy elite will be distinct. Thus if agriculture issues are at stake, the agriculture minister and his/her senior civil servants will be involved. By contrast, if educational matters are in focus, the education minister and his principal chiefs will have a key role. When the legislator has a weak position in the political system, its members tend not to have a prominent position in the decision-making arena, but frequently they will play a key role in implementation when resources are to be allocated within various regions. Societal interests are comprised of various groups: e.g. business interests, religious elites, the military, organised labour, and the media (Evers, 1973; Evers and Schiel, 1988; and Berner, 1995), which may be activated when they are affected by government policies in an arena (Askvik, 2001: 3).

Table 4.1.1: Influential Actors/Strategic Groups for Adopting the Policy

<table>
<thead>
<tr>
<th></th>
<th>Political leaders of the ruling party</th>
<th>Donor community</th>
<th>Private sector (FNCCI etc.)</th>
<th>Higher level government officials</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freq.</td>
<td>%</td>
<td>Freq.</td>
<td>%</td>
<td>Freq.</td>
<td>%</td>
</tr>
<tr>
<td>59</td>
<td>42</td>
<td>48</td>
<td>35</td>
<td>19</td>
<td>14</td>
</tr>
</tbody>
</table>

(Source: Sub sample one of the Field Survey 2003/2004²)

Grindle and Thomas presented four groups of influential policy elites, which are equally applicable to the Nepalese case. For example, the above table shows that the political leaders of the ruling party were the main actors in adopting the policy. About 42% of the respondents expressed that the majority of the influential actors come from the ruling party. In addition, the then-government was fully determined to adopt a reform agenda and the privatisation was one among others. Specifically, the prime minister, the minister for finance and the vice chairman of the National Planning Commission were committed to the policy change. The high-level government officials were involved in formulating

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² Details of the respondents/strategic groups have been given in the annex.
the policy, though only about 9% of the total respondents felt that they are influential actors in formulating the policy. Parliament was involved in passing the Privatisation Bill in 1994. Although there was oppositional voice regarding the Privatisation Bill, the proposed amendments on the bill from the members of various political parties were not substantial. The government was in majority in the parliament so it was not difficult to pass the Privatisation Bill. Thus the ruling party was indeed influential in adopting the policy.

Likewise, the business community was in favour of privatisation (Jyoti, 1988; Golchha, 1992). The total percentage of the respondents who felt that the private sector was also influential in adopting the policy was about 14%. However in the Nepalese case the role of the religious elites and the military was minimal (in fact they played no role in the policy-making process of privatisation). Organised labour (trade unions, labour elites) opposed the policy and tried to influence the government not to adopt the policy. At the same time the role of the media was also important in the Nepalese case, although the media is divided into two parts—government controlled and privately owned. The government-owned media (Radio Nepal, Nepal Television, the Gorkha Patra daily newspaper, the Rising Nepal English daily) were in favour of the government policy and tried to disseminate the information to the public, but most of the private media (especially the left-inclined for instance- Drishti, Janaasta, Budhabar etc.) were against the policy and tried to influence the government by arguing the policy was not appropriate for a country like Nepal. Thus the media’s role was important in the sense that they tried to inform people by advising them of the pros and cons of the policy. Thus, in the case of Nepal, the main actors influencing the setting of the agenda were those mentioned by the writers—head of the government, minister for finance, vice chairman of the National Planning Commission, legislators, societal interests-business community, organised labour, mass media and government officials.

Besides the above mentioned actors, the role of the international community was also crucial in the context of Nepalese privatisation. As shown in the above table, the second-biggest majority of respondents felt that the donor communities were/are the most
influential on the policy. About 35% of the respondents expressed that the government was bound to adopt this policy as the international donor community compelled it to do so. In particular, the World Bank, IMF, USAID, and the Asian Development Bank were actors that influenced the setting of the agenda for the privatisation policy. Most of the key informants also expressed that the government was compelled to adopt this policy due to the pressures from the international financial institutions. The government had no choice as it was unable to manage its expenses and had to seek international grants and loans for developmental tasks. If it did not comply with the international community, it could have forfeited further possibilities of getting financial assistance, without which it would have been impossible to manage development works for a country like Nepal with few resources.

**Reasons for Privatisation**

The high costs and poor performance of SOEs and the modest and fleeting results of reform efforts have caused the government to favour privatisation. Other reasons, such as shifting development theory, ideologies and fiscal crises, have also led the government to privatise. Similarly, the emergence of a dynamic private sector has weakened the argument that state ownership is needed as a substitute for frail or nonexistent domestic entrepreneurship in the country. Finally, some of the reasons that initially supported state ownership have disappeared; technology and growth have introduced competition into traditionally monopolistic activities (Sharma, 1995:12).

Although the privatisation of public enterprises was a general feature of the government’s economic policy, there were different implicit reasons for privatisation. Indeed, if this had not been the case, HBTF would not have been privatised ahead of Hetauda Textile Industry. In the former case, the attractiveness of the enterprise to the private parties was a clear factor, while in the second case the desire to dispose of a sick unit was a deciding factor (CRPS, 1995:21-22).

The role of the Nepalese film production unit (NFDC) has reduced drastically due to the growth of the private sector film industry in the country. Therefore, no government grants
were available, even though one of the objectives of NFDC was to promote the private sector film industry. Similarly, the reason behind the privatisation of the textile industry (BTI) and the shoe factory (BLSF) was their chronic inefficiency.

Essentially the units privatised were a mixture of all kinds of industries. There were moribund enterprises and profitable ones. Enterprises such as paper mills, rawhide collection and bitumen production were running at a profit, albeit, not to a satisfactory level. There were also sick and dying enterprises like shoe and leather factories, and the textile and film industries. This mixture of units selected for privatisation implies that the government was not just interested in disposing of loss-making enterprises; it indicates a determination on the part of the government to go ahead with its privatisation program. The following table shows the summary of problems and constraints faced by the enterprises prior to privatisation.

**Table 4.1.2: Summary of Problems and Constraints Faced by the Enterprises Prior to Privatisation**

<table>
<thead>
<tr>
<th>Enterprises</th>
<th>Status</th>
<th>Major Problems/Constraints</th>
</tr>
</thead>
<tbody>
<tr>
<td>BPM</td>
<td>Profitable, generating nominal profits.</td>
<td>Low capacity, high overhead costs.</td>
</tr>
<tr>
<td>HBTTF</td>
<td>Running at ‘break-even’ point</td>
<td>Low capacity, high overhead costs.</td>
</tr>
<tr>
<td>BLSF</td>
<td>Sick and dying</td>
<td>Obsolete machinery, competitive market.</td>
</tr>
<tr>
<td>NFDC</td>
<td>Sick</td>
<td>Market competition, lack of funds for further investment.</td>
</tr>
<tr>
<td>BTI</td>
<td>Sick</td>
<td>Obsolete machinery, operational difficulty, poor financial condition.</td>
</tr>
<tr>
<td>RHCDC</td>
<td>Profitable</td>
<td>Competition from private sector tanneries.</td>
</tr>
<tr>
<td>NLO</td>
<td>Loss making</td>
<td>Poor capacity utilisation, active union, poor financial condition.</td>
</tr>
<tr>
<td>NBBI</td>
<td>Profitable</td>
<td>Production confined to barrels rather than bitumen emulsion.</td>
</tr>
</tbody>
</table>

Note: A sick unit is defined as an enterprise that had incurred losses for more than three years prior to privatisation.

(Source: CRPS 1995:22)

One thing that was common to all the enterprises was that, given the adequate managerial efficiency, marketing efforts and major capital injections, all selected units had a high degree of market potentiality for commercial success (CRPS, 1995:22-23). Considering
the disappointing performance of public enterprises, during the early eighties the then-government started to adopt the privatisation policy in Nepal.

At the same time, after the major political change in the country, the newly elected government decided to adopt the free economic liberalisation policy. The government constituted a high-level Administrative Reform Commission under the chairmanship of the prime minister. The commission, *inter alia*, recommended that the government adopt the privatisation policy. A series of high level seminars and workshops\(^3\) were held with the financial assistance of the donor agencies and the output of those seminars and workshops were a kind of pressure from the elites.

**Table 4.1.3: Necessity for Privatisation in Nepal**

<table>
<thead>
<tr>
<th>Policy makers and academicians</th>
<th>Employees of the privatised enterprises</th>
<th>Trade union representatives</th>
<th>General public residing around the privatised enterprises</th>
<th>Total</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freq.</td>
<td>%</td>
<td>Freq.</td>
<td>%</td>
<td>Freq.</td>
<td>%</td>
</tr>
<tr>
<td>Yes</td>
<td>117</td>
<td>86.0</td>
<td>48</td>
<td>65</td>
<td>4</td>
</tr>
<tr>
<td>No</td>
<td>14</td>
<td>11</td>
<td>26</td>
<td>35</td>
<td>6</td>
</tr>
<tr>
<td>Don't Know</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>17</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>135</td>
<td>100</td>
<td>74</td>
<td>100</td>
<td>12</td>
</tr>
</tbody>
</table>

(Source: Field Survey 2003/2004)

Responding to the question concerning “the necessity for privatisation in Nepal” almost 70% of the respondents stressed the need for privatising all the manufacturing/industrial enterprises, but warned against the privatisation of enterprises related to basic services and natural resources. Only 22% of the respondents felt that it was not necessary to adopt

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\(^3\) For example, a high-level workshop on privatisation was held on 8-11 August, 1988 sponsored by UNDP; another high-level seminar on privatising public enterprises was held on March 13-16, 1990. Likewise, a 7-day seminar on privatisation management & implementation in Nepal was held on 27 Aug.- 2 Sep. 1992 sponsored by USAID. In all of those workshop/seminars, different issues on privatisation were intensively discussed and various suggestions were made to the government for adoption and implementation of privatisation policy. In all of those workshop/seminars, participants were high-level government officials, representatives of different organisations e.g. FNCCI, chiefs of different PEs, etc.
and implement the privatisation policy in Nepal, while about 8% did not have any opinion on it. Most of the respondents who expressed opinions against privatisation were employees of the privatised enterprises and trade union representatives. Except trade union representatives (only 33%), the majority of all other strategic groups expressed that privatisation was necessary in Nepal (86%, 65% and 41%).

The respondents who were in favour of privatisation were also asked to list reasons supporting privatisation. The responses were as follows:

**Table 4.1.4: Reasons for Implementing Privatisation Policy in 1991**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Policy makers and academicians</th>
<th>Employees of the privatised enterprises</th>
<th>Trade union representatives</th>
<th>General public residing around the privatised enterprises</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency (%)</td>
<td>Freq. %</td>
<td>Freq. %</td>
<td>Freq. %</td>
<td>Freq. %</td>
<td>Freq. %</td>
</tr>
<tr>
<td>To increase productivity of the enterprises</td>
<td>29 23</td>
<td>28 55</td>
<td>2 50</td>
<td>11 42</td>
<td>70 34</td>
</tr>
<tr>
<td>To reduce financial and administrative burden on the government</td>
<td>25 20</td>
<td>4 8</td>
<td></td>
<td>2 8</td>
<td>31 15</td>
</tr>
<tr>
<td>To increase efficiency of the enterprises</td>
<td>21 17</td>
<td>3 6</td>
<td>2 50</td>
<td>2 8</td>
<td>28 14</td>
</tr>
<tr>
<td>To reduce political intervention in the enterprises</td>
<td>17 13</td>
<td>3 6</td>
<td></td>
<td>3 11</td>
<td>23 11</td>
</tr>
<tr>
<td>To promote private sector</td>
<td>18 14</td>
<td>3 6</td>
<td></td>
<td>1 4</td>
<td>22 11</td>
</tr>
<tr>
<td>To increase government investment in social sector</td>
<td>9 7</td>
<td>3 6</td>
<td></td>
<td>2 8</td>
<td>14 7</td>
</tr>
<tr>
<td>Because of the pressure from the donor community</td>
<td>1 1</td>
<td>2 3</td>
<td></td>
<td>2 8</td>
<td>5 2</td>
</tr>
<tr>
<td>To generate additional revenue for the government</td>
<td>1 1</td>
<td>1 2</td>
<td></td>
<td>3 11</td>
<td>5 2</td>
</tr>
<tr>
<td>Because of the shifting preference of the government (ideology)</td>
<td>2 2</td>
<td>3 6</td>
<td></td>
<td></td>
<td>5 2</td>
</tr>
<tr>
<td>Because of the government budget deficit</td>
<td>2 1</td>
<td>1 2</td>
<td></td>
<td></td>
<td>3 1,5</td>
</tr>
<tr>
<td>To reduce the public sector borrowing requirement</td>
<td>1 1</td>
<td></td>
<td></td>
<td></td>
<td>1 0,5</td>
</tr>
<tr>
<td>Total</td>
<td>126 100</td>
<td>51 100</td>
<td>4 100</td>
<td>26 100</td>
<td>207 100</td>
</tr>
</tbody>
</table>

(Source: Field Survey 2003/2004)
Four sets of questionnaires were used for the four sectors and in total 207 respondents commented on this question. Among them, 34% respondents (majority of all strategic groups) stated that privatisation increases the productivity of the enterprises. Similarly, 15% of the respondents stated that it reduces the financial and administrative burden on the government; 14% expressed that it increases the efficiency of the enterprises, while 11% expressed that it reduces political intervention in the enterprise and promotes private sector. Only 7% of the respondents said that to increase the government’s investment in social sector, privatisation is necessary. The rest of the respondents (about 8%) stated that the following are the reasons in support of privatisation:

- Because of the shifting preference of the government (ideology);
- Because of the pressure from the donor community;
- Because of the government budget deficit;
- Because it generates additional revenue for the government; and
- Because it reduces the public sector borrowing requirement.

Some respondents further added that Nepal couldn’t avoid privatisation since it has entered into the World Trade Organisation (WTO) and more importantly a decade ago it liberalised the economy in its transition towards a free-market economy. However, a few respondents (about 22% of the total 272 respondents) said that the government should not pursue privatisation. They said that sick SOEs should be restructured instead of being privatised, that the private sector is not capable and that the government should not abruptly withdraw itself from its responsibility but should continue to function as a facilitator. The reasons they gave against privatisation were as follows:
### Table 4.1.5: Reasons against Privatisation

<table>
<thead>
<tr>
<th>Reason</th>
<th>Policy makers and academicians</th>
<th>Employees of the privatised enterprises</th>
<th>Trade union representatives</th>
<th>General public residing around the privatised enterprises</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Welfare of employees</td>
<td>1 9</td>
<td>20 77</td>
<td>6 86</td>
<td>7 44</td>
<td>34 57</td>
</tr>
<tr>
<td>- Regular supply of quality goods/services at reasonable prices</td>
<td>6 55</td>
<td>5 19</td>
<td>6 37</td>
<td>17 28</td>
<td></td>
</tr>
<tr>
<td>- Because it worsens the socio-economic conditions</td>
<td>1 9</td>
<td>1 4</td>
<td>1 14</td>
<td>3 5</td>
<td></td>
</tr>
<tr>
<td>- Optimum use of public resources</td>
<td>3 27</td>
<td></td>
<td></td>
<td>3 5</td>
<td></td>
</tr>
<tr>
<td>- Because it promotes the concentration of wealth</td>
<td></td>
<td></td>
<td></td>
<td>3 19</td>
<td>3 5</td>
</tr>
<tr>
<td>Total</td>
<td>11 100</td>
<td>26 100</td>
<td>7 100</td>
<td>16 100</td>
<td>60 100</td>
</tr>
</tbody>
</table>

(Source: Field Survey 2003/2004)

The respondents who were against privatisation were mainly trade union representatives (about 58% of total response), employees of the privatised enterprises (about 35% of total responses) and general public (about 32%). About 57% of the respondents (majority of
the respondents except policy makers and academicians) who were against privatisation expressed that for the welfare of employees, the policy should not be adopted. Similarly about 28% stated that to ensure the regular supply of goods and services the policy should not be implemented. Likewise, 5% each (total 15%) expressed that it should not be implemented due to the following reasons:

- Optimum use of public resources;
- Because it worsens the socio-economic conditions; and
- Because it promotes the concentration of wealth.

In relation to the objectives of the privatisation policy in Nepal, almost all informants said that the major causes of adopting the policy are poor performance of the PEs, international pressures, and the changing international economic environment. When asked whether the objectives of privatisation have been met in Nepal, the responses were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>21</td>
<td>16</td>
</tr>
<tr>
<td>No</td>
<td>80</td>
<td>61</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>30</td>
<td>23</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>131</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

(Source: Sub Sample one of the Field Survey 2003/2004)

The above table shows a striking result; only 16% respondents believed that the objectives of privatisation have been met, while about 61% expressed that it has not been met; 23% did not have any opinion. This shows that although most of the respondents were in favour of privatisation, they were not satisfied the results achieved by the implementation of the policy.

Regarding the objectives, almost all the key respondents said that the major objectives of privatisation are to reduce the economic burden on the government and increase efficiency of the enterprises. Some of the informants thought that increased private participation, productivity, competition and government revenue were the major objectives of privatisation. They also felt privatisation facilitates the process for increased
government spending on social sectors such as health, drinking water and education, and hence these should also be seen as the objectives of privatisation. Some of the respondents asserted that the adoption of the privatisation policy in the country is not due to the domestic reality, but because of the external pressures from the donor countries, particularly from the pressure of the World Bank (WB) and International Monetary Fund (IMF) under the Structural Adjustment Program (SAP).

Similarly, a few respondents said that the government should not get involved in business operations. One respondent said that the government had initiated the program of privatisation in the country due to pressure from businessmen. A few respondents outlined other objectives of privatisation, such as preventing the misuse of public resources, reducing corruption and political interference in enterprises, and promoting direct foreign investment in the country.

Arguing in favour of privatisation, Douglas G. Clarke, the then-resident advisor to the Privatisation Cell of the Ministry of Finance, said:

> The secret to success in anything is personal responsibility, if you own a property you take care of it, and ensure that it is properly maintained, whereas if it were owned by the government nobody seems to take the responsibility, so either it falls into decay or nobody seems to bother. Privatisation creates ownership and responsibility, owners who have an interest and have invested their money in a property, make certain that the customer receives good services and that it runs efficiently, not to do so would ruin their business. Government’s attempts to restructure SOEs usually fail, and delay the inevitable result. What is missing is they never provide the most essential commodity, the all-importance factor of personal responsibility (in an interview with Spotlight Magazine, on April 12, 1999).

In the broader sense, the statement is true, as ownership and competition are two major factors affecting the efficiency of PEs. However, there is debate about whether it is the ownership or the competition that really matters. The experience to date is quite ambiguous. The performance of Canadian Railways tells us that it is irrelevant whether the enterprise is public or private; as long as it is in the competitive environment, both perform well. Experiences elsewhere tell us that ownership does matter in the privatisation drive (Manandhar, 1998:57), but the above statement does not address the
government’s social responsibility. The government cannot always evaluate PEs in terms of financial benefits/profits, as it has the social responsibility of providing goods and services to the people at an affordable price.

4.1.2 Decision Making and Policy Characteristics

What kinds of issues do decision makers consider when they assess possibilities for changing existing policies or organisational practices? Do they apply any criteria—technical, political, ideological—to guide them toward certain choices? Decision-making situations are almost always complex, and clues about which choices to make tend to be numerous and conflicting. For any given decision, policy makers may be pushed in divergent directions by specific societal and bureaucratic interests, their own preferences and understanding of the issues involved, the historical and international context from which the problem has emerged, and a variety of other concerns and influences (Grindle and Thomas, 1991:95).

The following table presents the criteria for choices about policy and institutional reform:

Table 4.1.7: Criteria for Choices about Policy and Institutional Reform

<table>
<thead>
<tr>
<th>“Lenses” of Policy Elites</th>
<th>Concerns influencing Decisions</th>
<th>Influential Actors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical advice</td>
<td>Information, analyses, and options presented by advisors, experts</td>
<td>Technocrats, ministers, and other high-level bureaucrats; foreign advisors</td>
</tr>
<tr>
<td>Bureaucratic implications</td>
<td>Career objectives of individuals; Competitive position of units; Budgets; Compliance and responsiveness</td>
<td>Ministers and other high-level bureaucrats; Mid-level bureaucrats; International bureaucrats and Advisors</td>
</tr>
<tr>
<td>Political stability and support</td>
<td>Stability of political system; Calculated costs and benefits to groups, classes, interests; Military support or opposition</td>
<td>Political leadership; Dominant economic elites; Leaders of class, ethnic, interest associations; military</td>
</tr>
<tr>
<td>International pressure</td>
<td>Access to aid; loans, trade relations</td>
<td>IMF, World Bank, USAID, other multilateral or bilateral agencies; Governments of former colonial powers; International banks</td>
</tr>
</tbody>
</table>

(Source: Grindle and Thomas 1991: 95)
According to this table, decision-making elites filter policy options through at least four lenses: the technical advice they receive, the impact of their choices on bureaucratic interactions, the meaning of potential changes for political stability and political support, and their concern about relationships with international actors.

In Nepal’s case, having a detailed study of PEs, their performance, government investment in PEs and the returns from the investment, the reform initiatives have been in operation since the early ‘80s.

In relation to the implementation of the privatisation policy in Nepal, three types of decisions are relevant, as stated by Askvik (2001:10): (i) legal decisions, which have to be passed by the parliament; (ii) program investment decisions are government decisions to allocate resources for planned development schemes; and (iii) administrative decisions are decisions to change the administrative system or create new organs. Since these three types of decisions are relevant in the discussion of the Nepalese privatisation policy, I have tried to do so in brief. In legal decisions, the privatisation white paper of 1991 and the Privatisation Act of 1994 will be discussed, along with their characteristics. Concerning program decisions, the government’s decision about privatisation during different plan periods, as well as the various strategies and policies, will be discussed in brief. Administrative decisions for implementing specific enterprises will be discussed in the latter part.

A. Legal Decisions

This category discusses primarily the policy paper on privatisation, released in 1991 by the then-government, and the Privatisation Act of 1994, which was passed by parliament.


As part of an overall program of liberalization of the economy in 1991, the newly elected government of Nepal made a major commitment to a comprehensive privatisation program of public enterprise. This represented a marked departure from the previous government policy of undertaking economic development with very little emphasis on
private sector development. This change in direction was underpinned by the policy paper on privatisation, which committed the government to giving the private sector ownership, operational control, and commercial freedom by minimising government interference in production, distribution, marketing and pricing.

The government formed by the Nepali Congress Party brought out a phase-based program of privatisation with the objectives of:

a. Reducing the financial and administrative burden on the government;
b. improving operational efficiency;
c. involving the participation of general public and the private sector in the management of public enterprises; and
d. generating additional revenue (Sharma 1995).

Since the government felt the need for broad economic reform, privatisation was considered as a major policy option. Due to the government’s determination to go ahead with the policy on the privatisation of PEs, a policy paper on privatisation was made public in 1991.

The policy paper on the privatisation of public enterprises issued in 1991 stated that the majority of PEs were found to be operating unsatisfactorily. This problem, which was the responsibility of the government, was not conducive to the economic growth of the country. The government, with the hope of improving PEs under private sector management, adopted policy measures aimed at encouraging greater private sector participation. The policy assured minimal government interference in production, distribution and pricing in order to give the private sector maximum operational freedom.

The white paper on privatisation policy recommended that the institutional arrangement of the privatisation program be divided into two categories. One is a high-level privatisation commission under the chairmanship of the Minister of Finance, and the other is the technical committee under the chairmanship of the chief of the Corporation Coordination Division of the Ministry of Finance. The higher-level privatisation
commission was expected to set up priorities and design the privatisation program. In order to assist the commission, the technical committee was expected to conduct a review of public enterprises in order to identify and prioritise those that would be privatised. Thus, the commission was expected to be directly involved in actual privatisation activities.

The industrial policy (1992) and the commercial policy (1992) also generated fertile ground for the smooth implementation of the privatisation policy.

The Privatisation Act, 1994

After the experience of the privatisation of three enterprises in 1992 (in the first phase) and one enterprise in 1993 (in the second phase), the Privatisation Act came into existence in 1994. The preamble of the act describes its objectives as follows:

…In order to increase the productivity through enhancement of efficiency of the state-owned enterprises of the Kingdom of Nepal, and thereby mitigate the financial administrative burden to the government, and to usher in all-round economic development of the country by broadening the participation of private sector in the operation of such enterprises, it is expedient in the national interest to privatised such enterprises and to make arrangements there…(Preamble of the Privatisation Act 1994).

Many provisions have been made in the act, such as the formulation of a privatisation committee; powers, functions and duties of the committee; committee meeting and decision procedure; publication of notice for privatisation; evaluation process of enterprise; determination of privatisation process; evaluation of the proposals; agreement to be concluded for privatisation; formation of sub-committees; settlement of disputes; provisions relating to employee; liquidation of enterprises; delegation of powers, etc. for smooth implementation of the policy in Nepal.

B. Program Decisions

A reform initiative in Nepal has to a large extent been channelled through the five years plans, which govern the long-term national allocation of resources. Since the sixth five-year plan (1980-85), the role of the private sector in revitalising the economy has been recognised even though the involvement of the private sector was still in reality minimal.
In this sub-section, privatisation-related provisions (policies) adopted in different plan periods, especially from the Sixth to the Tenth Plan, will be briefly discussed.

**The Sixth Plan (1980-85): An Early Attempt at Privatisation**

During the course of the plan policy, in order to initiate the participation of the private sector in national economic development, a public enterprise policy was formulated. The policy clarified that enterprises with similar natures and objectives would be amalgamated. It further specified that enterprises that did not fall into government activities would be transferred to the private sector (NPC, 1980:31-32). In accordance with the plan policy, the necessary provisions and arrangements were made both for the sale of ownership and assets of selected enterprises to the private sector, and also the liquidation of selected enterprises. As a result, the government decided to liquidate eight rice-exporting companies in 1981. Moreover, the Sixth Plan provided for the ‘selling’ of unprofitable public enterprises, but its achievements were below expectations. During the plan period, two public enterprises, namely Chandeswori Textile Factory and Nepal Cheuri Ghee Plant, were sold to the private sector.

Towards the end of the plan, the government announced two policy measures; the government intended to allow the market mechanism to perform its functions in a freer environment and the government intended to transfer public enterprises’ assets to the private sector. In pursuance of this objective, for the first time the government publicly announced its intention to divest assets of the state-owned enterprises in the FY 1985-86. The announcement can be viewed as a landmark in privatisation efforts. Moreover, with a view to achieving rapid economic development through well-managed industrial activities, the new Industrial Policy of 1981 was brought into effect, replacing the Industrial Policy of 1974. One of the policy-set objectives was to encourage private sector industrial investment as an element in the gross national product. The policy indeed assisted in preparing required initial environment for the privatisation movement in Nepal. In the process, shares in Rastriya Banijya Bank, Nepal Industrial Development Corporation and National Insurance Corporation were offered to the public at premium
prices; however the public’s response was very poor (CRPS 1995:11). From the total amount of shares on offer, only 4% were subscribed to. Thus, in this plan period, much had been promised to involve the private sector in the nation-building process but the results were not as expected.

**The Seventh Plan (1985-90)**

The Seventh Plan specified clearly that private sector participation in the management and investment of public enterprises would be encouraged and that a gradual transfer of ownership to them would be effected (NPC, 1985:13). It is evident that the plan laid down the function for implementing a privatisation program in the country. To this end, the government made the decision to privatise 12 PEs in a period of one year (NPC, 1992:690). However, it could not materialise.

The budget speech of the FY 1988-89 reflected the need to strengthen privatisation policy, outlining that “the policy adopted for the privatisation of public enterprises will be pursued in a planned way” (MOF, 1988). In the budget speech, the finance minister suggested different policy guidelines to achieve economic development, as mentioned in the budget speech. Among them three policy guidelines were directly related to the privatisation program, which were development of capital markets through financial sector investment, liberal policy to encourage private sector participation and encouragement of economic decentralisation and people’s participation (Manandhar, 1989).

In the year 1988, the government took the decision to sell 49% of shares of Birgunj Sugar Mill. The government also made an attempt to sell Balaju Textile Industry to a single buyer. But it could not be sold due to the lack of proper valuation of the business and its assets. Furthermore, efforts to privatise Himal Cement Company also failed due to public protest and partly due to the reluctance of the private parties. In the case of Himal Cement Company, the public raised doubts regarding the intention of the government, as the company was supposed to be transferred to a business kingpin (Joshi, 1991 in *The Rising Nepal*). It has therefore been indicated that the policy of privatisation needs to be
reviewed, and the management and environment for launching privatisation programs needs to be urged to be strengthened and reconsidered.

In 1989, the government planned to privatise 50% of shares of 30 PEs and to form a privatisation committee (NPC, 1992:690). In accordance with the plan, in 1989 the shares of Nepal Metal Company were floated to the public at Rs.10 par value per share; however the result was well below expectations. In the same year, a privatisation cell was created within the Ministry of Finance. The committee prepared a draft white paper, which included programs relating to privatisation. It was submitted to the government but no action was taken regarding the direction of privatisation. It can be said that due to incomplete and faulty preparations and also the lack of necessary determination, efforts made towards privatisation in the past have been unsuccessful (Ibid).

As a result of the people’s movement, the multiparty democratic system was reinstated in Nepal in 1990. The new constitution of the Kingdom of Nepal of 1990 embodied a new mindset. The constitution created an environment for adopting the economic liberalisation policy on one hand and initiating private sector participation in economic activities on the other.

**The Eighth Plan (1992-1997)**

The Eighth Plan came up with a determination both to adopt the privatisation program on a large scale and strengthen public sector enterprises. The plan formulated various policies on privatisation, some of which were as follows:

a. A long-term strategy on privatisation would be devised. Corporations of an industrial and business nature would be gradually privatised. All policies and programs relating to privatisation would be made transparent.

b. In the process of privatisation of corporations or in implementing efficiency-enhancing programs, the current employees would be included as far as possible, but if the numbers of employees/labourers were higher than necessary, they would be removed only after providing adequate compensation.

c. The privatisation of PEs would be undertaken in groups such as those being privatised immediately, those to be privatised after a certain period of time or
those to be privatised after restructuring in the long term. Necessary improvement programs would be launched for those corporations to be privatised later and not to be privatised at all.

d. Legal basis would be prepared for the privatisation of corporations. Those corporations, established through special legal provisions, would be handed over through the company law and be privatised.

e. To privatise and to increase the efficiency in corporations, a central unit would be formed. This unit would conduct all the works relating to privatisation with the supports of concerned ministries (NPC, 1992, the Eighth Plan).

The plan also specified that programs relating to privatisation include the selection of corporations to be privatised considering the factors, such as public importance, financial capacity, and market guarantee. At the same time, those corporations which could not feasibly be privatised and also lack sufficient ground to function as corporations were to be closed down. With regard to the extent of privatisation, the plan also stated that the nature and problems of corporations would be studied extensively and then it would be decided whether they were to be fully sold. The government’s role would be minimised when selling shares and only the management would be handed over. ‘The method of privatisation will be decided keeping in view the needs of each corporation based on the economic condition, the market factor, the employment number and the investment potentiality.” In order to launch the programs as provisioned in the plan document, a legal basis as well as framework was of utmost importance.

In relation to implementation, the plan should be regarded as successful in comparison to other plans as far as the objectives met. During the plan period a total of 15 PEs were privatised and the legal provisions were set up by enacting the Privatisation Act of 1994.

The Ninth Plan (1997-2002)

The Ninth Plan set the following objectives of privatisation:

- to increase the effectiveness and production of government resources through efficient utilisation;
• to make the government gradually assume the role of facilitator by encouraging and motivating the private sector for participation in economic development;
• to help maintain economic stability by enforcing financial discipline and relieving the government progressively from the burden of financing corporation deficit;
• to promote the participation of common people in the economic development by means of participation (NPC, 1998:184).

Policy and Implementation Strategy of the Ninth Plan
In order to attain the objectives set by the plan, various policies and implementation strategies have been offered. The major policies and implementation strategies are identified as follows:

• The process would be pushed ahead by adopting the appropriate modality so as to ensure a fair opportunity for all the investors.
• While selecting a corporation, it would be assessed properly, applying various criteria, and detailed analysis would be carried out to determine the priority based on the study of timing, sequencing and pace of privatisation.
• The selection of the investor would be made only after the careful assessment of the business and technical resources, skills knowledge and experience, the business plan, etc.
• To ensure that the government gets a fair price from privatisation, arrangements would be made to provide the prospective investor with all relevant information about the enterprise. All relevant information about the business value of the enterprise, the value of its assets, its strengths and prospects would be widely disseminated in the public.
• Foreign investment would be encouraged in some corporations requiring a huge amount of capital and modern technology.
• A clear policy and approach would be evolved to protect the interests and rights of the employees as well as to determine the other necessary compensation to be given to them while privatising government corporations.
• Monitoring of the privatised enterprises would be undertaken in the post-privatisation phase.
• Measures would be taken to promote the private sector by keeping the door open for investment, enacting appropriate laws and by-laws and executing them. And,
• Necessary amendments, based on experiences of the past and long-term perspective, would be made to the existing Privatisation Act to improve its effectiveness, etc. (Ibid: 184-186).

Within the conceptual framework, to achieve the set objectives the plan has envisaged privatising 30 different PEs during the Ninth Plan, based on the findings of the studies (Ibid: 186). In the case of the enterprises remaining in the public sector for the time being, various improvement programs should be initiated so as to optimise the utilisation of available resources and capabilities. However, only one enterprise—Nepal Tea Development Corporation—was privatised during this plan period, which clearly indicates the implementation deficit. It showed the total failure in terms of implementation, as only one enterprise among 30 has been privatised. It also proved that formulating sound policies alone would not be enough, if one could not put into action the promise made through the policy paper (implementation).

**The Tenth Plan (2002-2007)**

The objective of the Tenth Plan was to make the economy vibrant, dynamic and competitive by promoting the private sector and creating a conducive environment for privatising the public enterprises that did not need to be retained in state ownership and management (NPC, 2002: 85). The quantitative target of the plan was that “at least 15 enterprises will be privatised and handed over to the private sector within the plan period through privatisation of a minimum of 3 enterprises per annum inclusive of those which could not be privatised during the Ninth Plan” (Ibid:86).

**Strategy:**

1. The nature of activity, scope, status of financial transaction, need for additional investment, etc. would be the basis for the privatisation of the PEs. In the process, extensive participation would be encouraged to make privatisation competitive and transparent.
2. Even those enterprises which have to be maintained under the public sector would be operated on the commercial principles.
The government has identified dual policies in relation to the above strategies in this plan period, which are as follows:

1. Making the process of privatisation competitive and transparent (related to strategy 1).

2. The public enterprises that need to be retained within the ownership and management of the government would be run on commercial principles (related to strategy 2).

The government further elaborated how it would perform the privatisation of PEs during the Tenth Plan period by learning from past experience. To make the privatisation process competitive and transparent, the government would carry out the following activities:

- Priority would be given to privatising public enterprises in competitive areas that could attract the attention of the private sector.
- Enterprises deemed unnecessary to be operated under public sector and failed to attract the private sector would be liquidated.
- General public would be informed through regular monitoring of the works in progress about the compliance / non-compliance of the conditions of the agreements made that affect the privatisation negotiations of a given public enterprise. They would also be informed about whether or not the necessary goods and services have been made appropriately available after the privatisation of those enterprises.
- Improvements would be made to the process of privatisation by resorting to promoting wider participation of the public as much as possible (Ibid).

Likewise, the PEs which need to be retained under government ownership and management would be run on a commercial basis as follows:

- Through continuation of the development of a competitive environment, which has been initiated in areas like drinking water, electricity and telecommunication, the necessary regulatory machinery would be developed for the public enterprises in these sectors to promote investment from private sectors.
Foreign investment would be promoted in those feasible enterprises that are considered a national priority and can bring in foreign capital as well as modern technology.

Public enterprises would be encouraged to operate commercially by allowing them to be autonomous.

The objectives, strategies, major activities and risk factors can be summarised in the following table:

<table>
<thead>
<tr>
<th>Objective</th>
<th>Strategies</th>
<th>Indicators</th>
<th>Information Sources</th>
<th>Major Programs</th>
<th>Risk factor and Hindrance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management and privatisation of public enterprises</td>
<td># To push forward the process of privatisation in competitive environment. # Not to support monopoly in any circumstances during the process of privatisation. # To create share ownership on broad base # Enterprises if conducted by government will be conducted commercially.</td>
<td># Quantitative increase in number of shareholders. # Privatisation of 15 enterprises during the plan period, with at least 3 per year.</td>
<td># Report of Privatisation unit of Ministry of Finance. # Write-ups and reviews on privatisation by experts.</td>
<td># To conduct programs related to the evaluation of institution to be privatised, protection of employee interest, study and analysis of returns etc through government investment. # To make arrangements to empower commission that studies the procedure of privatisation and work efficiency of corporations. # To formulate essential programs by the privatisation unit for the privatisation of the enterprises on the basis of priority and to monitor them.</td>
<td># Entrance and release of time-relevant labour. # Concern of assistance provider in privatisation of institutions constructed through foreign assistance</td>
</tr>
</tbody>
</table>

(Source: NPC 2002: 107)

The Tenth Plan is currently being implemented (2002-2007) so an evaluation of its effectiveness could not be carried out. However, there are some positive results in terms of implementation that are encouraging regarding the plan’s achievements. At the same time, recent political developments in the country, combined with other factors regarded as negative for overall economic development, may hinder the plan’s achievements in the years to come.

C. Administrative Decisions

In order to carry out the privatisation program smoothly, the government created a Privatisation Cell under the Corporation Coordination Division at the Ministry of Finance
in 1989. The government also formed a privatisation committee in the same year. After issuing the policy paper on privatisation in 1991, the Privatisation Commission and the Privatisation Cell have become more powerful and responsible for the implementation of privatisation policy. As outlined in the policy paper, the government formed a privatisation commission under the chairmanship of the finance minister. Likewise a technical committee, evaluation committee etc were also formed. After enactment of the Privatisation Act in 1994, all administrative decisions were made within the jurisdiction of the act, whereby the government took decisions on the recommendation of the privatisation committee whether to privatise the PEs. Many decisions were therefore made individually (case by case) to privatise various enterprises.

4.1.3 The Implementation Arena

The implementation arena is where policy decisions are transferred into administrative practice. Normally, when a policy decision has been made, an administrative body is given responsibility for its implementation. This implies a process where the decision in question is interpreted and carried out by others than those who made the decision. As the implementation literature illustrates, this kind of processes can often be quite complex depending upon the character of the decision and those mandated to put it into practice. The latter may for instance disagree with the decision, they may misinterpret it, or they may lack the competence or financial resources to implement it (Askvik, 2001:13-14).

Grindle and Thomas emphasise in their analysis that when a policy decision has been made, some kind of opposition is likely to occur, either in the public or in the bureaucratic arena. The success of its implementation will eventually depend upon the political, financial, managerial and technical resources at the disposal of the decision makers (Ibid).

In the implementation process political, financial, managerial and technical resources are likely to be needed to sustain the reform. Mobilising these resources is part of the challenge to decision makers as those opposing the policy change may attempt to block access to the necessary resources. The Nepalese government encountered many
challenges concerning financial, managerial and technical resources. The policy has been implemented based on the funds provided by the donor agencies. UNDP assistance was requested for the exercise and, with the World Bank as executing agency, UNDP was approved to support the government in its privatisation effort (Peacock, 1992:16). At the same time many other donors are also supporting the program but they are threatening the government by showing their dissatisfaction at the implementation of the policy. For example, The Department for International Development (DFID), the British government’s international development agency and a major donor in Nepal’s privatisation project, warned the government to withdraw its assistance from the project if the government failed to show a clear commitment to the privatisation process (The Kathmandu Post, January 10, 2001). Grindle and Thomas argued that in some cases, donors’ interest in being associated with a visible change may be great enough that policy makers have the opportunity to negotiate and bargain successfully among them for substantial financial responses (Grindle and Thomas, 1991:147). Thus the challenge for managing financial resources is a crucial factor for policy implementation. In Nepal’s case there was inadequate training and the staffs were not technically skilled. The Privatisation Cell lacks qualified permanent staff. Few personnel are there to perform privatisation-related tasks and lack technical knowledge. Managing financial, managerial and technical resources therefore is a challenge for the successful implementation of the privatisation policy in Nepal.

In Nepal’s case, the opposition/obstacles will be shown in the next sub-section (in 4.2). In the rest of this sub-section, the general implementation of the privatisation program in different phases in Nepal will be discussed in brief. Although the case study will be conducted in the following chapter, a general outline of implementation will be given as follows.

**A. The First Phase of Privatisation**

In the first phase of the privatisation program, the government decided to privatise three PEs, based on the outcome of a joint study by the International Development Association (IDA) mission and the government. As per the study, three enterprises were selected from
The selection of the enterprises to be privatised by the large depended upon the following elements:
(a) Commercial viability of the enterprises, (b) Competition from the private sector, (c) Impact on labour, (d) Political obstacles, (e) Investor interest, and (f) Possibility of successful privatisation (Sharma, 1995:61).

As it was the first ever privatisation in the country, and the Privatisation Bill was under consideration, the privatisation process centred around the high-level Privatisation Committee. A small and compact Privatisation Cell was centralised for all the responsibilities of the process. The Council of Ministers was the decision-making authority for selecting enterprises and for final sales.

Enterprises privatised in the first phase are shown in the following table.

<table>
<thead>
<tr>
<th>Name of Enterprises</th>
<th>Types</th>
<th>Main Activities</th>
<th>Modality &amp; privatisation proceed</th>
<th>Year of Sale</th>
<th>Sale Proceed (in Rs.’000)</th>
</tr>
</thead>
</table>

(Source: Privatisation Cell, Ministry of Finance)

In the first phase, the government adopted the modality of assets and business sales in all three enterprises.

**B. The Second Phase**

As the government implemented the first phase of the privatisation program, it desired a long-term privatisation program considering the strengths and weaknesses from past experience. In accordance with the policy guidelines provided by the Eighth Plan and the privatisation policy issued in 1991, the long-term privatisation program was implemented to cover all public enterprises with regard to planned and phase-wise manner.
The high-level Privatisation Committee recommended that 27 PEs be privatised based on the long-term privatisation program and the recommendation of the Privatisation Cell with due considerations. The Council of Ministers decided to privatise all suitable candidates in five phases and continue with the enterprise reform and restructuring wherever possible (Sharma, 1995:86). The Council of Ministers decided to privatise 14 PEs by September, 1994. As part of the second phase of the privatisation program, five public enterprises were privatised by June, 1994 and two were liquidated. Those enterprises are presented in the following table:

Table 4.1.10: Enterprises Privatised in the Second Phase

<table>
<thead>
<tr>
<th>Name of Enterprises</th>
<th>Types</th>
<th>Main Activities</th>
<th>Modality &amp; privatisation proceed</th>
<th>Year of Sale</th>
<th>Sale Proceed (in Rs.'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Nepal Film Development Company</td>
<td>Processing</td>
<td>Film Production and Process</td>
<td>Share Sale</td>
<td>11th Nov. 1993</td>
<td>64662</td>
</tr>
<tr>
<td>2. Nepal Lube Oil Ltd.</td>
<td>Manufacturing</td>
<td>Lubricant Production</td>
<td>Share Sale</td>
<td>5th June 1994</td>
<td>31057</td>
</tr>
<tr>
<td>5. Raw Hide Collection &amp; Dev. Company</td>
<td>Trading</td>
<td>Collection and Supply</td>
<td>Share Sale</td>
<td>14th Dec. 1993</td>
<td>3990 -</td>
</tr>
<tr>
<td>6. Tobacco Development Company</td>
<td>Trading</td>
<td>Promotion</td>
<td>Liquidation</td>
<td>1994</td>
<td>-</td>
</tr>
</tbody>
</table>

(Source: Privatisation Cell, MoF)

While 14 enterprises were proposed for privatisation in the second phase, only five were privatised and two were liquidated. This was due mainly to the change in policy, which was a consequence of a change in the government. Unlike the first phase, all PEs were privatised through a method of share sale, except two liquidated enterprises. It is evident that the government was mindful of the criticism it received in the first phase due to adopting the asset sale method, so during the second phase it changed tack and utilised only the share sale method and liquidation.
C. The Third Phase

The privatisation policy gathered momentum once again on the basis of national needs and social justice. Committed to transparency in the process, the policy also considered the rights, interests and welfare of labourers. The following table shows the PEs privatised in the third phase from March 1996 to August 1997, through various modes.

**Table 4.1.11: Enterprises Privatised in the Third Phase**

<table>
<thead>
<tr>
<th>Name of Enterprises</th>
<th>Types</th>
<th>Main Activities</th>
<th>Modality &amp; privatisation proceed</th>
<th>Year of Sale</th>
<th>Sale Proceed (in Rs.'000)</th>
</tr>
</thead>
</table>

(Source: Privatisation Cell, MoF)

Of the above privatised enterprises, Biratnagar Jute Mills was given to the private party on a five-year management contract on the condition that all standing obligations would be honoured by the new management. Bhaktapur Brick Factory Ltd. was given on lease for 10 years. Shares of Nepal Foundry Industry, Raghupati Jute Mills and Agriculture Tools Factory Ltd. were sold to the management and public through tenders. The share of Nepal Bank Ltd. was partially sold to the public and the employees of the bank itself. In this phase also the government refrained from using the assets sale modality. In addition to the methods of second phase, lease and management contract methods were also introduced.

D. Privatisation after 1997

Although the Ninth Plan (1997-2002) set the objective of privatising 30 PEs during the plan period, only one—Nepal Tea Development Corporation—has been privatised. This
is mainly due to the political instability in the country where none of the government was keen to privatise the PEs according to the set objectives. During this plan period and beyond, the following PEs were privatised through equity sale, assets sale and liquidation (MoF, 2004: 140).

Table 4.1.12: Enterprises Privatised after 1997

<table>
<thead>
<tr>
<th>Name of Enterprises</th>
<th>Types</th>
<th>Main Activities</th>
<th>Modality &amp; privatisation proceed</th>
<th>Year of Sale</th>
<th>Sale Proceed (in Rs.'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Nepal Tea Development Corporation</td>
<td>Manufacturing</td>
<td>Tea production and sales</td>
<td>Equity sale and lease</td>
<td>June 2000</td>
<td>267105</td>
</tr>
<tr>
<td>2. Agriculture Project Services Center Ltd.</td>
<td>Service</td>
<td>Research and service</td>
<td>Liquidation</td>
<td>2001</td>
<td>-</td>
</tr>
<tr>
<td>3. Cottage Handicraft Sale Emporium Ltd.</td>
<td>Trading</td>
<td>Sales</td>
<td>Liquidation</td>
<td>2002</td>
<td>-</td>
</tr>
<tr>
<td>4. Nepal Coal Ltd.</td>
<td>Trading</td>
<td>Sales</td>
<td>Liquidation</td>
<td>2002</td>
<td>-</td>
</tr>
<tr>
<td>5. Hetauda Textile Industry Ltd.</td>
<td>Manufacturing</td>
<td>Textile production</td>
<td>Liquidation</td>
<td>2002</td>
<td>-</td>
</tr>
<tr>
<td>6. Nepal Transport Corporation</td>
<td>Service</td>
<td>transportation</td>
<td>Dissolved</td>
<td>2002</td>
<td>-</td>
</tr>
<tr>
<td>8. Birjung Sugar Factory Ltd.</td>
<td>Manufacturing</td>
<td>Sugar production</td>
<td>Liquidation</td>
<td>2003</td>
<td>-</td>
</tr>
<tr>
<td>10. Bhaktpur Brick Factory**</td>
<td>Manufacturing</td>
<td>Brick Production</td>
<td>Assets and Business sale</td>
<td>2004</td>
<td>14.5 (asset sale) + 31.9 (rent/10 years)</td>
</tr>
</tbody>
</table>

(Source: Field Survey 2003/2004)

(* This company was firstly privatised by share sale but due to the breach of the contract the government withdrew and later liquidated.)

(** This company was firstly privatised by lease in 1997 but due to the breach of the contract the government withdrew and later privatised by selling the assets and business.)

Of 10 PEs, most were either liquidated or dissolved during this period, except Nepal Tea Development Corporation, which was leased out, and Butwal Power Company, of which equity shares were sold. Similarly, recently Bhaktpur Brick Factory was privatised through the selling of its assets and renting the land for ten years. The government has privatised 24 PEs so far, applying various modalities comprising about 39% of the total
PEs. Nepal Resin and Turpentine Ltd. and Himal Cement Company are currently in the process of privatisation.

4.2 Opposition/Obstacles during the Implementation Process

In Nepal’s case the opposition to privatisation will be shown in two categories—private and party-oriented differences. In the first part of this sub-section, some opposition from the general public, which was shown in the implementation phases by challenging the government’s decision in the Supreme Court of Nepal, will be discussed. In the second part, major political parties’ opinions on privatisation will be discussed.

4.2.1 Opposition from the General Public

Advocate Bal Krishna Neupane Vs. HMG and others

During the first phase of privatisation three PEs, namely BPM, HBTF and BLSF, were privatised by applying the ‘assets sale’ method. Following the process it was alleged that there was low valuation of assets. Meanwhile, a writ petition was filed in the Supreme Court of Nepal by advocate Bal Krishna Neupane naming HMG et al against the decisions that enabled the privatisation of the three PEs. The writ petitioner charged that HMG privatised these PEs in the absence of authority to privatise (during that period, the Privatisation Act had not been enacted). HMG was also charged with improper valuation of assets, providing foreigners with the opportunity to participate at the cost of the Nepalese. Additionally, there was seen to be an undue affiliation between HMG and businessmen.

The respondents (the government) of the case strongly opposed the petition, stating that there was no proof that the government violated the existing rules and regulations. The government contended that there was proper valuation carried out by experts. The case remained sub judice in the Supreme Court for about 5 years. Finally, the Division Bench of the Supreme Court rejected the writ petition unanimously. Some of the ratio decidendi followed in the verdict were as follows:

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4 The discussion of those cases is based on Mishra (1999)
1. There was no *prima facie* evidence of undue affiliation between politicians and businessmen in the course of privatisation,

2. HMG is entitled to sell its assets subject to legal provisions,

3. Though the action of challenged privatisation was held in the absence of privatisation law, the privatisation law was enacted to regulate the steps of privatisation.

4. There seemed to be no possibility of repeating such controversial irregularities immediately by the government.

Result: SC quashed the petition.

The above stated decision of the SC/N has been criticised strongly by scholars. The decision enabled HMG to action arbitrarily. In any case, through this decision the program of privatisation has received recognition and a declaration of validity by the highest court of the nation. This declaration of validity has served to make it more concrete.

**Ram Prasad Bhattarai vs. HMG Cabinet Secretariat and others**

The facts of the case were: HMG privatised the Nepal Jute Development and Trading Company through liquidation. Later the assets of the liquidated company were transferred to the Agriculture Input Corporation and Nepal Agriculture Research Center. The Service Regulation of the workers and employees had guaranteed service up to the age of 65. The petitioner, an aggrieved employee, challenged HMG/N's decision to liquidate the company on the grounds of lacking authority. As an alternative plea he demanded the government shift his service to one of the institutions that acquired the assets of the liquidated company.

The respondents denied fulfilling the demand forwarded by the petitioner, by stating the causes, *inter alia*, the presence of authority of HMG to liquidate and non-legal obligation to shift the service of the petitioner as demanded.

Based on the following *ratio decidendi* SC/N quashed the petition:

---

1. The Corporation Act of 1965 empowers HMG to liquidate the company. No legal fault is found while liquidating the loss running enterprise;
2. HMG is entitled to transfer assets of liquidated company to others after having it under control,
3. No legal provision has been made to shift the service of the employees of the liquidated company to other corporations.

Hence, the SC/N has settled various cases filed in relation to privatisation. The nature of the decisions are based on the facts of the particular case. Therefore, based on the facts, various principles have been propounded. In both decisions, SC/N has strongly supported the tendency toward privatisation.

The Supreme Court of Nepal has delivered verdicts in various ways but most of them are in favour of privatisation and the voices of opposition of the public challenging the government’s decisions, especially on implementation issues, have not been endorsed by the court.

Regarding whether there were conflicts during the implementation of the policy between/among different actors, 43% of the respondents expressed that there were conflicts but did not specify what exactly the conflicts were, while 15% expressed that there were not and 42% expressed that they did not know. The majority of respondents who were directly or indirectly involved in the implementation process expressed that there were conflicts during the implementation phase. There was conflict within the privatisation committee itself, though this was not a very bad case (i.e. during the 30th, 31st, 32nd and 36th meeting of the privatisation committee held in July 1998, August 1998, August 1999 and Jan.2001 respectively, one of the committee members expressed his dissatisfaction and wrote a note of dissent about the committee decision, which caused the delay of the privatisation process in some PEs, which were in the pipeline of privatisation - minutes of the privatisation committee, Privatisation Cell, MoF). There was also conflict between/among the employees and management of the company who
were against the privatisation and tried to block the process. The following table shows the number of the respondents and the frequency:

<table>
<thead>
<tr>
<th>Table 4.2.1: Conflicts During the Implementation Phase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Don’t Know/ No Comment</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

(Source: Sub Sample one of the Field Survey 2003/2004)

The second largest majority of respondents did not know whether there were conflicts or not. This shows that there was not full transparency in the process. On the issue of transparency, results of the empirical data are shown below:

<table>
<thead>
<tr>
<th>Table 4.2.2: Level of Transparency during the Privatisation Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>Good</td>
</tr>
<tr>
<td>Average</td>
</tr>
<tr>
<td>Poor</td>
</tr>
<tr>
<td>Don’t know</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

(Source: Sub Sample one of the Field Survey 2003/2004)

The above table clearly shows that the majority of respondents (about 41%) expressed that the process was moderately transparent while 40% said that the process was poorly transparent. Only 6% found the level of transparency to be good, whereas 13% did not know. The above result proved that the government should implement the policy in a fully transparent way.

4.2.2 Opinion of the Major Political Parties on Privatisation

The opinion of the major political parties represented in parliament is presented here. The opinions noted here are based on the papers presented in the “Workshop on need of conceptual and policy consensus among major political parties on privatisation” organised by the SCOPE in Kathmandu on 28 Feb. 1997; respective parties’ election
manifestos of 1994 and 1999 parliamentary elections; published articles in various newspapers and magazines; and personal interviews of the leaders of the parties.

4.2.2.1 Opinion of the Nepali Congress Party (NC)\(^7\)

Nepali Congress Party has shown a firm belief in the efficient use of resources for the broader welfare of the people. If efficiently used, any of the sectors should be allowed to be involved in the economic activities—be they public, private and/or non-government sector. So, if the private sector can use resources more efficiently and productively, the government can afford to play the role of facilitator, guiding the private sector and working toward macro-economic stability. Only by creating an atmosphere for active private sector participation can Nepal attract the required domestic and foreign investment, and privatisation is a step towards achieving this end.

Nepali Congress Party places emphasis upon the following aspects in the process of privatisation:

- Transparency and accountability.
- Forms of privatisation (dissolving, total sale, management contract, leasing, partial sale, etc.) to be spelt out clearly and transparently.

\(^7\) Opposition party that was split in 2002 which was also in power when the privatisation policy was formulated in 1991-1994.

The Nepali Congress (NC) was formed in exile in India as a result of the merger of Nepali National Congress and Nepali Democratic Congress. Since its inception in January 1947 Nepali Congress has occupied a pivotal position in the annals of contemporary politics of Nepal. Its original objectives were:

- To raise political consciousness of the people to overthrow the century-old Rana rule as a precondition for the liquidation of feudalism.
- To establish a democratic system of government with a constitutional monarchy.
- The Nepali Congress adopted democratic socialism in 1956 as a principle for social transformation.

In order to achieve the above objectives, the NC has been waging a ceaseless struggle using both peaceful and armed means. In the course of its struggle the NC has gone through several ups and downs, trials and tribulations (http://www.nepalicongress.org.np/contents accessed on 20 July 2005).

The party summarises its ideology as: “Nationalism, Democracy, Socialism and Constitutional Monarchy”. Although the NC’s core ideology is Socialism, since coming to power in the 1990s the party has implemented liberal economic policies such as the privatisation of state-owned enterprises.
• No displacement of existing employees as far as possible, if at all, adequate compensation need to be arranged.
• Clear statement on the provision for foreign investment, to be emphasised particularly if heavy investment and/or new technology are required.
• Valuation by assessing asset value, business value, image of the PEs under consideration, etc.
• Criteria for selecting investors, on the basis of proposed management plan of the investors, their credibility and experiences, financial position, management capability, etc.
• Terms and conditions for the employees who continue working.
• Regulations to prevent monopoly.
• Effective monitoring to ensure contract obligations are followed.
• Terms and conditions of the contract, etc.

This party feels that the existing process incorporates many of these features, which need to be strengthened and the public need to be educated (SCOPE 1997:11-12).

Likewise, the party once again emphasised its commitment to privatisation in its election manifesto of 1999’s parliamentary election. The party confirmed that “economic activities and industrialisation will be developed to create employment. The party will review its liberal economic policy and involve the private, non-governmental and cooperative sectors in economic activities. All remaining obstacles to national and foreign investment will be removed. Poorly performing state-owned enterprises with potential will be privatised” (Keeling, 2000:16; NCP, 1999).
4.2.2.2 Opinion of the Communist Party of Nepal (CPN-UML)\(^8\)

This party feels that privatisation is not an essential feature for the development of the country that it has instead been thrust upon the country by the World Bank institutions in the name of liberalisation of the economy and as a part of the structural adjustment loan. At the same time, it also acknowledges that privatisation enhances the efficiency of business units. So if any PE is operating at a profit and exhibits business efficiency, there is no need to privatise such units. Thus, instead of taking privatisation as a general feature of a liberal economic policy, it should be seen as an isolated economic policy to privatise PEs if they:

- Reduce government expenditure; however care should be taken not to include PEs having social responsibility and working for human welfare;
- Increase government revenue;
- Increase GDP by enhancing production, investment and plant capacity;
- Do not encourage monopoly and/or cartel after privatisation;
- Give adequate share of ownership to Nepali citizens, employees and workers;

\(^8\) Main opposition party which was in power in 1994-1995

The Communist Party of Nepal (CPN) was founded on 22nd April, 1949 during the people's struggle against the autocratic feudal Rana regime. The CPN was founded by the revolutionaries to wage the people's struggle and to establish a new democratic system in the country. From the inception of the party, different views emerged in the party line which split the party into different factions. The increasing disputes in the international communist movement further fostered party division. Various groups appeared in different parts of the country.

The unification process gradually gained momentum. After the establishment of the multi-party system in 1990, the CPN (M-L) and CPN (M) unified as the Communist Party of Nepal (Unified Marxist-Leninist) (CPN - UML) - in January 1991.

The Fifth National Congress of the CPN (UML) was held in January, 1993 in Kathmandu, which was a milestone in the history of the communist movement of Nepal. The Congress adopted the People's Multi-Party Democracy as the political program of the Nepalese revolution, which was propounded by Comrade Madan Bhandari. The Party is firmly committed to nationalism, democracy, equality and justice and to enhance the progress and prosperity of the people. The Party upholds the principles of socialism and pursues the road of People's Multi-Party Democracy, which is a creative application of Marxism and Leninism in Nepal. Consolidation of democracy, strengthening people's sovereign rights, changing socio-economic relations and accelerating economic development in the country are the major concerns of the Party. Periodical election and the government of the majority, pluralism, rule of law, human rights are other important elements of the People's Multi-Party Democracy. Economically self-sustained society, quality education and health service, full employment and social security are also important features of the Party program aiming to achieve the welfare state (http://www.cpnnuml.org/ideology.html accessed on 25 July 2005).
• Generate employment and provide such opportunities to Nepali citizens; and
• Do not issue unusual rises in price.

The implementation of privatisation policy should not stop the operation of other PEs and should not prevent the establishment of new PEs, in case there is a need for them (SCOPE 1997: 10).

Likewise, in its 1999 election manifesto, the party stressed the following points regarding foreign capital and privatisation:

• *Ensure the productive use of foreign capital for high economic growth and technological development:* by mobilising foreign assistance as per national priorities, maximising the use of local resources and human power, promoting private sector investment and monitoring any activities that adversely affect national unity, religious harmony or social justice.

• *Selectively privatise public institutions:* by reassessing the privatisation policy, conducting selective privatisation, making public enterprises autonomous, whilst keeping in mind the rights and welfare of employees (Keeling, 2000:20 and CPN UML, 1999).

The faction of the party (CPN ML) during the election period in 1999 indicated that it would abandon any policies in the name of liberalisation and privatisation that are detrimental to the nation and its economy. However, the faction could not win a seat in the parliamentary election and later merged with the mainstream CPN UML.

4.2.2.3 Opinion of the Rastriya Prajatantra Party (RPP)\(^9\)

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\(^9\) Fourth largest party in parliament

**Background of the Party**

Two Rastriya Prajatantra Parties: RPP (Thapa) and RPP (Chand) came into being on May 29, 1990; however they agreed to make a joint party in 1994. The party was formed primarily by supporters of the previous party (Panchayat before 1990) - best known as ‘Panchas’ in an open environment and multi-party political system in the country.

RPP is based on four broad principles: Multi-party Democracy, Constitutional Monarchy, Liberalism and Nationalism. By liberalism, RPP mean the protection of people’s individual freedom from state intervention. Thus, human rights and the rule of law are rooted in the thoughts propounded by John Stuart Mill, John Locke, among others. These four principles are like four pillars of a table; RPP wouldn’t be able to stand if one of these pillars were shortened ([http://www.rppnepal.com/channels/history.htm](http://www.rppnepal.com/channels/history.htm) accessed on 26 July 2005).
Privatisation is an inherent feature of the liberal economic policy, believing that the government is not a producer; producers are farmers and labourers. The government, therefore, should concentrate its efforts only in those areas where such producers are not involved. Hence, this party claims explicitly that activating other sectors does not necessarily weaken the government. By recognising the duality in the economy in terms of rural and urban economies, the rural economy sees much more direct government involvement. The party emphasises the following elements in the process of privatisation:

- Privatisation of enterprises with a tendency of monopoly should not be encouraged.
- Instalment payment method should be discouraged.
- Proper valuation needs to be made.
- Public share distribution through the stock market should be encouraged for the broader participation of the general public.
- Process should be transparent.

This party feels that there should be a clear-cut policy regarding the use of sales proceeds from the privatisation of public enterprises. Privatisation reduces the fiscal burden of the government and lessens the need for external borrowing (SCOPE 1997:12-13).

In its 1999 election manifesto the RPP stressed that it would make the process of privatisation transparent and jump-start it by floating shares in privatised public enterprises. Similarly, it would invest the income from privatisation in productive sectors and ensure that the rights and welfare of the management and workforce were considered (Keeling, 2000:29; RPP, 1999).

### 4.2.2.4 Opinion of the Nepal Sadbhavana Party (NSP)

10 The Nepal Sadbhavana Party (NSP) was founded in 1990 after its precursor the Nepal Sadbhavana Parishad—a non-political forum to promote the causes of Nepal’s Terai People—decided to form a political party. The central pillar of the party’s agenda is to press for equal treatment of the Terai people in every sphere of national life. It claims that the Terai people account for 50% of Nepal’s population. The party wants to see a federal system of government in Nepal, and is demanding places for Terai people within government services. In 2002, NSP (Anandi Devi) was formed as a new party after differences with the then-president of the NSP.
This party feels that privatisation should be an inherent feature of the economy in a global context. It suggests the formation of a commission consisting of economists, other intellectuals, representatives from political parties, staff members, representatives of the private sector, and so forth, to prepare a white paper on the privatisation process. Such a commission would explain the reasons for the privatisation of any particular PE (SCOPE, 1997:12).

**Common Opinions among Political Parties**

It is worth noting that there are more agreements than disagreements about the privatisation policy in Nepal, which contradicts the views presented by Grindle and Thomas. The writers stated that the opposition would try to block resources to resist policy implementation, but in Nepal’s case this did not occur. Disagreements were more concerned with operational aspects and the ways in which public enterprises have been privatised so far. For one reason or other, all the major political parties support the necessity of privatisation policy, either as an inherent component of the broader private sector participation in economic activities and liberal economic policy, or as a mechanism to promote market forces for enhancing allocative efficiency of resources. Therefore privatisation is seen as a tool to promote economic growth (SCOPE, 1997:13).

There was also agreement among parties regarding the optimum allocation of resources for basic social and infrastructure programs, which otherwise would have been made for PEs. Efficient use of resources after privatisation can be ensured only when there is a competitive environment and market forces are permitted to play their roles. In this respect there is also general agreement that monopoly and cartel situation should not prevail after privatisation. If likely to prevail, government should retain control over prices.

Another point of agreement concerns the employees working in the PEs. All the parties feel that the existing employees should not be laid off if such manpower is required. If the staff is not required, adequate compensation should be given and government
assistance given to find new jobs. Also, there is agreement that preference should be
given to national investors.

**Differences among the Parties**

There is one major difference between CPN (UML) on one hand and other parties on the
other, in so far as the perceived urgency of this particular policy measure is concerned.
UML feels that it is not a ‘must’ policy option, but rather there are ample opportunities to
improve the operation of PEs as expressed in its last election manifesto as “selective
privatisation”. On the other, Nepali Congress feels that there is an inherent tendency for
PEs to be less efficient than the private sector and hence the economy is bound to benefit
from privatisation. Their emphasis is upon minimum government involvement in
economic activities.

Parties seem to have held different opinions particularly with regard to valuation and
promoters’ shares. CPN-UML party suggests valuing on the basis of market value. Nepali
Congress Party, however, distinguishes between asset value and business value and
places greater importance on the business value of the property (SCOPE, 1997:14).
Hence, on the issue of privatisation in Nepal there was more common ground among
parties than differences.

**4.3 Summary**

In the first part of this chapter, privatisation policy in Nepal was discussed and analysed
according to the model presented by Grindle and Thomas (1991). In particular, agenda
setting, decision making and implementation were discussed. In agenda setting, the main
actors стрategic groups involved in the policy-making and implementation processes and
the main reasons for adopting the privatisation policy in Nepal have been discussed. In
the decision-making arena, different kinds of decisions, i.e. legal decisions, program
decisions and administrative decisions, have been discussed. In the implementation arena,
the general implementation process, i.e. from the first phase to the third phase and after
1997 (without phase), of the privatisation policy has been discussed. In the second part,
opposition from the general public has been discussed by illustrating two identical cases,
as well as the opinion of the major political parties of privatisation, as represented in the last parliament. Common ground and differences among them have been also examined in this section. The discussion showed that there was more common ground than differences among the political parties. These differences were regarding the privatisation process, valuation process and transparency among the political parties.

Legal and institutional arrangements, specific implementation processes in the four different cases, and the impact of the privatisation policy will be discussed in the next chapter. The facts will be discussed in the case study (second part) and opinion of different strategic groups on the different aspects of privatisation will be discussed in the third sub-section.
Chapter Five
Implementation of Privatisation Policy and Its Impact in Nepal: Expectations and Reality

5.0 Introduction

In the preceding chapter I discussed the privatisation policy in Nepal, in particular agenda setting, decision making and implementation. In this chapter the implementation of privatisation policy in Nepal, especially in four specific enterprises, will be discussed. In the first part of this chapter, institutional arrangements for privatisation, particularly institutional frameworks specified in the privatisation white paper (policy paper on the privatisation of public enterprises 1991) and in the Privatisation Act of 1994, will be discussed.

In the second part, the implementation process, background of the enterprises, valuation and privatisation approaches, analysis of the received proposals and the broad features of agreements and impact of privatisation on four enterprises, i.e. Harisiddhi Brick and Tile Factory, Bhrikuti Paper Mills, Nepal Foundry Industry and Biratnagar Jute Mills, will be discussed. In this sub-section, the data of the privatised enterprises collected from the field research (collected quantitative data from the company) will be discussed.

In the third part, the overall impact of the privatisation policy in Nepal as perceived by the stakeholders/strategic groups (respondents) will be discussed. Although some quantitative data are presented in annexes, only the opinions of the people involved in the different sectors (drawn from the different strategic groups) have been explored and analysed, which is fully dependent on the empirical data. Hence, the second part of this chapter will be based on the facts (data) and the third part will be the reaction/opinion of the respondents/different strategic groups on the facts.

5.1 Institutional Arrangement

According to Vuylsteke, a government requires analysis and informed advice on many issues, coordinated formulation of recommendations, prompt and expedient decision
making, as well as an effective implementation capability. The possibility for abuse of its procedures must be minimised. The emphasis is generally placed on centralisation, simplicity, flexibility, speed and transparency. No single organisational model for managing privatisation is appropriate in all circumstances. Managing a privatisation program requires a variety of skills. Some may be available within government departments, others must be obtained from outside (Vuylsteke, 1988:80). He further mentioned that many organisational set ups have been adopted, i.e. specialised government ministry, permanent privatisation committee, sectoral ministry, ad hoc privatisation units, privatisation by the parent holding company, and so forth. Most privatisation programs fall into one or another of the organisational alternatives mentioned above, or a combination of them.

Some countries aim to have one organisational entity make the political decisions, i.e. establish overall policy and approve individual transactions, while a different, separate entity actually conducts the operational tasks associated with privatisation, such as negotiations. The Committee on Privatisation in the Philippines, for instance, is responsible for deciding which SOEs will be sold and must approve all sales, while the Asset Privatisation Trust, a government agency acting as trustee of the national government, is responsible for actually selling the assets and taking all the related actions. In Costa Rica, a trust with similar functions was set up to assist in the divestiture of companies held by Corporation Costaricense de Desarollo (CODESA). Other countries find that utmost authority must be placed with a given body or ministry to handle all aspects of privatisation, subject to the scrutiny of an independent commission with respect to certain aspects, such as valuation. A good example of this system is France, whose organisational scheme has proven to be able to proceed speedily with the implementation of authorised transactions (Ibid: 85). A number of countries have given the responsibility to privatise SOEs to the sectoral ministry or department most closely involved with their operations. In the United Kingdom and the USA, for instance, principal responsibility for privatisation was assigned to the Ministry (or ‘department’ in USA’s case) of Transportation in the case of airlines (U. K) or railways (U.S.), or the Department of Trade and Industry in the case of telecommunications (U.K.), and so forth.
In the UK, the treasury plays a coordinating role to ensure consistent decisions across individual privatisations and to preclude undesirable precedents (Ibid: 82).

Whatever structure countries have adopted, the main question is how responsive it is to the interests of government, interested business circles and investors, and other related parties. It must be able to deal not only with the transfer of ownership aspects, but also with likely implications for competition and efficiency. It is sometimes argued that elaborate schemes for handling privatisation may be counterproductive. It would be simplistic, however, not to recognise that in both developed and developing country environments, a minimum degree of checks and balances, coordination and transparency is necessary to try and protect the public interest when disposing of state assets. There is no conducive evidence, however, to prove that, for instance, centralised decision-making power in one ministry yields better results than the committee approach. It depends solely on the specific country, the environment and the governance systems as well.

In the Nepalese context, there is a separate implementation unit under the ministry of finance (Privatisation Cell) which is mainly responsible for the implementation of the policy. The white paper on privatisation policy recommended the institutional arrangement of the privatisation program. Consequently a High Level Privatisation Commission (HLPC) chaired by the Minister of Finance to be supported by a technical committee headed by the chief, Corporation Coordination Division (CCD), was formed to provide guidelines and technical assistance to the privatisation program. A Privatisation Cell, under the CCD in the Ministry of Finance, was established to implement the process and serve as a secretariat to the HLPC (Sharma, 1995:39).

The formation of the high-level committee and the technical committee were as follows:

**The High-Level Committee**

- Finance Minister        Chairman
- Member of Parliament (two)    Member
- Member, National Planning Commission    Member
- Secretary, Ministry of Finance    Member
• Secretary, Ministry of Law, Justice and Parliamentary Affairs Member
• Secretary, Ministry of Labour Member
• Secretary, Line (concerned) Ministry Member
• President, Federation of Nepalese Chamber of Commerce and Industries Member
• Executive Head, Security Exchange Centre Member - Secretary

**The Technical Committee**

• Chief, CCD, Ministry of Finance Chairman
• Representative, Line Ministry Member
• Chief Executive or representative of the SOE Member
• Representative, Securities Exchange Centre Member
• Representative, Ministry of Law, Justice and Parliamentary Affairs Member
• Representative, Association of Chartered Accountants of Nepal Member
• Expert on Privatisation Member

Since the management of the privatisation program was a complex task requiring both skill and experience, the Privatisation Cell was not very heavily staffed (only 8 persons were designated to manage the cell).

This institutional arrangement was followed by a comprehensive study of six SOEs, of which three manufacturing SOEs were privatised in 1992, thereby launching the first phase of the privatisation program. After the enactment of the Privatisation Act in 1994, the institutional arrangement was changed slightly. In section three of the act, there is an arrangement for the formation of a privatisation committee comprised as follows:

• Minister or State Minister for Finance Chairman
• Chairman, Finance Committee (House of Representatives) Member
• Two members of parliament nominated by the government Member
The committee shall, if necessary, invite the chief of the enterprises, labour representatives and any distinguished economist to the meeting of the committee.

**Powers, Functions and Duties of the Committee**

The powers, functions and duties of the committee shall be as follows:

1. To recommend programs and priorities of privatisation to HMG, in view of suggestions contained in the Finance Committee Report (of the House of Representatives);
2. To conduct study or research in order to formulate privatisation programs;
3. To require evaluation of the enterprises and to recommend HMG on the process of privatisation;
4. To remove hindrances faced in privatisation programs and maintain coordination;
5. To follow up the decisions and agreements relating to privatisation and cause to do so;
6. To constitute sub-committees, as may be necessary, in respect to privatisation; and
7. To perform, or require to be performed, other works if necessary, in respect to privatisation (Section 4 of the Privatisation Act, 1994).

According to the current legal arrangement, the privatisation committee is responsible for the smooth implementation of the privatisation program.
While enquiring about the role of the present legal and institutional provisions for the successful implementation of the privatisation policy, the respondents have expressed their opinion as follows:

<table>
<thead>
<tr>
<th>Policy makers and Academicians</th>
<th>Trade Union Representatives</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freq.</td>
<td>Percent</td>
<td>Freq.</td>
</tr>
<tr>
<td>Yes</td>
<td>53</td>
<td>39</td>
</tr>
<tr>
<td>No</td>
<td>49</td>
<td>36</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>34</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>136</td>
<td>100</td>
</tr>
</tbody>
</table>

(Source: Sub Sample one and three of the Field Survey 2003/2004\textsuperscript{11})

The table shows that the majority of the respondents (overall) do not agree that the present legal and institutional provisions are conducive to the successful implementation of the privatisation policy, but the margin between the respondents who believe that present provision is conducive is not very significant. About 3% less disagree with the present provision and seek the modification of legal provisions which can ensure transparent and efficient implementation. The interesting point here is that the differences between the two strategic groups are apparent. Only policy makers and academicians (a majority of 39%) express that the present legal and institutional arrangements are conducive to the successful implementation of the policy, while trade union representatives express that it is not conducive. This is due to the belief and their own strategic interest on the resources is at stake, as stated by Evers (Evers, 1988 and 1989). Similarly, 25% of the respondents do not know whether it is conducive or not, which shows that we are still failing to communicate to people what we are doing, on what basis, and so on. The successful implementation of any kind of policy is to disseminate or communicate the whole policy and program to the stakeholders so that the participation of those in the policy process ensures the successful implementation, which in Nepal’s

\textsuperscript{11} Full description of the respondents divided into different strategic groups has been presented in annexes
case is apparently disappointing. In contrast to the above table, most of the key respondents (30 people in total) expressed that the real problem of implementation is not due to the legal provision, as we already have the Privatisation Act of 1994, where most of the provisions are enlisted, but to some extent the institutional set up. As the Privatisation Cell, MOF is responsible for the overall implementation process of privatisation, it should be staffed with technical personnel which is, at present, not enough for carrying out the job in an efficient way, as there are only few (7/8 people in total) personnel, most of whom do not have technical knowledge and the government has not been able to trained them as required.

5.2 Implementation of Privatisation Policy in Four Enterprises

There are several basic methods of privatisation—public offering of shares, private sale of shares, sale of government or enterprise assets, reorganisation into component parts, new private investment in SOE, management/employee buyouts and leases/management contracts. The choice of a particular method is dictated by the objectives being sought and other factors, and is generally based on an evaluation of alternative methods (Vuylsteke, 1988: 8). Before explaining the implementation process of four PEs, the basic characteristics of each method are described here in brief, based on Vuylsteke (1988).

Public Offering of Shares (Full or Partial)

Under this transaction, the state sells to the general public all, or large blocks, of the stock it holds, in a whole or partly owned SOE, which is assumed to be a going concern set up as a public limited company. Technically this transaction amounts to a secondary distribution of shares; when a government decides to sell only a portion of its holdings, the result is joint state/private ownership of the enterprise. The government may pursue this approach as a deliberate policy to maintain its presence or as a first step toward full privatisation. Where there is already private shareholding, the transaction may simply be a further privatisation (Vuylsteke, 1988:11).
The main advantages of public offerings are that they permit widespread shareholding, allow the broader resources of the general investing public to be targeted, and are normally characterised by openness and transparency. For the above reasons, they are often also politically more palatable. By their nature, public offering is more transparent and normally involves selling a portion of the shares of the company rather than selling assets and fixed property. So there is less chance of corruption and undervaluation in such a case, which is usually the grounds of opponents’ criticism. Hence, this option is more appropriate for a country where there is no political consensus. The condition of the SOE, targeting ownership, valuation and pricing, an absence of developed equity markets, the nature of capital market regulations, marketing and receptivity of the capital market and crowding out effect are some implementation-related issues.

**Private Sale of Shares (full or partial)**

Under this transaction, the state sells all or part of its shareholding in a wholly or partly owned SOE to a pre-identified single purchaser or group of purchasers. It is assumed the SOE is a going concern set up in the form of a corporation represented by shares. The transaction can take various forms, such as a direct acquisition by another corporate entity or a private placement targeting a specific group, for example institutional investors. The privatisation can be full or partial, with the latter resulting in mixed ownership enterprises. A private sale of shares may also be carried out before, or sometimes simultaneously with, a public offering (Ibid: 16-17). Because of their flexibility, private sales are the preferred method for weak performing SOEs in need of strong owners with relevant industrial, financial, commercial and other experience and a high financial stake in the success of the firm. It may also be the only feasible alternative in the absence of developed equity markets, where no mechanisms can be developed for reaching the general investing public, and where the size of the enterprise may not justify a public offering.

In this method there are also some implementation issues, i.e. the SOE may be in need of financial restructuring, such as alleviation of liabilities. To ensure a government’s objectives are met and the public interest is served, mandatory procedures may need to be
introduced to govern valuation, purchaser selection (pre-qualification, bidding process), etc (Ibid: 19-20). A disadvantage of any private sale (of shares as well as assets) is that it may give rise to criticism as to the selection of the acquiring party, particularly if a large number of transactions are concluded, giving rise to the inadequate spread of wealth in the country. Strict mandatory procedures tend to compensate for this effect. Pricing will be one of the most difficult areas, as with several other forms of privatisation.

**Sale of Government or Enterprises Assets**

Under the previous two methods of privatisation, the private sector purchased shares in an SOE that was a going concern. Here the transaction consists basically of the sale of assets, rather than shares in a going concern. A government may sell the assets directly; the SOE may dispose of major assets. Generally, while the purpose may be to sell off separate assets representing distinct activities, the sale of separate assets may be a means of selling the enterprise as a whole. Thus, the assets may be sold individually or be sold together as a new corporate entity. Assets can only be sold privately (unless the government embodies the assets and activities into a new company established for the purpose of privatisation, in which case a public offering or private sale of shares is possible). In some cases, assets are not technically sold, but are contributed by the government to a new company formed with the private sector (Ibid 20).

By definition, a sale of assets involves a known party and in that sense it may have the same advantages as a direct sale of shares. In addition, it offers additional flexibility in that it may be more feasible to sell individual assets rather than the whole SOE, or it may permit the sale of an SOE that might be borne in mind; however, often this approach can result in residual liabilities for the government.

The main implementation issue in this method is how to handle existing liabilities. Unlike the sale of shares in a going concern, the assets are often sold without corresponding liabilities. As with several other forms of privatisation, pricing will be one of the most difficult areas.
Management/ Employee Buy-Out

Management/employee buy-outs are a relevant means of transferring ownership to management and employees with little wealth or knowledge of share ownership and may be a solution for SOEs not otherwise saleable. They also constitute an enormous incentive to productivity. The application of the management/employee buy-outs of interest is the leveraged one, i.e., involving the use of credit. The underlying element in the leveraged management/employee buy-out is the enterprise’s cash flow and/or other security that can be provided. However, the problem with many SOEs to be privatised is often a weak cash flow and uncertain asset values. Therefore, in developing countries new and creative financing techniques need to be developed by governments and perhaps financiers to permit buy-outs (Ibid: 34).

The buy-out can be very lucrative for the purchasers. It may also be risky. Under employee buy-outs, employees may more easily accept wage reductions on account of needed restructuring. However, if employees were subsequently to lose both their jobs and their stake in the enterprise, it might be felt that the government unduly exposed employees to risky privatisation schemes.

Leases and Management Contracts

Both leases and management contracts are arrangements whereby private sector management, technology and/or skills are provided under contract to an SOE or in respect of state-owned assets for an agreed period and compensation. While there is normally no transfer of ownership and therefore no divestiture of state assets, these arrangements can be used to ‘privatise’ management and operations and thereby possibly increase the efficiency and effective use of state assets (Ibid: 34-35). Although sometimes regarded as an intermediate step toward full privatisation, leases and management contracts are more often used as temporary measures, e.g. to return an SOE to an acceptable level of operation and profitability.

Under both lease and management contracts, debt liabilities of the SOE or of the state, with respect to the underlying assets, will continue to be borne by the state. A
management contract represents a cost, and only increased profitability will offset this cost. In the case of a lease, the lease fee paid to the state may not cover the liabilities. Moreover, under a management contract the government may still need to inject funds to sustain operations. Maintenance/renewal obligations and other costs borne by the state and the private party, respectively, must be clearly defined (Ibid: 39). These are some of the implementation issues in this method.

The above are some basic characteristics of some popularly known privatisation methods. In Nepal’s case some of those methods have already been adopted for privatising PEs, so the characteristics discussed here provide background information to compare and contrast the methods the government followed.

**Box 1: RNAC to be converted to public limited company**

*By Kedar Bhattarai*

The Board of Directors of Royal Nepal Airlines Corporation (RNAC) has decided to operate the 43-year-old national flag carrier as a public limited company under the Company Act - 2053.

Assistant Minister for Culture Tourism and Civil Aviation Ravi Bhakta Shrestha disclosed this at a program here today. He said that the government would give its decision once the RNAC management committee submits its report. The decision was taken at the recently-held meeting of the board in accordance with the recommendations made by the study committee headed by the then member of the National Planning Commission (NPC), Dr Shankar Sharma, almost a year ago. Dr. Sharma, currently the vice-chairman of the NPC, believes running the RNAC under the Company Act is the only way out to attract private sector participation and rescue it. "It could attract big investors and help it become a big public company like other international airlines." At the forum, Assistant Minister Shrestha said that other international airlines were free to operate in Nepal under its open sky policy until RNAC is self-sustaining.

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To show an example of the process and the impact of the specific enterprises, four privatised enterprises have been discussed in this sub-section. Two enterprises represent a modality of ‘assets and business sale’, another represents ‘share sale’ and the rest represents ‘lease’. Although the government adopted various methods of privatisation, in order to give an example only three types are discussed here, which are representative of privatisation transactions in Nepal.
5.2.1 Harisiddhi Brick and Tile Factory (HBTF)

A. Background
The company was established in Harisiddhi Lalitpur in 1969 under the Nepal Company Act of 1964 with financial aid from the People’s Republic of China and commenced production in 1970. The brick works occupied an area of 522 Ropani (27.19 hectares) at Harisiddhi in Lalitpur District before it was privatised. The main objective of the company was to provide machine-made high-quality clay bricks and tiles for private and public sector construction. The company had a capacity to produce 30 million bricks and 1.3 million tiles per annum, but in 1990/91 just before it was privatised the company had produced 18 million machine-made bricks and 0.9 million tiles, which was 17% and 25% respectively of the total demand of the Kathmandu valley.

The company was privatised in October, 1992 through the asset and business sale method (for 228.8 million Rs.) in the first phase of the government’s privatisation program. Now the management owns a 72% share and the public owns a 28% share of the company. The company employed 576 people prior to privatisation.

B. Valuation and Privatisation Approach
A detailed valuation and appraisal was carried on with the objective to provide a comprehensive compilation of the data necessary to enable the government to reach a conclusion of the salability and likely value of the enterprise.

Using both local and external experts HMG/N had evaluated the assets and business of the company, through the following three approaches:

<table>
<thead>
<tr>
<th>Valuation Approach</th>
<th>Value Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Going Concern Value (Net value to establish a new factory of its kind)</td>
<td>Rs. 200.00 million.</td>
</tr>
<tr>
<td>2. Liquidation value</td>
<td>Rs. 118.00 million.</td>
</tr>
<tr>
<td>3. Future cash flow value</td>
<td>Rs. 98.00 million.</td>
</tr>
</tbody>
</table>

(Source: Privatisation Cell, MoF)

Based on the detailed appraisal and valuation report, the government decided that the modality of sales to be used was ‘sale of assets and business’. Notices were advertised in the national and Indian newspapers, allowing a total of 35 days for registrations of
interest to participate in the bidding process. An information memorandum was prepared for the investors and was sold to them. The information memorandum contained a detailed information on the company’s financial, organisational, and engineering status, market scenarios, terms and conditions that would be acceptable to the government, bidding procedures, a copy of the draft sales and purchase agreement and policy and regulatory issues concerning the industry. In addition to that the information memorandum also illustrated that bids should reach the Privatisation Cell, in the Ministry of Finance, no later than 12 noon on 7th July, 1992 (Sharma, 1995:70-71).

In response to the advertisement published by the government, seven investors registered their interest to participate in the bidding process but, however, at the closing date only five different groups participated. Of those, four bidders were local businessmen and one group represented a consortium of the employees of the company and businessmen.

After much deliberation in the high-level committee, the government decided to negotiate at least once with all the valid bidders. A preliminary negotiating committee was formed under the chairmanship of the chairman of the board of the factory. It was further decided that a high-level negotiating committee would be set up under the chairmanship of the minister for finance, with the minister for industry, secretaries of finance, labour, and law ministries as members. This high-level negotiating committee was responsible for negotiating with the final bidders based on the outcome of preliminary negotiations and also recommending the final decision to the high-level privatisation committee (Ibid: 75).

C. Bids Analysis and Final Award

Within the stipulated time and date, the following bids were received:

<table>
<thead>
<tr>
<th>Bidders</th>
<th>Proposed Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Mr. Sundar Lal Bhavanani and Mr. Narsing Bahadur Shrestha</td>
<td>Rs. 228.80 million</td>
</tr>
<tr>
<td>2. Tawache Brick Industry</td>
<td>Rs. 160.00 million</td>
</tr>
<tr>
<td>3. Mr. Madan Bahadur Khatri</td>
<td>Rs. 110.50 million</td>
</tr>
<tr>
<td>4. Nepal Metal Trading Company</td>
<td>Rs. 92.50 million</td>
</tr>
<tr>
<td>5. Namaste Carpet Exports (P) Ltd.</td>
<td>49.50 million</td>
</tr>
</tbody>
</table>

(Source: Privatisation Cell, MoF)
Among the proposals submitted by the bidders, the proposal of Mr. Sunder Lal Bhavanani and associate and Tawache Brick Industry were the most attractive proposals based on the price and condition set forth by them.

According to the Privatisation Cell, the proposals received by HMG/N were evaluated on the basis of offer price, business plan, payment schedule, desired redundancy and managerial skills. The preliminary negotiation committee referred both the proposals to the high-level committee. Thereafter, the high-level negotiating committee received the revised proposals from both bidders and negotiated with them, specifically on the terms of redundancy, payment schedule and interest rates on the deferred payments, as well as the public’s and employees’ issue of shares. The high level negotiating committee then decided to award the bid to S. Bhavanani and associates (Nepali investors) and referred their recommendation to the high-level privatisation committee. Before recommending the case to the council of ministers the committee met three times, discussed in depth the issue of valuation of land and building and the credibility of the bidders. Then, the committee endorsed the decision of the high-level negotiating committee (Sharma, 1995:72-73). The Privatisation Cell stated that HMG/N, mindful of the financial capability of Nepalese investors, project size and the lending limit of the financial institution, had accepted the deferred payment of 18 months and come to an agreement with Mr. Sunder Bhavanani and associates by offering the assets and business of the company to that group (Ghimire, 1995:113-114).

In order to transfer the assets and business of the company, a local firm was contracted out. During the transfer, the employees/labourers of the company initiated industrial action, interrupting the production of the company for a month. The dispute was settled by the mutual consultation of representatives of the government, the buyer and the employees/labour force of the company (Ibid: 114).

D. Broad Features of the Agreement

1. The buyer agreed to buy the assets and business of the company at Rs. 228.80 million.
2. The value of the current assets and current liabilities would be determined afterwards.

3. 5% of total offer price was to be paid on agreement. Out of the remaining amount, the buyer had to pay Rs. 54.7435 million within 9 months of the agreement and the rest within 18 months of agreement with an interest rate of 17%. The convertible debenture was issued in the name of the government as a security for the deferred payment.

4. 28% of the company’s share was to be issued to the employees and the general public at face value within 9 months from the date of the agreement. The share to be issued to the employees should not be less than 5% of the total shares.

5. No redundancy in existing number of employees.

6. While readjusting the price based on the total land area, a difference of 5 ropanis on either side of 522 ropanis (27.1962 hectare) would not be counted upon. However the offer price would be adjusted if the land transferred to the new management is less or more than 5 ropanis of the land area.

7. The money deposited in advance for bricks and tiles by consumers was to be transferred to the buyer and the products provided to the consumers depositing money on a priority basis, as of the agreement between the company and the consumer.

8. Registration fee would be as per regulations.

9. Tax facility would be as per regulations.

10. Request made for two new additional kilns was accepted by the government. But the company was required to get approval from the concerning authority, if the production of brick exceeded 80 million in a year based on single shift operation.

11. Name of the company would be retained.

12. The employees seeking to continue their service after the completion date would be kept on at work and provided with not less favourable terms and conditions on their existing facilities, including financial benefits (as provident fund, leave pay, gratuity, etc.). Employees not willing to continue their service would be paid readily the total amount as liable to the company.
13. If the financial terms and conditions stated in the agreement were violated by the bidder, HMG/N held the right to take any one or all the following actions with the prior notice of 15 days:

- Nullify the agreement and cease all deposited amount.
- Resale the shares in cash or on loan either by public auction or by personal negotiation.
- Sue the purchaser for specific performance of the agreement.

14. If the buyer failed to pay according to the payment schedule, interest at the rate of 17% with surcharge and 4% as a fine was levied on the amount to be paid by the buyer. HMG held every right to provide this facility or not to the bidder (Ghimire, 1995:15-116, Sharma, 1995 and Privatisation Cell, MoF).

E. The Impact of Privatisation

Data were collected from the company mainly by the researcher regarding two aspects—one was collecting related information in two different periods of time (before privatisation and after privatisation for about three years during both periods), in order to compare the performance of the company after privatisation and interviewing employees and the other was ascertaining their perceptions and experiences of how they evaluate the privatisation of the company. In addition, general people residing in and around the company were also interviewed in order to get information of how they perceived the privatisation policy. The following table shows the differences during the two periods in some variables.
Table 5.2.1: Comparison between pre and post privatisation of HBTF

<table>
<thead>
<tr>
<th>Units</th>
<th>Before privatisation</th>
<th>After Privatisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Expenditure</td>
<td>Rs. In million</td>
<td>22.70 27.89 - 113.20 111.68 116.13</td>
</tr>
<tr>
<td>Production</td>
<td>in million</td>
<td></td>
</tr>
<tr>
<td>Tiles (Pcs.)</td>
<td>0.709 13.327</td>
<td></td>
</tr>
<tr>
<td>Bricks (Pcs.)</td>
<td>0.909 18.043</td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>Rs. In million</td>
<td></td>
</tr>
<tr>
<td>(in million)</td>
<td>21.37 27.72 - 60.38 86.52 47.33</td>
<td></td>
</tr>
<tr>
<td>Employment</td>
<td>Nos.</td>
<td></td>
</tr>
<tr>
<td>(in million)</td>
<td>578 595 - 11212 12613 12414</td>
<td></td>
</tr>
<tr>
<td>Borrowings</td>
<td>Rs. In million</td>
<td></td>
</tr>
<tr>
<td>(in million)</td>
<td>- 308.52 331.35 382.35</td>
<td></td>
</tr>
<tr>
<td>Profit/Loss</td>
<td>,, (0.11) 1.65 - (52.82) (25.16) (68.80)</td>
<td></td>
</tr>
</tbody>
</table>

(Source: Field Survey 2003/2004 and the company record)

The above table shows the differences in HBTF before the privatisation and for three years after the privatisation. The table clearly indicates that there is a tremendous increase in production, sales, total expenditure and borrowing; however the profit/loss situation indicates that the company is incurring a huge loss after the privatisation, especially in recent years. The main reason for this loss is due to the heavy borrowing for which the company has to pay a huge amount of its earnings as interest.

The table shows that the expenditure increased by a huge amount after privatisation. The figure on the production side also shows a big increase after privatisation. Similarly, total sales have also increased significantly, albeit in different scales in different periods. The total number of permanent employees decreased since privatisation, although there are seasonal labourers numbering around 500.

One interesting post-privatisation change is the introduction of work contracts. The whole of the production system has been contracted out to workers on a piece-wage system. For this purpose, the company first retired all its permanent workers through a voluntary retirement scheme. Then it contracted out production to the same workforce.

12 Included only permanent and contracted staff; Labour contract is not included due to the unavailability of the figure
13 Included only permanent and contracted staff
14 Included only permanent and contracted staff
Management claims the introduction of a contract system increased productivity by 72% and at the same time increased workers’ incomes. Through the work contract, the management shed its long-term liability of having to carry a permanent workforce. The off-season payment to workers is also avoided using this system (Manandhar, 2002).

Regarding capacity expansion, there has been tremendous growth. According to the management there were three brick shops and one tile shop before privatisation. Now there are four brick shops and two tile shops. The production capacity of the new brick shop alone is two-thirds of the existing three brick shops (HBTF, 1998).

In terms of capacity utilisation, the scenario is not very optimistic. The economy is sluggish and, consequently, the construction works are slow. Hence, the demand for bricks and tiles is declining. In addition, more competitors have entered the market. The cost of production has increased tremendously, as the company has increased its payment to the farmers by 7-8 times. Similarly, the price of coal has also gone up significantly. As a result, the price of the product has risen sharply.

The company has diversified its products. Before privatisation it was producing standard bricks and tiles. Now it is producing more compact, strong, comprehensive and durable products with a superior appearance. The company now produces roof tiles and Double De-aired bricks as well as standard bricks and tiles. The company has added improved technology, plants and equipment (HBTF, 1998).

The environmental situation remains the dire. Since the company is producing more bricks and tiles, more pollution may have been emitted into the atmosphere, which again adds to the deterioration of the environment. So in terms of the environment privatisation has had a negative impact.

The profit trend was very unstable in the pre-privatisation years, while in the first years following privatisation, the trend had stabilised and the company was operating at a profit (though declining) for the subsequent years. In recent years, however, the company has
incurred huge losses, as shown in the above table. The main reason of this loss, as stated earlier, is due to the heavy borrowing for which the company is required to pay a huge amount of its earnings as interest. So in terms of profit/loss measurement, the company’s situation is weak and thus one of the major objectives of privatisation has not been met.

The above data presents the situation of the company before and after privatisation. In this company the impact of privatisation on investment, production, sales, technology improvement, etc. are positive; however, in terms of profit, environment protection and capacity utilisation, results are negative, hence the overall impact is mixed.

The data confirms that the performance of the enterprise is not encouraging and the enterprise joins the country’s category of ‘sick industry’.

Similarly, employees of this enterprises and the general public living in the vicinity of the enterprise were interviewed to ascertain their opinions. In total 22 employees from different categories and 15 neighbours and members of the general public living around the enterprise were interviewed. Most of the employees and general public were critical of the policy and condemned the procedure followed by the government during the privatisation process for this enterprise. In particular they complained about the transparency of the valuation process and selling procedure. Employees were against the privatisation and suggested that the policy was not a viable policy option for Nepal. The company was privatised in the first phase of the government’s privatisation efforts when the privatisation act had not been enacted. The main criticism faced by the government is that although there was bidding for the selection for an appropriate buyer and different parties took part in the process, the actual valuation and other issues were not accessible to the public so they could evaluate whether the selection was fair. Hence, the transparency of the valuation process is a constant matter of criticism, for which the government was responsible.
5.2.2 Bhrikuti Paper Mills (BPM)

A. Background

The company was established in Gaidakot, Nawalparasi in 1981/82 under the Nepal Company Act of 1964, with financial aid from the People’s Republic of China, and commenced production in 1986/87. The main objective of the company was to provide machine-made writing and printing paper for private and public sector enterprises. The capacity of the company was an annual production of 4550 tons, but production never exceeded 3000 tons per annum.

The company was privatised in 1992 through the assets and business sale method (in Rs. 229.8 million). The company employed a total of 321 persons before it was privatised in the first phase of the government’s privatisation program, now the management owns a 70% share and the public a 30% share of the company.

B. Valuation and Privatisation Approach

As is on HBTF, a detailed valuation and appraisal was carried on with the objective of providing a comprehensive compilation of the data necessary to enable the government to reach a conclusion on the privatisation of this enterprise. The following three approaches were applied while evaluating the assets and business of the enterprise:

<table>
<thead>
<tr>
<th>Valuation Approach</th>
<th>Value Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Going Concern Value (Net value to establish a new factory of its kind)</td>
<td>Rs. 334.00 million.</td>
</tr>
<tr>
<td>2. Liquidation value</td>
<td>Rs. 154.00 million.</td>
</tr>
<tr>
<td>3. Future cash flow value</td>
<td>Rs. 124.00 million.</td>
</tr>
</tbody>
</table>

(Source: Privatisation Cell, MoF)

Based on the detailed appraisal report and valuation report, as well as the recommendations from the consultants, the government decided upon the ‘sale of assets and business’ model of privatisation. The objective of the widespread sale of shares to the public and employees was difficult to achieve immediately, due to the historical performance of the enterprise (the possibility of developing a credible prospectus was
minimal). It was possible for the government either to hold the shares to be issued to the public and employees until a later date, or the sales agreement could incorporate obligations for the purchaser to issue shares on a particular date (Sharma, 1995).

Notices were published in the national and Indian newspapers, allowing a total of 35 days for registrations of interest to participate in the bidding process. The information memorandum was prepared, as in HBTF, for the investors and was sold to them. It contained detailed information on the company’s financial, organisational, and engineering status, market scenarios, terms and conditions that would be acceptable to the government, and bidding procedures.

In response to the advertisement published by the government, eleven investors showed their interest to participate in the bidding process but only eight participated in it. A similar procedure was followed to negotiate at least once with all the valid bidders. After receiving the outcome of the preliminary negotiating committee, the high-level negotiating committee was responsible for negotiating with the final bidders and recommending the final decision to the High-Level Privatisation Committee.

C. Bids Analysis and Final Award

The following bids were received within the stipulated time:

<table>
<thead>
<tr>
<th>Bidders</th>
<th>Proposed Value (Million NRS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kabra Group</td>
<td>259.5</td>
</tr>
<tr>
<td>Himali Pipeco</td>
<td>229.8</td>
</tr>
<tr>
<td>D. Acharya</td>
<td>80.0</td>
</tr>
<tr>
<td>Tunga Bhadra Machinery &amp; Tools</td>
<td>150.0</td>
</tr>
<tr>
<td>Salt Trading Corporation</td>
<td>141.8</td>
</tr>
<tr>
<td>Himal Impex</td>
<td>85.0</td>
</tr>
<tr>
<td>Everest Paper Mills</td>
<td>100.0</td>
</tr>
<tr>
<td>Straw Products (India) Ltd.</td>
<td>No value indicated</td>
</tr>
</tbody>
</table>

(Source: Privatisation Cells, MoF and Sharma, 1995)

Among the received proposals, those of Kabra Group and Himali Pipeco were attractive and both bidders were asked to submit revised proposals. The high-level negotiating committee negotiated with them, specifically on the terms of redundancy, payment
schedule and interest rates on differed payments and the public’s and employees’ issue of shares. At the time of negotiation Mr. Rajendra Kabra (Kabra Group) submitted a written letter to the high-level committee that they were not willing to purchase the current assets equivalent to NRS. 40 million and that his bid would stand to be reduced by such an amount. The high-level negotiating committee decided then to award the bid to Himali Pipeco and referred their recommendation to the High-Level Privatisation Committee.

Before recommending the case to the council of ministers, the committee met several times and discussed in depth the issues of valuation of land and building and the credibility of the bidders. Then, the committee endorsed the decision of the high-level negotiating committee. The government accepted the deferred payment of 2 years and came to an agreement with Himali Pipeco by offering the assets and business of the company.

One very important fact that is worth mentioning here is that, at the time of the agreement, Mr. Rajendra Kabra joined the Himali Pipeco Group. The Parliamentary Finance Committee, while reviewing the privatisation of this company, did point out that the government was unable to stop collusion between bidders and thus lost 40 Million NRS on this particular deal. However, the fact that the bidders did collude was not known to the ministry, the Cell or the High-Level Committee. Another important fact is that even though the Himali Pipeco Group was second best in terms of the offered price, they were still better than Mr. Kabra in terms of deferred financing, industry and management experience (Sharma, 1995).

D. Broad Features of the Agreement

1. The buyer agreed to buy the assets and business of the company at Rs. 229.8 million.

2. The value of the current assets and current liabilities would be valued at the lower of cost or realisable value.

3. The general public and employees of the company would be offered 25% and 5% of the company shares within two years of the completion date and proceeds were
to be paid to the government. Shares subscribed to by the employees would be sold at a 25% discount.

4. No redundancy.

5. The new name of the company was not to deviate from the original name of the company.

6. Registration fee for the land would be borne out according to the existing laws.


8. The existing employees willing to continue their service with the new owners, on completion date, would be kept on and their salaries and other benefits were not to be decreased from their present salaries (what they were getting before privatisation).

9. If the purchasers violated the terms and conditions of the agreement the government could exercise all or any of the following options by furnishing a notice of three days to the purchasers:
   a. Nullify the agreement and forfeit all moneys deposited/paid with the government.
   b. Resale of assets and business.
   c. Sue the purchasers for specific performance of the contract.

10. If the buyers failed to pay according to the payment schedule, interest and surcharge at the rate of 21% would be charged (Ghimire, 1995; Sharma, 1995; and privatisation Cell, MoF).

E. The Impact of Privatisation

Like HBTF, data were collected from the company regarding two aspects—first, data of two different periods of time (before and after privatisation over about three years) to compare the company’s performance, and second, the perception of employees of the company and the general public residing in the vicinity of the company was ascertained by interviewing them. The following table shows the differences before and after privatisation of the company.
Table 5.2.2: Comparison between pre and post privatisation of BPM

<table>
<thead>
<tr>
<th>Units</th>
<th>Before privatisation</th>
<th>After Privatisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Expenditure Rs. In million</td>
<td>82.20</td>
<td>-</td>
</tr>
<tr>
<td>Production MT.</td>
<td>2968</td>
<td>2574</td>
</tr>
<tr>
<td>Sales MT.</td>
<td>2947</td>
<td>2523</td>
</tr>
<tr>
<td>Employment Nos.</td>
<td>280</td>
<td>283</td>
</tr>
<tr>
<td>Borrowing Rs. In million</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit/Loss ,,</td>
<td>12.00</td>
<td>4.30</td>
</tr>
</tbody>
</table>

(Source: Field Survey 2003/2004 and the company record)

The situation of this enterprise is bleak like HBTF; the overall performance of this enterprise is also negative. After privatisation the company is operating at great loss and the debt is mounting. Although employment, production and sales are increasing, due to the over-capitalisation of the company, it is in a very difficult position regarding survival. The data shows that, like HBTF, the effect of privatisation in this enterprise is negative.

Total expenditure has increased tremendously. Similarly, production and sales have also increased hugely. The table shows that production in 2001 was almost 5 times greater in comparison to production in 1991. Furthermore, it was almost 3.38 times in 2002 and 5.46 times in 2003. The data in sales also shows a significant change after privatisation. The sales amount increases after privatisation during the year of 2001, 2002 and 2003 are almost 5.28, 4.68 and 5.70 times that of the year 1991 (before privatisation). It shows a tremendous change after privatisation. Similarly, employment has increased hugely. Before privatisation there were 283 employees in the company and now in 2003 the number has risen to 457. Thus in this company employment has increased about 161.48%, which is a positive sign. Borrowing after privatisation has increased incredibly. The data for previous years were not available, since the company was under government ownership, so no comparison has been made, but the amount the company has borrowed is so high that it has caused the company to incur a loss.
Regarding capacity expansion, there has been a dramatic change. New machinery was added to produce newsprint; changes in the structure of the factory and equipment, such as wickner, pulper, decker, etc., were effected. The major change was installing the new machine (PM2), the capacity of which is to produce 70 tons of paper, 60 tons of pulp and recycling 50 tons of waste paper (8th annual report of the company). The output of the mill was diversified to produce papers of different GSMs. These changes resulted in higher production.

In terms of capacity utilisation, the situation is again bleak for this company, as it was for HBTF. The reasons for this are many—from economic development to decline in demand, due to the decline in economic activities in the country. Capacity utilisation (in percentage) for different years is as follows:

<table>
<thead>
<tr>
<th>Before privatisation</th>
<th>After Privatisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>61.88</td>
<td>56.16</td>
</tr>
</tbody>
</table>

Although the trend of capacity utilisation in recent years has been increasing, still it is less (except in 1991) than before privatisation.

With the installation of pulp and recycling paper plants, the company diversified its production. Before privatisation, it was producing normal paper but now it produces export quality pulps (high-grade paper) and has been exporting it to Japan, as well as low-grade newsprints to the Indian markets.

The environmental situation in this company has deteriorated since privatisation. All of the respondents strongly accused the company of not being serious about reducing environmental deterioration. The company claimed that it has been trying continuously to reduce environmental degradation by installing an effluent treatment plant to refine waste water. They have also started the Cleaner Production Scheme and Environment Management System Activities, with the assistance of the ESPS (Environment Sector
Program Support) and the Institute of Environment Management, which aimed to control the waste and to reduce the pollution load (Annual report of the company, 2001/2002).

The profit/loss situation again shows the overall performance of the company. Before privatisation it was operating at a profit. After privatisation, however, it has incurred a huge loss. The interesting point here is that the company increased its production and sales, yet has incurred loss. The major reason for this is that due to over-capitalisation, the company has to pay a huge amount in interest for its borrowing; for the last couple of years it has had huge losses, as shown in the above table. So in terms of profit/loss measurement, the company’s situation is very weak and therefore one of the major objectives of privatisation has not been met.

The above data confirms that the performance of the enterprise is not encouraging and it joins the country’s category of ‘sick industry’, even though the impact of privatisation on investment, production, sales, technology improvement, etc. is positive. However, in terms of profit, environmental protection and capacity utilisation, the outcomes are negative and the company is in such a condition that it might be closed down any time as it cannot continue to bear such huge losses.

Box 2: Hoping against Hope!

The government argues that the poor condition of BPM is merely because of the problems in the international paper industry which have to some extent affected the paper market in short run. Then, it is now an ordeal for the mill to show that it can really improve its performance. The mill is now feeling secure in the domestic market following a provision in the Indian budget this year to levy an 8 percent production duty on cheap paper at a time when such paper is affecting the market here. This time government cannot say that Indian market of paper has been affecting the whole market of paper in Nepal.

However, the Indian budget this year has also levied an 8 percent counter value duty and four percent Special Additional Duty (SAD) on goods imported from everywhere, Nepal included. Consequently, difficulty has arisen in the export of Nepalese goods to India.

The tax on goods exported from Nepal to India, which used to be 8 percent, has now reached 20.64 percent. The mill has been exporting over 35 metric tons of paper to India annually.

But BPM can really make a great deal in the domestic sectors of the country if the factory is made efficient in producing the papers of good quality. Let's see what will happen in coming days?

15 consumers/or neighbours and 31 employees were interviewed regarding this enterprise. Most of the employees opposed the privatisation policy. They said that the situation after privatisation in terms of security, financial benefits and other fringe benefits was worse and they are facing a status problem, having perceived that they are now the servants of private enterprise. Likewise, almost all consumers and the general public living in the vicinity of the company blamed the company for deterioration of the environment. They opposed the policy and suggested that the government not opt for the policy.

The overall data collected regarding this company shows the negative outcome of the privatisation policy.

5.2.3 Nepal Foundry Industry (NFI)

A. Background

Nepal Foundry Industry, located at Sat Dobato, Lalitpur, was established in 1979 with the financial and technical support of UNDP/UNIDO as a project and later converted into a public enterprise in 1990 by the government. Its major products before privatisation were cast iron products. However, since privatisation the company diversified its product ranges.

The company was privatised in March, 1996 through the share sale method. The government owns 44% shares, private promoters own 51% shares, and a 5% share has been allocated to employees, but has not yet been distributed and is still with the government.

B. Valuation and Privatisation Approach

Like other enterprises, a detailed valuation and appraisal were carried out with the objective of providing a comprehensive compilation of the data necessary to enable the government to reach a conclusion about the saleable value and likely value of the enterprise. The appraisal report clearly stated that the privatisation objectives would be achieved either through the sale by HMG/N of all shares or through the sale of the movable assets for the relocation of the industry within Nepal. It was also stated that the
government could do so by choosing one of the options it recommended. The options were as follows:

**Option one: sale of the shares**

- 51% block shares to interested Nepalese investor(s)/group of investors;
- 44% to the general public and interested corporate bodies; and
- 5% to the employees of the company (NFI).

**Option Two: Sale of movable assets**

All of the movable assets of the company shall be sold for the relocation of the industry with the following conditions:

1. HMG/N shall assume all the liabilities of the company,
2. Current assets shall be transferred on book value,
3. The bidders should retain all those employees who want to continue their service with the new management,
4. Out of the total shares of the new company formed, the new management will divest 25% of the shares to the general public and 5% of the shares to the employees of the company within. Sale of 30% of shares as described above shall take place within one year,
5. The employees shall receive a 25% discount on the share price for those shares reserved for them. HMG/N shall refund this discount amount to the management (MoF, 1995: section 2 p.1-2).

Based on the detailed appraisal and valuation report, the government decided upon the modality of sales as ‘sale of shares’ (option one). The share offered by the government was based on the following pattern:

<table>
<thead>
<tr>
<th>Management</th>
<th>General public and Corporate bodies</th>
<th>Employees of the company</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>51%</td>
<td>44%</td>
<td>5%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Notices were advertised in the newspapers, allowing 35 days for registrations of interest to participate in the bidding process for the 51% block of shares in the company. The
information memorandum was prepared and sold to the prospective bidders, and contained detailed information on the company’s financial, organisational and engineering status, market scenarios, terms and conditions, etc.

In response to the advertisement, three investors registered their interest to participate in the bidding process but only two submitted their proposals.

After much deliberation in the high-level committee, the government decided to negotiate at least once with both valid bidders. A preliminary negotiating committee was formed under the chairmanship of the secretary at the Ministry of Industry. The preliminary committee recommended that the high-level committee to negotiate once again with Mr. Sitaula before awarding the contract to him. The high-level negotiating committee was responsible for negotiating with the final bidders based on the outcome of preliminary negotiations and also recommending the final decision to the high level privatisation committee, as in the other cases.

C. Bids Analysis and Final Award

Within the stipulated time and date, the following bids were received:

<table>
<thead>
<tr>
<th>Description</th>
<th>Mr. Khagendra Sitaula</th>
<th>Mr. Ramesh Kumar Gupta</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposed Offer Price</td>
<td>Rs. 71 per share</td>
<td>Rs. 60 per share</td>
</tr>
<tr>
<td>Terms of Payment</td>
<td>Within one year in instalment basis</td>
<td>Within two years in instalment basis</td>
</tr>
</tbody>
</table>

(Source: Privatisation Cell, MoF)

The preliminary negotiating committee negotiated with both bidders and recommended that the high-level committee negotiate once again with Mr. Khagendra Sitaula, as Mr. Ramesh Kumar Gupta said that his proposed value (in bid) was final, so they need not negotiate with him again. Finally, as recommended by the preliminary negotiating committee, the high-level negotiating committee negotiated with Mr. Sitaula, who agreed to buy the shares of the company at Rs. 92.52 per share and recommended that the High-Level Privatisation Committee award the contract to him, which in turn endorsed the decision of the high-level negotiating committee. Then the Privatisation Cell prepared the sale and purchase agreement and finally the government (cabinet) decided to sell 51% of shares in the company to Mr. Khagendra Sitaula.
D. Broad Features of the Agreement

1. The buyer agreed to buy the total share 156438 (51% share) of the company at Rs. 92.52 per share (Total Rs. 14473643.76).

2. The buyer agreed to pay 20% of total offer price on agreement date. Of the remaining amount, the buyer had to pay:
   10% of the total offer price within three months of the agreement,
   10% of the total offer price within six months of the agreement,
   10% of the total offer price within nine months of the agreement,
   10% of the total offer price within twelve months of the agreement,
   20% of the total offer price within fifteen months of the agreement,
   20% of the total offer price within eighteen months of the agreement.

3. Of the remaining share (49%), 44% would be sold to the general public and 5% to the employees of the company.

4. Employees willing to continue their service with the new owner, on the completion date, were to be retained and their salaries and benefits not to be decreased from what they were receiving in the state sector.

5. If the financial terms and conditions stated in the agreement were violated by the bidder, HMG/N held the right to take any one or all the following actions with the prior notice of 3 days:
   a. Nullify the agreement and seize all deposited amounts.
   b. Resell the shares in cash or on loan, either by public auction or by personal negotiation.
   c. Sue the purchaser for specific performance of the agreement.

6. If the buyer failed to pay according to the payment schedule, interest at the rate of 10% and a surcharge at the rate of 15% would be levied on the amount to be paid by the buyer. But HMG held every right to provide this facility or not to the bidder (from the signed contract and Privatisation Cell, MoF).
E. The Impact of Privatisation

As like the other enterprises, data were collected regarding two aspects of this enterprise—quantitative data for two different periods of time (before and after privatisation) and the perception of employees and the general public residing in the vicinity of the enterprise. The quantitative data collected for this enterprise are given in the following table:

Table 5.2.3: Comparison between pre and post privatisation of NFI

<table>
<thead>
<tr>
<th>Units</th>
<th>Before privatisation</th>
<th>After Privatisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Expenditure</td>
<td>Rs. In million</td>
<td>6.61</td>
</tr>
<tr>
<td>Production</td>
<td>KG.</td>
<td>107884</td>
</tr>
<tr>
<td>Sales</td>
<td>Kg.</td>
<td>111054</td>
</tr>
<tr>
<td>Employment</td>
<td>Nos.</td>
<td>60</td>
</tr>
<tr>
<td>Borrowings</td>
<td>Rs. In million</td>
<td>-</td>
</tr>
<tr>
<td>Profit/Loss</td>
<td>,,</td>
<td>(2.33)</td>
</tr>
</tbody>
</table>

(Source: Field Survey 2003/2004 and the company record)

The above table shows the differences in NFI before the privatisation and in the three years after privatisation. The table clearly indicates that there is a tremendous increase in production, sales, total expenditure and borrowing, and to some extent profit also. However, the profit ratio for 2003 had decreased in comparison to the year 2002.

The data presented in the above table shows that the expenditure increased by a huge amount after privatisation. The expenditure increased more than 215% in 2001, compared to 1995 (immediately before privatisation), 197% in 2002 and about 160% in 2003. The trend is decreasing, but the percentage of expenditure is still high. Similarly, total production and sales have increased significantly after privatisation though at different volumes. Employment, in contrast, decreased significantly after privatisation and consists of almost all temporary workers rather than permanent. Only a few administrative staffs are permanent. Thus the impact of privatization on employment in this company is negative.
Regarding capacity expansion and product diversification, there has been positive development in this company. According to the management, after privatisation the company diversified its products base to steel, iron, manganese and copper, from the traditional cast-iron base. The types and quality of products have also increased.

In terms of capacity utilisation, the scenario is slightly optimistic. Before privatisation, it utilised about 23% of its total capacity but after privatisation it has increased by about 43%, 45% and 30% in the years 2001, 2002 and 2003 respectively. Although the capacity utilised in the year 2003 decreased from that of the previous year, the percentage is again higher than before it was privatised. The picture, however, is not as positive, as it has utilised only 30% of its capacity; the only positive aspect is that it is still higher than before privatisation.

In terms of borrowing, data is not available for pre-privatisation, but the company has borrowed huge amounts of money from the local bank and other institutions since privatisation, which is of course used to expand its production. However, the interest to be paid and other negative aspects of the heavy loan directly affect the operation of the company in terms of profit, even though the company is slightly in profit situation. Otherwise the volume would have been rather high.

The above table shows that most indicators in this enterprise are also increasing. The company shows a positive result in its profit/loss situation. Though the volume of profit is negligible, the company has shown an overall positive result in recent years.

Due to the unreliable response of the employee, only 5 samples of the interviewed persons are used for this company, whereas 10 people living around the company were interviewed and used for the sake of data analysis.

Unlike the other enterprises, employees of this enterprise were in favour of the privatisation policy, although they emphasised the transparency of the process. However, they were indifferent about the benefits and advantages they received after privatisation.
The general public living in the vicinity of the company were critical about the privatisation policy. As in the other enterprises, they blamed the company for environmental degradation and generating noise pollution.

5.2.4. Biratnagar Jute Mills Ltd. (BJM)

A. Background
Biratnagar Jute Mills, located in the Mills Area, Biratnagar, was established on 13th July, 1936 as the first industrial venture in Nepal. It is a manufacturer of hessian, sacking and twine. The production capacity of the factory is 42 metric tons/day but at present only 70% capacity of the mill is being utilised. In the real sense, it is not a government-run company, as the government only owns 46.52% shares of the company. The rest of the shareholders are the private parties. But the government has invested a large sum of money in the form of loans in the company. The government also appointed a director on the board. The board of directors make decisions on all matters for the company. Hence, the overall activities of this company regarding leasing and management contracts were done through a board decision, which is entirely different from what has been outlined in the Privatisation Act of 1994 and other government procedures. Privatisation of this company is not in a real sense privatisation, since the majority of the shares are already in private hands, but the procedures it requires in order to hand over the management to other private parties are interesting to note in this study. Interestingly, the government has been bearing most of the liabilities of this company, as it has historical importance, even though the government’s share is less than what is in private hands.

B. Management Contract and Lease
According to the board of directors’ decision to operate this company on a management contract, the factory was initially given a management contract for five years in December, 1996 to Om Prakash Tapadia (International Trade Channel) on a profit-sharing ratio of 80:20 between the company and the private party. However, after sixteen months, the chairman of the mill arbitrarily broke the agreement without the consent of the board. This private party was unable to run the factory and therefore the government terminated the contract (Adhikari and Adhikari, 2001).
Then, the factory was given to Mr. Jivan Nepal (Samy Enterprises) on a management contract in August, 1998 with a profit-sharing ratio of 60:40. This party was also unable to run the factory and the board terminated the contract in June, 1999.

The board then made a fresh call and finally leased out the mill. The mill was leased to Nirmal Kumar Byas for a period of 20 years on the condition that he pay Rs. 9.5 million per year during the first five years and then yearly increments of 5% on the total amount in the succeeding years. But Mr. Byas failed to fulfil the conditions agreed with the board and then the board of directors terminated the contract and again it was given to Arihanta Multifibres (in Nov.17, 2002) for a period of five years. The main criticism of the leasing of the company is that the board of directors awarded the lease contract to the private party without any competition (OAG, 1998:51), but the reality is that there were no other interested parties, and the contract was awarded to whoever would take over such a sick industry.

C. Broad Features of the Agreement

1. The buyer (second party) agreed to take over the company on lease for 5 years and will be providing 9.5 million NRS per year as a lease amount to the board of the company (first party).

2. The buyer shall, after the contract date, assume liability in respect of all liabilities and settle promptly as they fall due; however it will not be responsible for the liabilities that were due before the company was leased out.

3. The buyer will be responsible for the maintenance of the building, machinery, furniture and other materials during the contract period.

4. Only 98 administrative staff and all workers/labourers who are not under compulsory retirement, on completion date, to be continued.

5. If the purchaser violates the terms and conditions of the agreement, the first party may ask the second party by specifying a time to fulfil the duties and responsibilities. If the second party fails to act according to the written request of the first party, the first party may cancel the agreement by furnishing a three-month notice and claim compensation from the second party.
6. If the instalment amount is not paid on the due date, interest (at the rate of a commercial bank’s loan interest rate) is to be charged to the second party on the due amount (from the lease contract provided by the company).

D. The Impact of Privatisation

As with the other enterprises, data were collected regarding two aspects in this enterprise—quantitative data for two different periods, i.e. before and after privatisation, and the perception of employees and the general public residing in the vicinity of the enterprise. Due to the frequent closure of the company and lack of annual general meeting for a couple of years, the pre- and post-privatisation data were not available for this enterprise. In fact, only about 46.52% of the shares belong to the government and the rest is owned by private parties. So the company in a real sense was not privatised (it is already in the hands of private parties) but the government invests a huge amount of money due to the historical importance of the company (most of the political leaders of major political parties started their career from this company as labour leaders). Otherwise there would be no reason to invest such huge amounts in such a sick enterprise.

The quantitative data collected for this enterprise are given in the following table; however, due to the unavailability of the data before it was leased out in 2002, only one year’s data are presented.

Table 5.2.4: Comparison between pre and post privatisation of BJM

<table>
<thead>
<tr>
<th>Units</th>
<th>Before Lease out</th>
<th>After Lease out</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Expenditure</td>
<td>Rs. In million</td>
<td>270</td>
</tr>
<tr>
<td>New Investment</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Production</td>
<td>MT</td>
<td>6366</td>
</tr>
<tr>
<td>Sales</td>
<td>MT</td>
<td>6497</td>
</tr>
<tr>
<td>Employment</td>
<td>Nos.</td>
<td>3318</td>
</tr>
<tr>
<td>Borrowings</td>
<td>Rs. In million</td>
<td>363.98 (cumulative)</td>
</tr>
<tr>
<td>Profit/Loss</td>
<td>(618.85) cumulative loss until 1997</td>
<td>(1.23)</td>
</tr>
</tbody>
</table>
Since the comparable data are not available for pre- and post-lease periods, the impact on this company could not be analysed. However the historical performance of the company and its ups and downs show that at least the company is running at all since it was leased out in 2002. The production and sales during these two periods are not significantly different, as presented in the above table. However, the post-2002 data definitely indicates its positive direction. Due to the huge loans and liabilities\textsuperscript{15}, no one can predict how the company will survive after the end of the five-year lease period.

Sixteen employees and ten members of the general public were interviewed in this enterprise to ascertain their opinions of privatisation. Unlike the other enterprises, the employees were highly in favour of privatisation in this enterprise. They claimed that due to their willingness to lease out this company, it was possible to run the company in its present form, otherwise it would have been liquidated. They have a positive view towards privatisation and claim that there is no other way to run such a sick enterprise. There is a continuing issue of the payment of the retired workers of the company; the government is providing huge amounts to pay the money due to the workers.

The general public has no clear-cut ideas about privatisation. They said that the only good option is to run the company in any form, to avoid the risk of unemployment of about 3300 workers, which would have a knock-on effect in society. They really don’t know what privatisation is and its consequences. Hence, it is difficult to conclude about their point of view. But the manner in which the company is being run is justified, as the only option to run this company is to lease it out for specific time periods, preferably for longer than five years.

Although the data were not available for the analysis, the privatisation procedure in this company (though not technically privatisation, since the majority share is in the private

\textsuperscript{15} Property of the company is about 38.4 million, share capital is about 40.22 million and total loans of the company are 363.98 million.
sector) seems positive. Without being leased out, this company could not have been run while incurring such huge losses.

5.3 Impact of Privatisation Policy: Stakeholders’ (Strategic Group’s) Point of View

Privatisation has been advocated primarily as a means of improving the performance of public sector enterprises. It is frequently argued that privatisation may have a significant impact on performance efficiency, financial efficiency and distributional efficiency (Cook et al., 1998). Privatisation may, however, cut government expenditure and help budgetary balance. It can also be justified in terms of economic efficiency.

The overall impact of the privatisation policy could be measured by the performance that privatised enterprises achieve. To calculate/measure the performance, Hodge (2000) has developed three types of performance indicators which are as follows:

- Performance domain based on privatisation models,
- Performance domain based on privatisation objectives, and
- Performance domain based on public sector activities (Hodge, 2000:49-50).

Firstly, a series of performance dimensions are gleaned from the models underpinning privatisation, as summarised in his book. For each performance dimension, he presented some potential performance indicators for illustration. Secondly, a range of illustrative indicators are presented by the author for each of the privatisation objectives. These two performance domains have been implied by governments, by privatisation advocates, or by privatisation analysts. Outside these indicators, a broader range of performance information is also relevant and deserves to be pursued. This third domain represents performance in terms of the values of service provision traditionally sought through public sector activities. Such values include, for example, equity and democracy (Ibid).

Possible performance dimensions and illustrative indicators based on privatisation objectives are given in the following table\textsuperscript{16}:


128
As stated in the above table, performance could be looked at in different ways, but the attempt here is just to look from a privatisation objectives point of view, though not in detail. Four privatised companies’ performances (fact) have been discussed in detail in the previous sub-section as case studies. In this sub-section, attempts have been made to analyse the people’s perception (from the opinion survey data) of privatisation—how they are following the program, how they rate the impact in overall aspects, how they
found the facilities and support from the government, how they perceive the performance of the privatised enterprises, how the employees rate overall facilities and benefits they are getting, etc., have been analysed based on the data collected from the field survey. However, some quantitative data regarding changes of some of the privatised enterprises’ production, sales, profit, employee/labour productivity, government subsidy, and employment effects have been presented in tabular form in annexes (in brief relied upon secondary information, as it was not possible to conduct an empirical study due to time and resource constraints).

5.3.1 Objectives of Privatisation

To acquire the perceptions of the different strategic groups (stakeholders), the respondents were asked whether the objectives of privatisation, as outlined by the government, have been met or not. The following table shows that only 16% of respondents expressed that the objectives have been met, whereas 61% stated that they have not been met. Similarly, 23% did not know whether they have met or not. Most of the respondents asserted that they have been met only partially, not absolutely. A few respondents thought that to some extent it has reduced the financial burden on the government.

**Table 5.3.2: Opinion on Objectives of Privatisation (whether they have been met)**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>21</td>
<td>16</td>
</tr>
<tr>
<td>No</td>
<td>80</td>
<td>61</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>30</td>
<td>23</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>131</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

(Source: Sub Sample one of the Field Survey 2003/2004)

As discussed in the previous chapter, the majority of the respondents thought that the privatisation policy should be implemented but the above table confirmed that despite their positive attitude toward privatisation, they are not satisfied with the achievements gained by the policy. All of the respondents have a bachelor’s degree and above the qualification level and most of them are engaged either in government service or other institutions and have knowledge of privatisation, so the opinions they express are of

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17 Detailed description of the respondents has been given in the annexes.
significant importance. This is a knowledgeable group that familiar with the notion of privatisation, so we can safely conclude that the objectives of privatisation outlined in the government documents and the Privatisation Act have not been met as expected.

5.3.2 Efficiency of Privatised Enterprises

Privatisation provides operational freedom and accountability to the managers of privatised enterprises. Hence, they are supposed to be innovative and efficient in executing their duties and responsibilities, through which the overall efficiency could be increased. Respondents were asked to give their opinion of three aspects to judge the efficiency of privatised enterprises, i.e. overall efficiency, managerial effectiveness and the economic burden on the government. The following three tables show the opinions expressed by the respondents:

Table 5.3.3: Efficiency of the Privatised Enterprises

<table>
<thead>
<tr>
<th></th>
<th>Employees of the Privatised Enterprises</th>
<th>Trade Union Representatives</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq.</td>
<td>Percent</td>
<td>Freq.</td>
</tr>
<tr>
<td>Increased</td>
<td>37</td>
<td>50</td>
<td>3</td>
</tr>
<tr>
<td>Decreased</td>
<td>21</td>
<td>28</td>
<td>5</td>
</tr>
<tr>
<td>No change</td>
<td>14</td>
<td>19</td>
<td>2</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>2</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>74</td>
<td>100</td>
<td>12</td>
</tr>
</tbody>
</table>

(Source: Sub Sample two and three of the Field Survey 2003/2004)

The majority of the respondents (47%) in the study responded that the overall efficiency of the companies has increased after privatisation. Similarly about 30% stated that it decreased and about 19% showed indifference. About 5% of respondents did not know whether the efficiency had increased or decreased. In this case also, there is one difference between the two different strategic groups, i.e. the majority of the employees (50%) of the privatised enterprises found that the efficiency had increased, while the majority of the trade union representatives (41%) said it had decreased. This may be due to the differences in the strategies that they perceived.

In terms of managerial effectiveness of the enterprises after privatisation, the results are as follows:
Table 5.3.4: Managerial Effectiveness of the Enterprises after Privatisation

<table>
<thead>
<tr>
<th></th>
<th>Employees of the Privatised Enterprises</th>
<th>Trade Union Representatives</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq.</td>
<td>Percent</td>
<td>Freq.</td>
</tr>
<tr>
<td>Improved</td>
<td>21</td>
<td>28</td>
<td>2</td>
</tr>
<tr>
<td>Deteriorated</td>
<td>26</td>
<td>35</td>
<td>4</td>
</tr>
<tr>
<td>No change</td>
<td>25</td>
<td>34</td>
<td>6</td>
</tr>
<tr>
<td>Don’t know</td>
<td>2</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>74</td>
<td>100</td>
<td>12</td>
</tr>
</tbody>
</table>

(Source: Sub Sample two and three of the Field Survey 2003/2004)

Only about 27% of respondents said that the managerial effectiveness had improved after privatisation, whereas about 35% expressed that it had deteriorated. The majority of the respondents stated that there was no significant difference after privatisation (about 36%). Similarly about 2% did not know what was happening, whether it had improved or deteriorated. In this case both of the strategic groups have similar opinions on the outcome of privatisation regarding managerial efficiency.

The respondents were asked whether the economic burden on the government due to the privatised enterprises had reduced. The results of their opinions are as follows:

Table 5.3.5: Opinion on economic burden of the government after Privatisation

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced</td>
<td>89</td>
<td>66</td>
</tr>
<tr>
<td>Increased</td>
<td>21</td>
<td>16</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>25</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>135</td>
<td>100</td>
</tr>
</tbody>
</table>

(Source: Sub sample one of the Field Survey 2003/2004)

The overwhelming responses of the respondents confirm that the economic burden of the government has reduced (66%). Only 16% of respondents stated that it had increased, whereas 18% did not have any opinion. Of course, as stated by the majority of the respondents, the government’s economic burden of those enterprises has reduced, as the government need no longer pay any subsidy or other economic facility to them, neither as a form of subsidy nor investment as a form of loan.
5.3.3 Employment Generation

Privatisation is supposed to bring about increased efficiency, growth in investment and, consequently, more employment in the long term. However, in the process, a certain amount of restructuring in the enterprise is expected, which could generally result in reduced employment in the short term. At the same time, it is very difficult to pinpoint the exact effect of privatisation on total employment, because both positive and negative factors act simultaneously. First, there is a ‘no reduction clause’, which seeks to stabilise the employment level. Second, a voluntary retirement scheme has been introduced in some privatised units before and after privatisation. Third, there are also cases where existing employees have resigned after privatisation and replacements have been made. This neutralizes the effects on total employment figures (Manadhar and Bajracharya, 1999:23).

Some of the privatised units have been closed down after privatisation. If we include employment figures in these closed units, then the total effect is substantially different. Although, whether such closure is due to privatisation or due to some other factor is a matter of debate. Even in the public enterprise sector, there has been a gradual decline in employment opportunities, i.e. 59,550 in 1989/90, 47,548 in 1996/97 and 46,733 in 1998/99 (this may again be due to privatisation, number of public enterprises that have been reduced hence, total number of employee automatically declined). However, if we exclude the closed units and seeks to analyse the total employment figure, then the total effect is marginal. One study shows that in the 9 privatised units, total changes in employment were positive, though at minimal level, i.e. total 3228 before privatisation and 3242 after privatisation (until 1999) (Ibid 23). Similarly, another study (of 10 privatised units) also shows a positive change during the period of 1992-1999 after privatisation, though among these ten units employment was increased only in two units (Ghimire 2004: 220).

As discussed in a previous section of this chapter, employment in HBTF has declined as the number of permanent staff has declined sharply (595 before privatisation and 124 after privatisation in 2003). This is due to the new arrangement of personnel
management, as the company has hired a significantly higher number on a temporary basis. Similarly in NFI, employment declined not only in the permanent staff but also in the total number (46 before privatisation and 37 after privatisation in 2003). However, in BPM, the employment generation is significantly higher in comparison to before privatisation (283 before privation and 457 after privatisation in 2003). In BJM, the comparison could not be made, as the statistics were not available from the period before it was leased. However, the number of employees might not have reduced, as there was a clause requiring the lessee not to lay off the employees. Therefore the total number should not be less than before. The indicator of one year shows a positive change in other indicators as well.

The perception of the respondents of employment generation is shown in the following table:

<table>
<thead>
<tr>
<th>Employees of the Privatised Enterprises</th>
<th>Trade Union Representatives</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freq.</td>
<td>Percent</td>
<td>Freq.</td>
</tr>
<tr>
<td>Increased</td>
<td>31</td>
<td>42</td>
</tr>
<tr>
<td>Decreased</td>
<td>30</td>
<td>41</td>
</tr>
<tr>
<td>No significant change</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>74</td>
<td>100</td>
</tr>
</tbody>
</table>

(Source: Sub Sample two and three of the Field Survey 2003/2004)

The table shows that about 37% of respondents considered that there was an increase in total employment after privatisation, whereas about 44% thought that it decreased. About 18% thought that it has not changed significantly and about one percent did not know. The main reason of the perception among respondents was probably the company they were working for. For example, respondents who work in a company where employment has increased considered that the employment generation after privatisation had increased, and vice versa. However, the majority of the respondents considered that the total employment had reduced after privatisation and that is the case in the figures also.
5.3.4 Employee-Related Facilities and Participation

The employees working in privatised enterprises (in the study) and some trade union leaders and activists were asked to express their perceptions and opinions of job security after privatisation, participation in the decision-making process, and salary and other fringe benefits that employees have been gaining. The results are shown in the following tables.

The loss of jobs is the major issue in any privatisation move. It is generally accepted that public enterprise employees enjoy job security to a considerable extent. One of the prerequisites of privatisation in Nepal is a guarantee of continued employment, provided the worker agrees to work for the private employer. Similarly the labour laws give some protection to workers with regards to job security. Accordingly, labourers employed in the private sector enjoy a fair measure of security of tenure. Taking into account this legal protection, it seems that the workforce to be transferred to the private sector may have job security (DEAN, 1998). However, the case study shows that the employees still feel insecure in privatised enterprises.

In total 74 employees and 12 trade union representatives were interviewed to ascertain their perceptions of job security in the privatised enterprises, the results are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Employees of the Privatised Enterprises</th>
<th>Trade Union Representatives</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq.</td>
<td>Percent</td>
<td>Freq.</td>
</tr>
<tr>
<td>High</td>
<td>9</td>
<td>12</td>
<td>-</td>
</tr>
<tr>
<td>Average</td>
<td>44</td>
<td>59</td>
<td>2</td>
</tr>
<tr>
<td>Low</td>
<td>16</td>
<td>22</td>
<td>10</td>
</tr>
<tr>
<td>Don’t know</td>
<td>5</td>
<td>7</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>74</td>
<td>100</td>
<td>12</td>
</tr>
</tbody>
</table>

(Source: Sub-Sample two and three of the Field Survey 2003/2004)

Only about 10% of respondents (from the group of employees, not from the trade union groups) regarded their job security as being high in the privatised units, whereas the majority—about 54%—regarded it as average, i.e. neither high nor low, in the privatised units. This shows a positive attitude even though they did not consider their positions to
be highly secure. About 30%, however, thought that the job security was low after privatisation, whereas about 6% did not know whether they were secure or not. The overall attitude of the respondents could be interpreted as positive, as the percentage of high and average is about 64%. However, there is a difference between the two groups of respondents, i.e. the majority of the employees (59%) considered it to be average, whereas the majority of the trade union representatives (83%) considered it to be low.

Employees’ participation in the decision-making process in Nepal is generally absent, whether it is a public or private enterprise. Outside of collective bargaining, the decision-making process is considered a management prerogative, even though the Labour Act of 1992 made a provision for workers’ participation and a Labour Relations Committee to be formed in every establishment. The purpose of the committee is to encourage friendly and amicable relations between the workers and the employers, and to discuss matters of mutual interest (Ibid 29).

In total 86 employees and trade union representatives were interviewed to ascertain their perceptions on their participation in the decision-making process; their responses are as follows:

<table>
<thead>
<tr>
<th>Employees of the Privatised Enterprises</th>
<th>Trade Union Representatives</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freq.</td>
<td>Percent</td>
<td>Freq.</td>
</tr>
<tr>
<td>15</td>
<td>20</td>
<td>3</td>
</tr>
<tr>
<td>18</td>
<td>21</td>
<td>67</td>
</tr>
<tr>
<td>No</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freq.</td>
<td>Percent</td>
<td>Freq.</td>
</tr>
<tr>
<td>58</td>
<td>79</td>
<td>9</td>
</tr>
<tr>
<td>67</td>
<td>78</td>
<td>1</td>
</tr>
<tr>
<td>Don’t know</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freq.</td>
<td>Percent</td>
<td>Freq.</td>
</tr>
<tr>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>86</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

(Source: Sub-Sample two and three of the Field Survey 2003/2004)

About 21% responded that there is employee participation in the decision-making process, whereas about 78% stated that there is no such participation. About one percent did not know. The majority of respondents (from both strategic groups) felt that they are excluded from the decision-making process, directly or indirectly. This shows that there is still an implementation deficit in the provision set down in the Labour Act of 1992 to enable the participation of workers in the decision-making process, in order to improve
the working environment and the working relationship among workers, and enhance management efficiency.

Respondents (employees of the privatised enterprises, sub-sample two) were asked to express their opinions of salary and other fringe benefits they receive in comparison to the situation from before privatisation. Overall, only about 5% were satisfied and reported that the salary and other benefits are higher than before privatisation, whereas about 41% expressed that there were no significant differences (almost similar) and the majority of them (about 53%) expressed that it is lower than before. Only about 1% could not figure out whether it is better or worse. The following table shows the result as expressed by the respondents.

Table 5.3.9: Salary and Other Facilities in the Privatised Enterprises

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>At Par (almost similar)</td>
<td>30</td>
<td>41</td>
</tr>
<tr>
<td>Lower</td>
<td>39</td>
<td>53</td>
</tr>
<tr>
<td>Don’t know</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>74</td>
<td>100</td>
</tr>
</tbody>
</table>

(Source: Sub-Sample two of the Field Survey 2003/2004)

When asked about specific benefits and facilities, their responses are shown in the following table. The majority of the respondents viewed that workers’ exploitation, the company’s capacity, capacity utilisation and sales have all increased (55%, 81%, 49% and 72% respectively), whereas some viewed that there is further deterioration in the number of workers, security situation, union activities and profits (56%, 49%, 48%, 36% and 36% respectively). Some respondents believe that there are no significant changes in salary/allowances, working conditions and working time (45%, 49%, and 69% respectively). Some believe that bonuses and social securities have been abolished after privatisation (60% and 51% respectively).
Table 5.3.10: Salary and Other Facilities in the Privatised Enterprises (in detail)\(^{18}\)

<table>
<thead>
<tr>
<th>No.</th>
<th>Facility Description</th>
<th>New addition</th>
<th>Increased</th>
<th>No change</th>
<th>Decreased</th>
<th>Abolished</th>
<th>Total Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Salary/Allowances</td>
<td>1</td>
<td>10</td>
<td>37</td>
<td>35</td>
<td>-</td>
<td>83</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(1)</td>
<td>(12)</td>
<td>(45)</td>
<td>(42)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Leaves</td>
<td>-</td>
<td>-</td>
<td>36</td>
<td>46</td>
<td>1</td>
<td>83</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-</td>
<td>-</td>
<td>(43)</td>
<td>(56)</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Working Conditions</td>
<td>1</td>
<td>14</td>
<td>39</td>
<td>23</td>
<td>4</td>
<td>81</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(1)</td>
<td>(17)</td>
<td>(49)</td>
<td>(28)</td>
<td>(5)</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Working Time</td>
<td>2</td>
<td>24</td>
<td>57</td>
<td>-</td>
<td>-</td>
<td>83</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(2)</td>
<td>(29)</td>
<td>(69)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Number of Workers</td>
<td>2</td>
<td>32</td>
<td>8</td>
<td>41</td>
<td>-</td>
<td>83</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(2)</td>
<td>(39)</td>
<td>(10)</td>
<td>(49)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Security</td>
<td>1</td>
<td>8</td>
<td>34</td>
<td>39</td>
<td>-</td>
<td>82</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(1)</td>
<td>(10)</td>
<td>(41)</td>
<td>(48)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Union Activities</td>
<td>3</td>
<td>19</td>
<td>26</td>
<td>28</td>
<td>1</td>
<td>77</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(4)</td>
<td>(25)</td>
<td>(34)</td>
<td>(36)</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Worker’s Exploitation</td>
<td>1</td>
<td>43</td>
<td>27</td>
<td>6</td>
<td>1</td>
<td>78</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(1)</td>
<td>(55)</td>
<td>(35)</td>
<td>(8)</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>Company’s Capacity</td>
<td>6</td>
<td>68</td>
<td>7</td>
<td>3</td>
<td>-</td>
<td>84</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(7)</td>
<td>(81)</td>
<td>(8)</td>
<td>(4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>Capacity Utilization</td>
<td>-</td>
<td>40</td>
<td>12</td>
<td>30</td>
<td>-</td>
<td>82</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(49)</td>
<td>(15)</td>
<td>(37)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11.</td>
<td>Sales</td>
<td>-</td>
<td>60</td>
<td>10</td>
<td>13</td>
<td>-</td>
<td>83</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(72)</td>
<td>(12)</td>
<td>(16)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12.</td>
<td>Profits</td>
<td>-</td>
<td>29</td>
<td>18</td>
<td>29</td>
<td>6</td>
<td>82</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(35)</td>
<td>(22)</td>
<td>(36)</td>
<td>(7)</td>
<td></td>
</tr>
<tr>
<td>13.</td>
<td>Bonus</td>
<td>-</td>
<td>3</td>
<td>12</td>
<td>17</td>
<td>47</td>
<td>79</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(4)</td>
<td>(15)</td>
<td>(22)</td>
<td>(60)</td>
<td></td>
</tr>
<tr>
<td>14.</td>
<td>Social Security (insurances, pension, gratuity etc.)</td>
<td>-</td>
<td>1</td>
<td>19</td>
<td>19</td>
<td>40</td>
<td>79</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(1)</td>
<td>(24)</td>
<td>(24)</td>
<td>(51)</td>
<td></td>
</tr>
</tbody>
</table>

(Figures in parentheses represent percentage of the respondents)

(Source: Sub-Sample two and three of the Field Survey 2003/2004)

\(^{18}\) The opinion expressed by the both groups—employees of the privatised enterprises and trade union representatives—were almost similar so they are presented without being separated
In a nutshell, the above table clearly indicates that the majority of the respondents perceived the company’s capacity, capacity utilisation and sales to have increased (positive impact), workers’ exploitation also increased (negative impact), leaves, numbers of workers, security situation, union activities and profits have decreased (negative impact), bonuses and social securities have been abolished after privatisation (negative impact) and there are no significant differences in salary/allowances, working conditions and working time (neither negative nor positive).

5.3.5 Role of the Government (Including Rules and Regulations) for Facilitating the Privatised Enterprises

Respondents were asked to express their opinion on:

- the role of the government on the management of privatised enterprises
- the welfare of workers of privatised enterprises
- facilities/support provided by the government for the overall development of privatised enterprises
- the role of the existing policies, statutes and regulations to promote the privatisation process in Nepal.

The responses expressed by the different strategic groups are discussed in the following sections.

According to the following table, the overwhelming response from the first group, i.e. policy makers and academicians, was that the role of the government in the management of privatised enterprises has been extremely positive (65%), whereas from the same group only 14% felt that it was negative and 21% did not know whether it was positive or negative. The response from the second group, i.e. trade union representatives, is somewhat different; only 8% thought that the role of the government was positive, whereas the majority (67%) thought it was negative and 31% did not know whether it was positive or negative. Although the overall responses were positive (60%), it differs according to the different strategic groups, as shown in the following table. This may be due to the interests of the different strategic groups in the resources at stake.
Table 5.3.11: Government’s Role on Management of Privatised Enterprises

<table>
<thead>
<tr>
<th></th>
<th>Policy makers and Academicians</th>
<th>Trade Union Representatives</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq.</td>
<td>Percent</td>
<td>Freq.</td>
</tr>
<tr>
<td>Positive</td>
<td>87</td>
<td>65</td>
<td>1</td>
</tr>
<tr>
<td>Negative</td>
<td>19</td>
<td>14</td>
<td>8</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>28</td>
<td>21</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>134</td>
<td>100</td>
<td>12</td>
</tr>
</tbody>
</table>

(Source: Sub-Sample one and three of the Field Survey 2003/2004)

While broaching the issue of the role of the government in the welfare of the workers in privatised enterprises, the responses were as follows:

Table 5.3.12: Government’s Role on Welfare of the Workers

<table>
<thead>
<tr>
<th></th>
<th>Policy makers and Academicians</th>
<th>Trade Union Representatives</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq.</td>
<td>Percent</td>
<td>Freq.</td>
</tr>
<tr>
<td>Positive</td>
<td>88</td>
<td>65</td>
<td>1</td>
</tr>
<tr>
<td>Negative</td>
<td>25</td>
<td>18</td>
<td>8</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>23</td>
<td>17</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>136</td>
<td>100</td>
<td>11</td>
</tr>
</tbody>
</table>

(Source: Sub Sample one and three of the Field Survey 2003/2004)

On this issue also, the majority of the respondents from group one, i.e. policy makers and academicians, believed that the role is positive (65%), whereas from the same group about 18% felt that it is negative. Similarly, 17% expressed that they did not know whether it is positive or negative. However, the other group, i.e. trade union representatives, had a different response; 73% found the government’s role to be negative, whereas 9% found it to be positive. Although the overall result (61%) was found to be positive, it differed according to the background of the strategic group. Most of the respondents in the first category either work in the government sector or in the private sector as higher level bureaucrats, who felt that the business that the government conducts is correct (though some were very critical during the interview). Since the employees working in the privatised enterprises expressed their extreme dissatisfaction
with the management and other facilities, the result shown here does not match. It would have been otherwise if the government’s attitude toward the welfare of the privatised enterprises had been positive (as most of the employees were expressing their dissatisfaction with the government’s role during the interview, asking the researcher not to mention their names).

The respondents were requested to pinpoint whether any facilities/support have been provided by the government for the overall development of the privatised enterprises, their opinions are as follows:

<table>
<thead>
<tr>
<th>Opinion on Facilities/Support Provided by the Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>---------</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Don’t Know</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

(Source: Sub-Sample one of the Field Survey 2003/2004)

Only about 21% of respondents expressed that the government has provided some sort of facilities for the overall development of the privatised enterprises. They were asked to point out what types of facilities were/are being provided, and mentioned general things like the government has been providing a sound environment for the overall operation of the companies, the government has been showing flexibility for getting dues from the privatised companies (which is of course an accusation from the Auditor General expressed in his yearly audit report 1999), and so forth. However, the majority of the respondents (48%) expressed that they did not know whether there is something that the government has been doing for privatised enterprises, whereas 31% vocally expressed that there was/is nothing that the government has been providing for the overall development of the privatised companies.
Box 3: BOOT unable to attract investors
Government to recall tenders for airport constructions

After failing to attract investors to develop and operate four airports under the Build-Own-Operate and Transfer (BOOT) scheme by its first tender, the government has once again called bids for the purpose.

"As we could not receive bids fulfilling our requirements in the first tender, we decided to re-tender," said an official at the Ministry of Culture, Civil Aviation and Tourism (MoCCAT). Earlier, the government had invited tenders to operate four airports under the Infrastructure Development and Operation by Private Investment Ordinance-2004, which include Gautam Buddha Airport, Bhairahawa, Pokhara Airport, Dharan Airport and Dhangadhi Airport.

He said that through Yeti Incorporate submitted tenders for Pokhara and Dharan airports, it could not meet all the criteria set for the bids. "However, the government received no bid for the remaining airports, though some companies had submitted letter of intent," said Y. Gautam, joint secretary at the MoCCAT. He, however, expressed optimism that new offer will attract investors to operate these airports under the BOOT. "In case the government does not receive bids even during the second tender, it may decide on the grounds of mutual agreement to allow ‘capable’ company to operate airports," he said.

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Attempts have been made to find out whether the present policies and regulations are conducive to the promotion of the privatisation process in Nepal, the responses are reflected in the following table.

Table 5.3.14: Suitability of the Existing Policies, Statutes and Regulations for Promoting Privatisation Process

<table>
<thead>
<tr>
<th></th>
<th>Policy makers and Academicians</th>
<th>Trade Union Representatives</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq.</td>
<td>Percent</td>
<td>Freq.</td>
</tr>
<tr>
<td>Yes</td>
<td>49</td>
<td>36</td>
<td>-</td>
</tr>
<tr>
<td>No</td>
<td>68</td>
<td>50</td>
<td>8</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>19</td>
<td>14</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>136</td>
<td>100</td>
<td>12</td>
</tr>
</tbody>
</table>

(Source: Sub-Sample one and three of the Field Survey 2003/2004)

The majority of the respondents (from both strategic groups) did not agree that the present rules and regulations are enough or conducive to the overall development of the privatisation process in Nepal. Only 33% (only from the group of policy makers and
academicians) believed that they are conducive, but the majority (51%) disagreed and expressed that there is still room for improvement of the policies. They said that the government should issue proper regulations to address the current demand (still we have only the Privatisation Act of 1994, but the government has not issued any regulation to address the implementation barriers, as the act has delegated the authority to the government to issue any regulation and the Auditor General also pointed this out in his report 1999). They also suggested that the government should amend the Privatisation Act according to the experiences so far, by implementing the policy. About 16%, however, did not know whether it is positive or conducive.

**Box 4: Who is Responsible, Who is to be Blamed**

In the case of Agricultural Tools Factory the government is heavily criticized by the experts. It is blamed that the government did not assess the financial standing and managerial capacity of the bidder. This became the major problem, which led the factory to its present state. The factory was privatised through the sale of shares in 1997. It is the first company transferred to the employees of the factory. Since then serious doubts were cast on the management ability of the acquirer to operate the factory. When the performance of the company deteriorated significantly, there was a severe clash among the owners, which led to the closure of the factory. The employees do not have sufficient capital to invest and the real investors were someone else who wanted to get advantage from the provision of the Act that the employee may buy the bid at only Rs. 10,000 instead of Rs. 20,000. It was found that the investors were not industrialists with a good industrial background and were actually opportunists. They therefore lacked knowledge, skill and experience to run such a big enterprise. The finding of the MoF in the report relating to the cause of failure of ATF contradicts with the commitment of the government put forward in the Ninth Plan, which says “the selection of investor will only be made after careful assessment of business skills and experience, financial status, resources, access to markets and business plans for the enterprise.” Indeed, what has been written is just limited on the papers and not actually implemented.

In the case of the failure of this enterprise, the Privatisation Act is also responsible. Though there are a number of criteria to select the best bid offer, there is no system for giving weight to each criterion. This is because the rules and guidelines under the Act are not prepared. As a result, the highest bidder is selected. This has been identified as one of the main reasons for the failure of ATF. Therefore, the government is fully responsible for the downfall of ATF. Before giving it to the private hand it was the responsibility of the government to see the whole background of the potential owner.


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19 MoF (1999)
20 Business Age (2000), *Privatisation Process in Nepal*
5.3.6 The Gains and Losses of Privatisation

Responding to the question relating to the gains of privatisation, most of the respondents listed increased private participation, reduced financial and administrative burden on the government, increased efficiency/productivity, reduced political interference and reduced corruption as the major gains of privatisation (35%, 23%, 14%, 9%, 6% respectively in the priority level). According to the priority level, the three most important achievements (gains) are recognised as being increasing private participation, reducing financial and administrative burden on the government and increased efficiency/productivity of the enterprises. A few respondents also said that it increased employment (4%) and strengthened market competition (4%) and the supply of quality goods and services (3%) to the people, as some achievements of privatisation. However, strikingly the least prioritised achievement is increasing revenue. Only 2% of respondents believed that privatisation could increase the revenue of the government, which is the main achievement in other countries. Some of the key respondents (about 25%) also highlighted that privatisation helps inject capital in the social sectors by increasing revenue and investing in sectors such as water, electricity, education and health. Some others (about 15%) added that it makes labour disciplined and promotes private participation in the national economy. A few respondents added that privatisation also facilitates technology upgrades, product diversification and capital mobilisation. However, very few informants said that there are no gains of privatisation. The following table shows the gains of privatisation expressed by the respondents:
### Table 5.3.15: The Gains of Privatisation of Public Enterprises in Nepal

<table>
<thead>
<tr>
<th></th>
<th>Policy makers and academicians</th>
<th>Employees of privatised enterprises</th>
<th>Trade union representatives</th>
<th>General public residing around the privatised enterprises</th>
<th><strong>Total</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq.</td>
<td>%</td>
<td>Freq.</td>
<td>%</td>
<td>Freq.</td>
</tr>
<tr>
<td>Increased private participation</td>
<td>32</td>
<td>24</td>
<td>36</td>
<td>49</td>
<td>6</td>
</tr>
<tr>
<td>Reduced financial and administrative burden on the government</td>
<td>38</td>
<td>29</td>
<td>17</td>
<td>23</td>
<td>3</td>
</tr>
<tr>
<td>Increased efficiency/productivity of the enterprises</td>
<td>26</td>
<td>20</td>
<td>6</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Reduced political interference</td>
<td>13</td>
<td>10</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Reduced corruption</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Increased employment</td>
<td>6</td>
<td>5</td>
<td>5</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>Strengthened market competition</td>
<td>3</td>
<td>2</td>
<td>4</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Supply of quality goods and services</td>
<td>7</td>
<td>5</td>
<td>-</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Increased revenue</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>132</td>
<td>100</td>
<td>74</td>
<td>100</td>
<td>11</td>
</tr>
</tbody>
</table>

(Source: Field Survey 2003/2004)

When the respondents were asked about the losses of privatisation, the majority stressed that it causes the creation of private monopolies, increasing the price of goods and services, a loss of employment and poor quality of the goods and services provided by the privatised enterprises (36%, 21%, 20% and 19% respectively in the priority level). Most argued that since the private sector is profit motivated, there are chances of price hikes and tax evasion. A few respondents added that there have been many losses, as most of the privatised enterprises in Nepal have failed. Some respondents (4%) expressed that the loss of revenue is also a loss of the privatisation program in Nepal.
Table 5.3.16: The Losses of Privatisation of Public Enterprises in Nepal

<table>
<thead>
<tr>
<th></th>
<th>Policy makers and academicians</th>
<th>Employees of privatised enterprises</th>
<th>Trade union representatives</th>
<th>General public residing around the privatised enterprises</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq.</td>
<td>%</td>
<td>Freq.</td>
<td>%</td>
<td>Freq.</td>
</tr>
<tr>
<td>Creation of private monopoly</td>
<td>54</td>
<td>41</td>
<td>25</td>
<td>36</td>
<td>2</td>
</tr>
<tr>
<td>Price increase</td>
<td>33</td>
<td>25</td>
<td>9</td>
<td>13</td>
<td>1</td>
</tr>
<tr>
<td>Loss of employment</td>
<td>22</td>
<td>17</td>
<td>12</td>
<td>17</td>
<td>7</td>
</tr>
<tr>
<td>Poor service/quality of goods</td>
<td>17</td>
<td>13</td>
<td>21</td>
<td>30</td>
<td>1</td>
</tr>
<tr>
<td>Loss of revenue</td>
<td>6</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>132</td>
<td>100</td>
<td>70</td>
<td>100</td>
<td>12</td>
</tr>
</tbody>
</table>

(Source: Field Survey 2003/2004)

The respondents were asked to express their opinion on the basis of the privatisation program implemented so far and the performance of the privatised enterprises’ achievements to date. In general, most of the respondents pointed out that the overall impact of the privatisation policy in Nepal is neither positive nor negative, but average (a mix). Hence, there are still some room for improvement.

5.3.7 Level of Satisfaction with the Privatisation Process

Privatisation has been taken as an alternative to public enterprise management to obtain a better performance. However, there are various opinions and views regarding this notion. To ascertain the perception of various stakeholders, the study conducted a survey and the results are as follows:
Table 5.3.17: Level of Satisfaction with the Privatisation Process Adopted in Nepal

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Strongly satisfied</th>
<th>Satisfied</th>
<th>Neutral</th>
<th>Dissatisfied</th>
<th>Strongly dissatisfied</th>
<th>Total number</th>
</tr>
</thead>
<tbody>
<tr>
<td>General objectives</td>
<td>16 (12)</td>
<td>62 (48)</td>
<td>32 (25)</td>
<td>13 (10)</td>
<td>6 (5)</td>
<td>129</td>
</tr>
<tr>
<td>Transparency in valuation process of assets</td>
<td>2 (2)</td>
<td>12 (9)</td>
<td>23 (18)</td>
<td>65 (51)</td>
<td>26 (20)</td>
<td>128</td>
</tr>
<tr>
<td>Modality adopted</td>
<td>6 (5)</td>
<td>36 (28)</td>
<td>55 (43)</td>
<td>24 (19)</td>
<td>6 (5)</td>
<td>127</td>
</tr>
<tr>
<td>Selling process</td>
<td>1 (1)</td>
<td>12 (9)</td>
<td>45 (35)</td>
<td>58 (46)</td>
<td>11 (9)</td>
<td>127</td>
</tr>
<tr>
<td>Monitoring system</td>
<td>2 (2)</td>
<td>7 (5)</td>
<td>15 (12)</td>
<td>63 (49)</td>
<td>41 (32)</td>
<td>128</td>
</tr>
<tr>
<td>Institutional arrangement</td>
<td>4 (3)</td>
<td>36 (28)</td>
<td>51 (40)</td>
<td>25 (20)</td>
<td>12 (9)</td>
<td>128</td>
</tr>
</tbody>
</table>

(Source: Sub-Sample one of the Field Survey 2003/2004)

The respondents were asked to express their opinion on general objectives set by the government to be achieved. The majority are satisfied with the objectives (48%), whereas 12% said that they are strongly satisfied. But 25% expressed that they are neutral and 10% are dissatisfied with the objectives sought by implementing the privatisation policy. Only 5% of respondents, however, are strongly dissatisfied. On the other hand, the majority of the respondents were dissatisfied with the transparency of the valuation process, selling process of the enterprises and monitoring and evaluation systems of the government towards privatised enterprises (51%, 46% and 49% respectively). At the same time, 20% and 32% of respondents were strongly dissatisfied with the transparency and monitoring system respectively, whereas 18% on transparency, 35% on selling process and 12% respondents on monitoring system were neutral. The majority of the respondents regarding the modality of the process adopted for privatising the PEs and institutional arrangements were neutral (neither satisfied nor dissatisfied) (43% and 40% respectively) but 28% of each were satisfied with it.

In a nutshell, the respondents were:

- satisfied only with the aspects of the general objectives of privatisation,
• dissatisfied with the transparency of the valuation process of assets, selling process of PEs and monitoring and evaluation system after privatisation,
• neutral regarding the modalities adopted and institutional arrangement (privatisation committee, Privatisation Cell, formation of Technical Committee etc.) for the privatisation process.

Thus, apart from the general objectives, regarding the rest of the identified factors, responses were either dissatisfied or neutral. This indicates that the level of satisfaction with the privatisation process adopted in Nepal has not been very positive. It therefore signifies the need for reviewing the process in particular the transparency of the valuation process, selling process and monitoring system, in order to achieve a better privatisation process.

5.3.8 The Principal Beneficiaries and Losers of the Privatisation Program

One of the major objectives of this study was to identify the principal beneficiaries and losers of privatisation in Nepal. For identifying the beneficiaries and losers, one should take note of the basic idea of strategic group analysis, which was briefly mentioned in an earlier chapter (Chapter Two); the role of strategic groups cannot be ignored. As Evers indicated, strategic groups play a major role in obtaining resources for the benefit of the group to which they belong. Furthermore, in the Nepalese context it has become apparent that the role of the different groups has been found. However, some groups have benefited while others have lost.

The privatisation program directly or indirectly affects its stakeholders, though not in the same proportion. The stakeholders of the program could be identified as the government, the big business houses (big investors), the small investors, the consumers and the employees of the enterprises. The benefits of privatisation might not be shared equally by all the stakeholders, i.e. some of them benefit and some of them lose out. The following two tables present the beneficiaries and losers of privatisation in Nepal, as identified by the three groups of respondents (policy makers and academicians; employees of the privatised enterprises and trade union representatives).
### Table 5.3.18: The Principal Beneficiaries of the Privatisation Program

<table>
<thead>
<tr>
<th></th>
<th>Policy makers and academicians</th>
<th>Employees of the privatised enterprises</th>
<th>Trade union representatives</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq. %</td>
<td>Freq. %</td>
<td>Freq. %</td>
<td>Freq. %</td>
</tr>
<tr>
<td>Big business houses (big investors)</td>
<td>90 68</td>
<td>60 83</td>
<td>11 92</td>
<td>161 75</td>
</tr>
<tr>
<td>Consumers</td>
<td>21 16</td>
<td>2 3</td>
<td>1 8</td>
<td>24 11</td>
</tr>
<tr>
<td>Government/Decision makers</td>
<td>10 8</td>
<td>8 11</td>
<td></td>
<td>18 8</td>
</tr>
<tr>
<td>Small investors</td>
<td>9 7</td>
<td>2 3</td>
<td></td>
<td>11 5</td>
</tr>
<tr>
<td>Employees</td>
<td>1 1</td>
<td></td>
<td></td>
<td>1 1</td>
</tr>
<tr>
<td>Total</td>
<td>131 100</td>
<td>72 100</td>
<td>12 100</td>
<td>215 100</td>
</tr>
</tbody>
</table>

(Source: Sub-Sample one, two and three of the Field Survey 2003/2004)

The majority of the respondents (75%) from all groups pointed out that the big business houses (big investors) are the principal beneficiaries of the Nepalese privatisation program, while consumers are placed (11%) in the second position. Government/decision makers are identified as ranking third (8%) as perceived by the respondents. They explained that big business houses are the principal beneficiaries due to the benefits obtained by them through the program. The respondents elaborated along the same lines that most of the criticism from the general public stated that the companies were generally under-valued when sold, the buyer of the companies benefited by obtaining the fixed assets at a very nominal price, and due to the lack of business culture, they are enjoying the benefits of the company even though the companies operate at severe losses (companies are in loss but due to double bookkeeping, buyers have been enjoying its gain by diverting the capital to their other companies). Most of the employees who were interviewed strongly expressed that by diverting the income of the company to their other companies, resulting in the company operating at a loss, the owners are enjoying the benefits of privatisation. This is evident in the performance of the company, as well as the fact that production and sales of the companies have increased enormously but the companies are in huge losses. It, therefore, indicates that something is gravely amiss that should be explored and mitigated. Hence, the principal beneficiaries of the program are the big business houses who were able to purchase the enterprises through privatisation.
The respondents identified the principal losers of the privatisation program of Nepal as follows:

**Table 5.3.19: The Principal Losers of the Privatisation Program**

<table>
<thead>
<tr>
<th></th>
<th>Policy makers and academicians</th>
<th>Employees of the privatised enterprises</th>
<th>Trade union representatives</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq.</td>
<td>%</td>
<td>Freq.</td>
<td>%</td>
</tr>
<tr>
<td>Employees of the Privatised Enterprises</td>
<td>56</td>
<td>43</td>
<td>43</td>
<td>58</td>
</tr>
<tr>
<td>Small investors</td>
<td>34</td>
<td>26</td>
<td>10</td>
<td>14</td>
</tr>
<tr>
<td>Consumers</td>
<td>15</td>
<td>11</td>
<td>20</td>
<td>27</td>
</tr>
<tr>
<td>Government/Decision makers</td>
<td>15</td>
<td>11</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Big business houses (big investors)</td>
<td>11</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>131</td>
<td>100</td>
<td>74</td>
<td>100</td>
</tr>
</tbody>
</table>

(Source: Sub-Sample one, two and three of the Field Survey 2003/2004)

The majority of respondents from all three groups (50%) believed that the employees of the privatised enterprises are the major losers due to the privatisation of PEs in Nepal. Most of them were forced either to quit their jobs, as the working conditions had deteriorated, and the new management was reluctant to take them into the new environment, or simply accept the poor working conditions and benefits, whatever the new private management offered. The second biggest majority (21%) expressed that the other group who had lost out were the small investors who were not able to purchase the enterprises as the conditions were not suitable for them, whereas some (17%) felt that consumers are also losers as they are facing higher prices after privatisation, a decrease in the quality of goods and services, and monopoly in the market.

Hence, from the above table we could conclude that the two major losers in the privatisation of PEs in Nepal are employees of the privatised enterprises and small investors who wish to invest in the enterprises but due to the unfavourable conditions
(though not excluded), could not take part in the competition (which might be more competitive if they were able to take part in the bidding process).

**5.3.9 Overall Impact of Privatisation**

Finally, the respondents were asked to express their opinion on the overall impact of the policy in Nepal (whether it is positive or not); their responses were as follows:

**Table 5.3.20: Overall impact of Privatisation in Nepal**

<table>
<thead>
<tr>
<th></th>
<th>Policy makers and Academicians</th>
<th>Trade Union Representatives</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq.</td>
<td>Percent</td>
<td>Freq.</td>
</tr>
<tr>
<td>Positive</td>
<td>8</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>Average</td>
<td>72</td>
<td>53</td>
<td>3</td>
</tr>
<tr>
<td>Poor</td>
<td>56</td>
<td>41</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>136</td>
<td>41</td>
<td>12</td>
</tr>
</tbody>
</table>

(Source: Sub Sample one and three of the Field Survey 2003/2004)

The above table shows that only a few respondents (5%) (from the first group only) believed that the impact of privatisation in Nepal is positive, whereas the majority (51%) expressed that it is average, that it is neither positive, as some thought, nor poor, as some critics opined, but still there is something to be done to achieve the full benefits of privatisation. However, 44% of respondents felt that the achievement of privatisation in Nepal is poor. The objectives, according to them, were not achieved as expected and the economic conditions of the privatised enterprises even deteriorated in terms of overall performance—most of them are loss making with no significant contribution to the national economy. Some quantitative data collected from the secondary sources can be found in the annexes.

**5.4 Summary**

In this chapter, attempts have been made to discuss the institutional arrangement for privatisation, the implementation process in four separate enterprises and the impact of privatisation. In the implementation process of the four enterprises, there were some distinctions made between them, especially in the negotiation process. For example, in
the first phase (in the case of HBTF and BPM) the negotiating committees did not negotiate with the bidders for the prices they had offered, whereas the bidders were asked to revise their offers in the second phase without disclosing the prices offered by other bidders. Instead of the council of ministers, the high-level privatisation and the high-level negotiating committees were given full authority by the government to finalise the transactions and conclude the agreement with the winning bidders. Based on the data presented in four privatised enterprises the overall impact of the privatisation policy is mixed. Similarly, the survey results of the different strategic groups’ opinions show mixed results, i.e. in some cases the respondents were positive; however, in regards to overall impact, they were not as positive. The main reason may be that, as privatisation proceeded and subsidies were removed as part of market-oriented reforms, prices of goods that had been previously subsidised rose significantly. These included electricity, water, fuel and some basic consumption goods such as sugar. This disadvantaged small farmers and those employed in the urban informal sector.

In the next chapter, discussion will be continued while illustrating/exploring the problems faced in the process of privatisation in Nepal, as well as suggested measures to be taken into account for the improvement of the implementation process so that the objectives may be achieved as expected.
Chapter Six

Problems and Prospects of Privatisation in Nepal

“Privatisation is like dismantling a bomb—it must be done very carefully, for wrong decisions can have nasty consequences”
- Savas, 2000:284

6.0 Introduction

Throughout the world an environment is being created that favours privatisation through liberalisation and economic reforms, but the privatisation movement is not free from constraints and obstacles. “There are obstacles to be overcome, arguments to be rebutted, proponents to be mobilised, and opponents to be thwarted” (Savas, 2000:284). These arguments are equally pertinent in the Nepalese context, as there have been many obstacles that can be held responsible for the results not being as expected. The obstacles are identified here and are analysed on the basis of what Grindle and Thomas (1991) proposed, which could be encountered during the implementation process of any policy in a developing country.

This chapter is mainly dedicated to outlining the obstacles and prospects of the privatisation policy in Nepal. In the first part of the chapter, obstacles that were noted by our respondents and other sources such as published reports, study reports, and so on, which were believed to be the main barriers in the implementation process in Nepal, will be discussed. In the second part, problems of privatised enterprises will be discussed and in the third part suggestions that were offered by the respondents/strategic groups have been analysed in brief in order to identify the prospects of the policy in Nepal. Hence, the chapter is a combination of fact and the opinions of the strategic groups (respondents). The way in which the strategic groups have reacted to the facts collected from various resources such as field research and secondary information will also be demonstrated.

6.1 Main Problems of Privatisation in Nepal

Savas (2000) identified some barriers to privatisation. He divided those barriers into operational barriers, legislative barriers, and sources of opposition—opposition by
workers, opposition by public officials and bureaucrats, opposition by business interests and opposition by the public (Savas, 2000: 284-314).

In addition, Grindle and Thomas have also explained some implementation-related issues that affect the implementation of policies. They argued, “In the implementation process, political, financial, managerial, and technical resources are likely to be needed to sustain the reform. Mobilising these is part of the challenge to decision makers and policy managers. Those opposing the policy change may attempt to block access to the necessary resources, thus stalling the reform and returning it to the policy agenda. Choices by policy elites and managers at this stage may have an important bearing on the eventual outcome of the reform initiative.” Mobilising these resources, according to the writers, is challenging and equally important in the Nepalese case also, but in a different way. Since implementing the privatisation policy is a long-term policy issue, it takes a long time to implement it in full scale. In Nepal frequent changes in government are themselves a major problem which is discussed below. Also there was no commitment or consensus\(^{21}\) among the political parties\(^{22}\). Employees’ resistance also delays the implementation process. Likewise, a lack of investors, lack of a developed capital market and of privatisation funds are other problems related to the financial resources, to some extent, of what Grindle and Thomas explained. The deteriorating condition of public enterprises, a lack of confidence in government transaction, delays, formation of a privatisation committee and buck-passing are to some extent related to managerial and technical resources. What Grindle and Thomas argued is that to implement a policy successfully these resources should be mobilised in a proper way; however, in the Nepalese case, critics argued that these are not being mobilised properly and this creates an implementation problem. So the problems discussed here are the problems that were encountered in the process of privatisation.

\(^{21}\) Opinions of the major political parties are discussed in Chapter Four (4.2) and their common ground and differences are discussed as well.

\(^{22}\) This is not only a problem in Nepal; recently the Japanese Prime Minister dissolved the Parliament and called for a snap poll, as some of his own party members disagreed with his proposal of post office privatisation (http://news.bbc.co.uk/1/hi/world/asia-pacific/4236946.stm) accessed on 5 October 2005.
When asked to point out the problems that have been encountered in the implementation process of the policy, most of the respondents/strategic groups stated that political instability, political commitment/consensus, lack of developed capital market, employee resistance, worse conditions of public enterprises and lack of investors are serious problems that have been encountered. Some other respondents said that a lack of transparency, lack of confidence in government transactions, lack of adequate monitoring and evaluation systems, delaying of the process and buck-passing are major problems. Similarly a few said that the formation of a privatisation committee and a lack of resources available for the implementation of the policy (privatisation fund) are also problems. Thus, the respondents pointed out the various problems that hinder the effective implementation of the policy. The details are discussed in the following subsections on a group-oriented basis, according to Grindle and Thomas (1991).

<table>
<thead>
<tr>
<th>Box 5: Main Problems of Privatisation pointed out by Mr. T.N. Khanal, the then chief of the Privatisation Cell, Ministry of Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>“The foremost problems are lack of corporate culture, business accountability, competitive atmosphere, operating autonomy and efficient manpower. The leadership and management team is not entirely responsible for the deteriorating performance in the PEs. The PEs can remain in existence and carry out their operations even if they are bankrupt. The political institutions do not assume accountability for the wrongdoing and the dismal performance in the PEs. The lack of discipline on the part of employees is another serious problem”</td>
</tr>
<tr>
<td>(Spotlight, March 5, 1999).</td>
</tr>
</tbody>
</table>

The respondents pointed out some problems that were encountered in the process of privatisation in Nepal which are given in the following table:
Table 6.1.1: Main Obstacles in the Process of Privatisation

<table>
<thead>
<tr>
<th></th>
<th>Policy makers and Academicians</th>
<th>Trade Union Representatives</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq.</td>
<td>%</td>
<td>Freq.</td>
</tr>
<tr>
<td>• Political instability</td>
<td>76</td>
<td>56</td>
<td>7</td>
</tr>
<tr>
<td>• Lack of political consensus</td>
<td>19</td>
<td>14</td>
<td>-</td>
</tr>
<tr>
<td>• Lack of transparency</td>
<td>11</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>• Lack of developed capital markets</td>
<td>5</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>• Lack of investors</td>
<td>5</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>• Employee related problems</td>
<td>5</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>• Formation of privatisation committee</td>
<td>5</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>• Lack of privatisation fund for the implementation</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>• Worse condition of PEs</td>
<td>3</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>• Delaying in the process</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>• Lack of monitoring and evaluation system</td>
<td>2</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>136</td>
<td>100</td>
<td>11</td>
</tr>
</tbody>
</table>

(Source: Sub-Sample one and three of the Field Survey 2003/2004)

The above table shows that the respondents/strategic groups have identified some major problems that were encountered in the process of privatisation in Nepal. The respondents were asked to prioritise the problems that they considered to be the most important and the least important. Political instability, lack of political consensus and lack of transparency are three major problems that our respondents identified (57%, 13%, and 9% respectively). Both strategic groups identified them as major problems. Similarly, a lack of developed capital markets, a lack of investors, employee-related problems, the formation of a privatisation committee and a lack of privatisation funds for the implementation are five moderate reasons (each got a 3% response) encountered during the implementation process. The three least important, in comparison with other reasons, are worse conditions of PEs, delaying in the process and lack of adequate monitoring and evaluation systems (each got 2% responses).

The problems that respondents pointed out have been classified into different groups and discussed in brief in the following sub-sections.
6.1.1 Problems Related to Political Resources

A series of questions illuminate the fact that political resources can be important in introducing and sustaining a reform, particularly one that generates a public reaction (Grindle and Thomas, 1991:143). In this category the problems faced in Nepal are divided into two parts—political instability and political commitment/consensus.

A. Political Instability

Decision makers often represent the interests of particular organisations. They also respond to concerns about the political support available to the regime they represent or its leadership (Grindle and Thomas, 1991: 100-101). Political stability is one of the primary pre-requisites for the successful implementation of privatisation. However, in Nepal, since the restoration of the multiparty system in 1990, in total 15 governments of different forms, structures and ideologies have come into power.

The following table (6.1.2) shows the composition of different governments during this period. The table shows the frequent change in government (even four different types of governments in one year). This frequent change in government naturally generates variations in the privatisation policy on the one hand and brings about delays in its implementation on the other. It is evident that political instability continues to prevail in the country, and adversely affects the privatisation process (K. C, 1999:231). The table shows that the political instability in the country delayed the privatisation process, as the government’s focus was not on long-term policy, but rather on retaining power (as 57% of our respondents also identified as a major barrier of privatisation in Nepal). In particular, due to the lack of a majority of a single party in parliament during the period of 1994-1998, there were frequent changes in government. During these periods the only concern of the governments was how to sustain the government, rather than other issues. Hence, only two enterprises were privatised during that four-year period, despite the government’s policy of privatising 30 PEs during the Ninth Plan period (1997-2002).
Table 6.1.2: Composition of Different Governments Since 1991

<table>
<thead>
<tr>
<th>Head of the government</th>
<th>Periods</th>
<th>Type of government</th>
<th>Party Involved in Govt.</th>
<th>Reason for Removal from the Govt.</th>
</tr>
</thead>
<tbody>
<tr>
<td>P.M. Girija Prasad Koirala</td>
<td>1991-1994</td>
<td>Majority</td>
<td>Nepali Congress</td>
<td>Internal conflict in the ruling party which led to mid term election</td>
</tr>
<tr>
<td>P.M. Sher Bahadur Deuba</td>
<td>1995-1997</td>
<td>Coalition led by NC</td>
<td>NC,RPP,NSP</td>
<td>Failed in vote of confidence</td>
</tr>
<tr>
<td>P.M. Lokendra Bahadur Chand</td>
<td>1997-1997</td>
<td>Coalition led by RPP(Chand)</td>
<td>RPP(Chand), CPN(UML), NSP</td>
<td>Passed of vote of no-confidence</td>
</tr>
<tr>
<td>P.M. Surya Bahadur Thapa</td>
<td>1997-1998</td>
<td>Coalition led by RPP(Thapa)</td>
<td>Coalition led by RPP(Thapa)</td>
<td>P.M. resigned the post with the consultation of NC party</td>
</tr>
<tr>
<td>P.M. Girija Prasad Koirala</td>
<td>1998-1998</td>
<td>NC</td>
<td>Minority</td>
<td>CPN(UML) withdraw support</td>
</tr>
<tr>
<td>P.M. Girija Prasad Koirala</td>
<td>1998-1998</td>
<td>Coalition led by NC</td>
<td>NC, CPN(ML)</td>
<td>NCP(ML) withdraw from the government</td>
</tr>
<tr>
<td>P.M. Girija Prasad Koirala</td>
<td>1998-1999</td>
<td>Coalition led by NC</td>
<td>NC, CPN(UML), NSP</td>
<td>Election declared</td>
</tr>
<tr>
<td>P.M. Krishna Prasad Bhattarai</td>
<td>1999-2000</td>
<td>Majority</td>
<td>Nepali Congress</td>
<td>Internal conflict in the ruling party which compelled the PM to resign</td>
</tr>
<tr>
<td>P.M. Girija Prasad Koirala</td>
<td>2000-2001</td>
<td>Majority</td>
<td>Nepali Congress</td>
<td>Resignation</td>
</tr>
<tr>
<td>P.M. Sher Bahadur Deuba</td>
<td>2001-2002 Sep.</td>
<td>Majority</td>
<td>Nepali Congress</td>
<td>Dismissed by the King</td>
</tr>
<tr>
<td>P.M. Lokendra Bd. Chand</td>
<td>Sep 2002- June 2003</td>
<td>Appointed by the King</td>
<td>Individual Basis</td>
<td>Resignation</td>
</tr>
<tr>
<td>P.M. Surya Bd. Thapa</td>
<td>June 2003- June 2004</td>
<td>Appointed by the King</td>
<td>Individual Basis</td>
<td>Resignation</td>
</tr>
<tr>
<td>P.M. Sher Bahadur Deuba</td>
<td>June 2004- Jan. 2005</td>
<td>Appointed by the King</td>
<td>Coalition government(^{23})</td>
<td>Dismissed by the King</td>
</tr>
<tr>
<td>No P.M appointed but the Government is Headed by His Majesty the King himself</td>
<td>Feb.1 2005</td>
<td>-</td>
<td>-</td>
<td>To date</td>
</tr>
</tbody>
</table>

(Source: information collected from the field work)

Similarly, after the general election in 1999, the Nepali Congress Party won the single majority in the House of Representatives (HoR) but conflicts within the party exacerbated the instability in the political spheres, which divided the party into the two factions and after 2002 even caused a constitutional crisis in the country, as the political crisis

\(^{23}\) Four parties were included in the government - NC (Democratic) - a fraction of Nepali Congress Party, CPN (UML), RPP, NSP and some individuals (two people).
deepened, a crisis which is still prevalent in the country. So the single most important factor that contributed to the problems of privatisation is political instability in Nepal.

**B. Political Commitment/Consensus**

Privatisation is essentially a national economic policy. In Nepal, there seems to be a lack of political commitment and national consensus regarding adopting the privatisation policy. Among the major political parties, Nepali Congress (NC), Rastriya Prajatantra Party (RPP), and Nepal Sadbhabana Party (NSP) are seen to be in favour of privatisation to a large extent. On the other hand, the Communist Party of Nepal, United Marxist-Leninist (CPN-UML), and other leftists, view that possible outcomes of the policy ought to be assessed and that it should be implemented gradually and cautiously. Furthermore, privatisation in Nepal has been criticised by different segments of the society, namely the trade unions, some so-called academicians, employees of various public enterprises, and so forth. However, some groups firmly accept the policy as the only remedial measure for encompassing economic vulnerability (K. C., 1999: 232). It is, thus, obvious that there is a lack of political commitment and national consensus with regard to the privatisation policy and program. As a result, the privatisation process has not been able to gain momentum. The respondents (13%) also identified this as the second most important barrier encountered in the process of privatisation in Nepal.

**6.1.2 Resource Scarcities (Financial and Others)**

One of the most important factors that hinder the privatisation process is the scarcity of resources to implement the policy adequately. In this category, financial and related problems faced in the process of privatisation in Nepal have been discussed.

**A. Lack of Developed Capital Market (Weak Capital Markets)**

Some argue (Savas, 2000:304) that, if the public trusts the government, even primitive capital markets can be used to carry out the sale of shares to the public. The commercial Bank of Jamaica was successfully privatised by a public offering of shares, even though the Kingston Stock Exchange was open only two afternoons a week for two hours each time and daily turnover averaged only $30,000 (Ibid). However, the situation could not
be comparable in all cases, as the writer described, because the outcomes are also
dependent on other circumstances.

The capital market in Nepal is in a nascent stage. There is only one organised stock
market in the country—the Nepal Stock Exchange Limited. However, its activities are
mainly concentrated on the capital city only. Most of the investors are unaware of the role
and activities of the Nepal Stock Exchange Ltd. As a consequence, there is an acute
problem of mobilising funds for private enterprises. Even the existing private sector
covers only small and cottage industries.

At the same time, the capital market is in its early stages so it cannot smoothly absorb all
the shares floated in the market, especially when the number is large. Most of the general
public are not familiar with the transactions of the capital market. Consequently, the
shares of candidate companies cannot be floated in the market; rather interested strategic
investors have to be sought.

The empirical evidence also confirmed that the lack of developed capital market is a
major problem faced in Nepal. Though only 3% of the respondents gave this reason first
priority as a major cause, 5% gave second and 13% gave third priority, which identifies it
as one of the major impediments to privatisation.

B. Lack of Investors (Shortage of Capital)

It is argued that privatisation cannot be carried out because nationals lack the capital to
participate effectively and therefore foreign or minority domination would be inevitable
(Savas, 2000:304). There is dearth of genuine investors in Nepal. In order to privatise
some of the public enterprises, in the past the government has published notices several
times inviting the submission of proposals but, in some cases, only one or two proposals
have been submitted. On the one hand, this may be due to a scarcity of investors,
particularly big investors, and on the other hand, most of the investors are involved in
easy money-making, such as the trading of foreign goods, which brings the investors a
higher profit margin (MoF, 1999:55). We have a very low foreign investment in the
industrial sector. In the fiscal year 2002/2003 a total of 71 joint venture industries were approved, with a total project cost of Rs. 4.88 billion. In the fiscal year 2003/2004, 78 such industries with a total project cost of Rs. 4.32 billion were approved (economic survey 2003/2004, MoF). There were FDI in the industrial sector, but none of them were attracted to invest in the privatisation process. They were interested to invest in the new industries rather than to buy old PEs through privatisation. The following box presents an instance of how difficult it is to attract investors in Nepal, especially in privatisation:

**Box 6: HTF privatisation receives cold response**

The government’s decision to privatise Hetauda Textile Factory (HTF) has once again suffered a severe blow. According to officials of privatisation cell of the Ministry of Finance, as in the past the response was cold from industrialists. "Only one candidate has submitted the bid proposal," said the official. The deadline for submission of proposal expired on Thursday.

The government has already issued such tender calls for two consecutive times in the past and had to drop the idea of privatising following similar responses from buyers.

Established over 25 years ago with investment amounting to over Rs 200 million with technical and financial assistance from the government of China, the textile factory was one of the most successful state-owned ventures until a decade ago. However, the factory started to face financial turmoil in the post democratic era mainly due to financial irregularities and heavy politicization among the trade union.

The government ultimately took the decision of privatising the industry after laying off all its employees in February, 2001. Subsequently, it closed down the industry and released Rs 250 million to clear the salaries and allowances of over 1,100 employees.

(Source: The Kathmandu Post January 21, 2005)

Likewise, the private sector prefers to invest their money in less risky and high profit (unproductive) sectors, e.g. collection of gold and silver, purchase of land and building, and so on. Very few investors have shown interest in investing in public enterprises (K. C., 1999: 231-32). As a result, by investing in the privatisation of public enterprises, they do not want to bear relatively more risk, put more effort and get lower return. Moreover, some of the investors want to invest in the industries but they lack the essential know-how. As a result, they do not dare to invest, and if they do, they fail (MoF, 1999:55). Some of the respondents (about 3%) ranked this problem as one of the main impediments to privatisation in Nepal.
C. Privatisation Fund

As Simoneti and Böhm (1999) argued, effective corporate governance is the key to the efficiency and restructuring of newly privatised enterprises in transitional economies in Central and Eastern Europe. Privatisation funds are intended to provide a corporate governance solution to the problem of widely dispersed ownership in enterprises after mass privatisation. They have emerged as the major external institutional shareholders—the ‘true’ owners of the enterprises (p.163). However, in Nepal’s case it is not widely expected, as the writers explained, since the business environment and the economy is different from the transition economies; here we want to show that the allocating fund for the implementation is so much less that a smooth implementation is not expected to occur.

Hence, the privatisation fund is another source of criticism. According to the prevailing law, all the money received by the government should be deposited in the government’s regular account. But the sales proceeds of public enterprises are deposited in a deposit account. The explanation of this is that there are several expenditures during the privatisation process for which the funds can’t be immediately available from the regular government account. So these expenditures are borne from this account. This arrangement has made the privatisation process relatively faster and flexible, but the Auditor General’s Office has shown grave concern about it (MoF, 1999:59).

In the implementation of any policy, if not only the privatisation policy, there should be a proper means of resource allocation. The above description shows that there is no proper resource allocation for the smooth implementation of the privatisation policy in Nepal. The Privatisation Cell, which is working as a secretariat of the privatisation committee, has not been able to bear the expenses in a simple and easy way, as there is no separate fund allocated for implementing the privatisation policy. The cell has to rely on the regular budget, which is not enough, as such a case is normal in other government organisations, due to the limited financial resources in the country. However, our respondents believe that this is not a vital impediment to the smooth implementation of the policy, as there is a regular budget allocation. Only about 3% of respondents gave
first priority to this reason, which they considered to be one of the major impediments to privatisation in Nepal.

6.1.3 Environmental and Operational Barriers

Several surveys in the United States enquired about the principal operational barriers to privatisation and found that there were three major operational barriers to privatisation, namely labour issues (resistance), the fear of a loss of control, and politics (Savas, 2000:284). In Nepal’s case, we have also found such barriers during the implementation process, as well as finding that the privatisation has also been obstructed by a set of adverse ‘environmental’ conditions in the Nepalese economy. These environmental and operational barriers existing in the Nepalese case include employee-related problems, bad conditions of PEs, a lack of transparency and delaying problems, which are discussed here in brief.

A. Employee-Related Problems

During the process of privatisation, employees/labourers are usually dissatisfied with privatisation. In most of the enterprises, labour resistance was one of the major problems which caused privatisation delays. As I have discussed above, there is no consensus among the different segments of society, hence employee-related issues are vital. In spite of ‘no redundancy’ provisions, voluntary retirement schemes and five percent share distribution to the employees at a 25% discount rate, the government has not been able to maintain effective communication with employees and labour unions in the privatisation program. This is evidenced by the ensuing labour strikes and lockouts at the time of privatisation in all the privatised units (CRPS, 1995:42). Thus, in the process of privatisation employees’/labourers’ resistance was one of the major problems.

After privatising some PEs, many problems have arisen; they are psychological and status-related, discipline-related and facilities-related. The top management complains about the absence of discipline among labourers and employees, their laziness, their aggressive temperaments and their political inclinations. At the same time, the labourers complain about the rude behaviour of the management and the few facilities provided.
They also complain that the management does not comply with the purchase and sales agreements. Consequently, they have to pressure the management, sometimes through demonstrations and even calling strikes, to fulfil those demands that have been provisioned in the agreement. The management hires new staff on daily wages instead of making the existing staff permanent, because daily-wage staff are very easy to handle and are ready to work on a piece-rate basis, which is very cheap. Furthermore, they do not demand that management comply with the provisions of the existing laws (MoF, 1999:53-54). The empirical evidence also confirmed that labour-related problems are one of the major impediments to privatisation in Nepal, as there has always been a contradictory interest between the government/management and workers. About 3% of respondents rated this as a major problem; however about 10% placed it second and 8% rated it third. Hence, it is identified as one of the barriers to privatisation in Nepal.

B. Bad Conditions of Public Enterprises

Most public enterprises are operated in very bad conditions. There is no timely repair or maintenance of plants and equipment. Work culture has collapsed in these enterprises. All employees are involved in politics directly or indirectly. They are always very demanding, which makes the administration of these employees a very difficult task.

Sufficient studies have not been carried out before establishing these enterprises. The most important thing is that these enterprises were established in a closed economy. They were enjoying the protection and monopoly of the market. Now the environment has changed and the economy is open. In this new economic environment there is less protection, subsidy and monopoly of the market. As a consequence, some of these enterprises have to face competition in the market. Hence, some of these enterprises are no longer economically viable and the rest of them are also very difficult to rehabilitate. They require big additional investments, better quality of management and a great deal of patience. As a result, the private sector hesitates to bid for these enterprises. Even if it does bid, it has several terms and conditions and offers a very low price (MoF, 1999:56). The following box shows the financial conditions of the PEs, which of course creates a problem for privatisation, as most are not economically viable.
Some of our respondents (about 2%) identified this as one of the problems of privatisation in Nepal, as it is difficult to have competition in the bidding process if only a few, if not none, show an interest to take part.

### Box 7: Annual Report of Public Enterprises

PEs incur losses of Rs 5.9b

The 38 state owned enterprises of the country jointly incurred an operational loss of Rs 5.92 billion during this fiscal year, which is over 18 percent of the capital expenditure earmarked for last fiscal year. The operational loss of these enterprises during the last fiscal year had stood at Rs 4.85 billion.

According to the annual report on the status and performance of public enterprises (PE) released today by Ministry of Finance, equity investment and loan investment of the government on these enterprises has reached Rs 59.04 billion and Rs 51.77 billion respectively. However, the net return of investments from these enterprises, during this period, was very low. The report states that the government had received Rs 1.52 billion as dividends from these 38 public enterprises - a return of just 2.58 percent on total equity investment.

The government received a dividend of Rs 1.5 billion from Nepal Telecom and another Rs 3.6 million, Rs 3 million, Rs 1.1 million and Rs 1 million from Industrial Area Management Limited, Janakpur Cigarette Factory, National Productivity and Financial Development Center and National Trading Limited, respectively. The government had received Rs 874.3 million as dividend from these enterprises during the last fiscal year.

The report states that apart from three enterprises under public utility sector, which had generated a profit of Rs 2.04 billion, all other sectors had incurred losses during the review period.

(Source: The Kathmandu Post July 16, 2005)

### C. Lack of Transparency

Privatisation policy is concerned with many groups, sections and organisations, whose support and cooperation are essential for the successful implementation of the policy. Transparency in policies and procedures is one of the most important pre-requisites in this regard. However, in the Nepalese context, it is said that there is a lack of transparency, and consequently, this is seen as a major problem in the privatisation process, particularly in the valuation of assets, bidding procedures and selection criteria for evaluating bids, disclosure of purchase price, method of selection of a successful bidder, monitoring and supervision of privatised units, and so forth (K. C., 1999: 233).

After the enactment of the Privatisation Act in 1994, most of the procedures are required
to be published and most of the criteria are fixed, so there should be transparency, but something still needs to be done by the government to address this criticism. About 9% of the respondents believed that this is one of the most important factors affecting privatisation in Nepal, which overall constituted the third most important impediment to privatisation in Nepal from the stakeholders’ point of view (as seen in the table: 6.1.1).

**D. Delaying Problem**

In the present context, the privatisation process has become very lengthy and time-consuming. From the moment privatisation was initiated, from the top management to the lowest level employees, all began to conduct undesirable activities in the respective enterprises. Strikes and demonstrations have become standard in the enterprises; the misuse of machines, plants, equipment, other property and the company’s funds is also considered normal. As a result, the condition of the company deteriorates day by day. Eventually, by the time the bid notice for the privatisation of the company is published, the condition of the company is so bad that most of the potential bidders refrain from bidding. Those bidders that do submit a bid offer such a low price that the government finds it difficult to accept the low proposals. A prominent reason for such an unfortunate situation is the unnecessary delaying of the privatisation process (MoF, 1999:57). Though the reason of ‘delaying problem in the process’ has been ranked tenth by the respondents among the eleven, it has nevertheless constituted a serious setback attracting lucrative proposals in the bidding process.

**6.1.4 Formation of a Privatisation Committee**

The formation of a privatisation committee is another source of problems. According to the Privatisation Act, the government has to nominate two members of the House of Representatives for this committee. In order to promote a consensus among the political parties, the government usually nominates one member from the opposition party. Since political parties differ in their view regarding privatisation, some members of the committee try to avoid taking a decision or prefer to delay the process. Moreover, they do not accept the responsibility for the democratic decision process. This was one of the
major reasons why the privatisation of Himal Cement Company and Nepal Tea Development Company took an unnecessarily long time (MoF, 1999:57).

On the other hand, it has been criticised that there is no labour representative in the privatisation committee, and no trade union representative, and there is no involvement of a chief of the enterprise, and so forth, which would surely help them to reach a consensus on the privatisation process. Excluding those representatives may have a negative impact on reaching consensus among the different segments of society. Furthermore, there may be misunderstandings of the actual situation of the enterprise that is under consideration of privatisation (which is also in the pipeline of privatisation).

About 3% of respondents considered that the formation of a privatisation committee is also a barrier which should be taken into consideration to improve the pace of privatisation. They considered that the committee should be more representative than its present form, as there is no trade union representation, no labour representation, and so on. It is believed that these representatives must be included in the formation of a privatisation committee, which would be a positive step in reaching a consensus for privatisation in Nepal.

6.1.5 Buck Passing

The Ministry of Finance identified another major practical problem, which is that the privatisation issue has become very sensitive to idle talk. Everybody suspects malpractice in the privatisation deal, even without evidence. Decisions taken with good intentions are also misinterpreted and questions are raised in forums without investigating the facts. The Commission for Investigation of Abuse of Authority and other such agencies start probing even for small mistakes, and bureaucrats face serious moral, psychological, physical and carrier-related impacts and no one speaks up in their defence. As a consequence, the concerned bureaucrats have started to avoid risks. As the functions and responsibilities of the different levels of bureaucrats are not defined clearly, the bureaucrats can conveniently avoid decision making. Even small decisions that could be taken at a bureaucratic level are unnecessarily passed on to the minister, to the
privatisation committee and/or to the cabinet thus delaying the process and creating a negative environment (MoF, 1999:60). Hence, the problem of governance (bad governance) is another major reason that the implementation of privatisation encountered problems.

6.2 The Major Problems of Privatised Enterprises

At the time of the interview, the respondents were also asked about the major problems of privatised enterprises. In total, 222 respondents were interviewed and were asked to express their opinions on this matter. The following table summarises the results as expressed by the different strategic groups (respondents):

<table>
<thead>
<tr>
<th>Table 6.2.1: The Major Problems of Privatised Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy makers and academicians</td>
</tr>
<tr>
<td>Freq.</td>
</tr>
<tr>
<td>Weak management</td>
</tr>
<tr>
<td>Lack of entrepreneurship in the private sector</td>
</tr>
<tr>
<td>Lack of conducive environment for the operation of the enterprises</td>
</tr>
<tr>
<td>Lack of adequate cooperation from the government</td>
</tr>
<tr>
<td>Lack of funding for expansion</td>
</tr>
<tr>
<td>Lack of market</td>
</tr>
<tr>
<td>Frequent protest of labourers</td>
</tr>
<tr>
<td>Unfavourable export and import policy for the enterprises</td>
</tr>
<tr>
<td>Lack of trained manpower</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

(Source: Sub-Sample one, two and three of the Field Survey 2003/2004)

The majority of the respondents (17% for each) said that weak management and lack of entrepreneurship in the private sector are the two most prominent problems faced by privatised enterprises in Nepal. A lack of a conducive environment for the operation of the enterprises, lack of adequate cooperation from the government and lack of funding for
expansion are three other major problems faced by privatised enterprises in Nepal, as identified by our respondents (15%, 14% and 14% respectively). Similarly, other problems, which are deemed less important as identified by our respondents, are a lack of market, frequent protests by labourers, unfavourable export and import policies of the government for the enterprises, and lack of trained manpower (9%, 6%, 5% and 3% respectively). Lack of protection and supportive policy of the government and lack of cooperation among the government, management and employees were other major problems that key informants added to the list of problems. Some others pointed out that the lack of innovation/improvement in terms of efficiency, technological development, market exploration and competition were also problems. Similarly, some other key informants cited the dominance of limited industrialists in policies, difficult banking procedures, overstaffing and the dominance of Indian products in the Nepalese market as the problems.

The respondents were also asked how those problems that they have pointed out could be solved; the following table presents their responses:

Table 6.2.2: How the Problems of Privatised Enterprises could be solved?

<table>
<thead>
<tr>
<th>Problem Description</th>
<th>Policy makers and academicians</th>
<th>Employees of the privatised enterprises</th>
<th>Trade Union Representatives</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq.</td>
<td>%</td>
<td>Freq.</td>
<td>%</td>
</tr>
<tr>
<td>Sound government policies and programs</td>
<td>54</td>
<td>40</td>
<td>18</td>
<td>24</td>
</tr>
<tr>
<td>Govt. should come up with positive attitude</td>
<td>29</td>
<td>22</td>
<td>24</td>
<td>32</td>
</tr>
<tr>
<td>Strong monitoring and evaluation system</td>
<td>21</td>
<td>16</td>
<td>16</td>
<td>22</td>
</tr>
<tr>
<td>Creating friendly environment for the operation of the enterprises</td>
<td>17</td>
<td>13</td>
<td>13</td>
<td>18</td>
</tr>
<tr>
<td>Availability of funds at reasonable interest rate</td>
<td>10</td>
<td>7</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Freedom of choosing employees</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>134</td>
<td>100</td>
<td>74</td>
<td>100</td>
</tr>
</tbody>
</table>

(Source: Sub-Sample one, two and three of the Field Survey 2003/2004)
The majority of the respondents stated that the government should come up with sound policies and programs to facilitate the privatisation program (61% respondents made this a priority). It shows that the respondents looked to the government to play a positive role in solving the problems that Nepalese privatised enterprises have encountered. The second largest majority of the respondents (18%) identified that the monitoring and evaluation system should be strong and the government should closely monitor privatised enterprises. Some (14%) stressed that the overall environment should be business friendly to enable the smooth operation of privatised enterprises, by which they mean that the law-and-order situation of the country directly affects the industry sector. Only a few (5%) thought that the funds for the expansion of enterprises should available at reasonable interest rates, while very few (2%) viewed that freedom to choose the employees of the enterprises would help to solve the problems that privatised enterprises face.

During the interview, most of the key respondents argued that the monitoring and evaluation systems after privatisation have been very weak, so the impact of privatisation could not be gauged, as nobody knows what goes on in the company after privatisation. As in other economic policies, the government should regularly monitor and evaluate the privatisation policy. However, in Nepal there is virtually an absence of monitoring systems in terms of price regulation, employment conditions, output and quality levels, and efficiency. The monitoring process of the privatised units has so far been concentrated on the payment of the amount owed by the private sector. It has also been observed that only two privatised units have fulfilled their privatisation debt obligations to the government. It is, indeed, very difficult to conceive how the government discharges its monitoring and evaluation responsibilities when it often fails to collect its due from the buyers (K. C., 1999:233).

In all the privatised enterprises, it was a common complaint from all sides, whether the investor, employee or the local resident, that the government never came back after privatisation. They all want the government to cooperate and monitor the initial functioning of the privatised enterprises so that the transaction can be smooth and will
succeed in the long run. Employees complain that the government is negligent towards the privatised enterprises. The investors criticise that the government has never made any supervision programs to evaluate the conditions of the privatised companies and the workers working there. The investors frequently raise the issue that the government considered it to be its ultimate responsibility to transfer the company after concluding the process of privatisation. But the investors disagree with that attitude and action and demand extensive cooperation from the government in making available soft loans, solving legal, policy-level and other practical problems of the privatised companies, and so on (MoF, 1999:57-58). According to the investors, the ultimate responsibility of the government is to see the privatised company being run successfully and contribute to the national economic development, and not just to hand over the ownership of a public enterprise to the private sector and then forget it.

6.3 Suggested Arguments (What could be done to enable smooth Privatisation?)

The previous sub-section of this chapter has outlined a series of problems encountered in the process of privatisation in Nepal, as well as the problems encountered by the privatised enterprises. In this sub-section, I will discuss the suggested measures that may be appropriate to solve the problems, as well as being helpful for improvements in future privatisations. These suggestions are based on the information collected during the process of interviewing and formal or informal discussions with the stakeholders, especially policy makers, academicians, employees of the privatised enterprises and private sector managers and trade union leaders. The suggestions would be helpful in the context of the Nepalese economy and political environment, which may be different from other contexts of policy reform. Hence, the sub-section is fully dependent on the opinions of the different strategic groups.
Box 8: Six Objections to Privatisation and How to Address Them

1. “We can’t throw public sector workers into the street. It’s wrong and they won’t stand for it.
2. “Privatisation is just another wax for powerful politicians and businessmen to scratch each other’s backs, and get rich at the expense of the people”.
3. “Our citizens won’t accept our handing over precious national assets to foreign (or local) fat cats”.
4. “Our local private sector is too weak. Without state enterprises, our economy will grind to a halt”.
5. “All that privatisation will do is replace a public monopoly with a private monopoly”.
6. “Why put ourselves through this trauma? Let’s just manage our state enterprises better”.


6.3.1 Issues/Factors to be Considered When Privatising PEs in the Future

The stakeholders were asked to point out important factors to be considered when implementing the privatisation policy in Nepal. The following table shows the opinions expressed by our respondents:

![Table 6.3.1: Issues/Factors to be Considered While Privatising Public Enterprises](image)

The majority of the respondents (36%, 24% and 16%) expressed that the most important three factors are the proper valuation of assets/property of the enterprises, national interest and transparent decisions while implementing the privatisation policy. This
argument has been expressed by political parties also\textsuperscript{24}. The main differences were regarding the process of privatisation, specifically the valuation process. The respondents expressed their concerns over this issue and during the interview said that the government should hire more technical manpower and evaluate the property in depth so that there was no question of fraud or wrongdoing on the property, particularly in the enterprise being sold. The government should be selective and implement the policy, taking full consideration of national interest. Decision-making processes should be transparent, especially while evaluating the property and evaluating the bids. The privatisation process should be initiated in a transparent manner, i.e. using appropriate media for the pros and cons of the policy to build the consensus, conducting seminars and workshops, interaction program for creating awareness regarding the policy process and procedures that have been taken, etc. However, only the third strategic group (trade union representatives) has given first priority to the welfare of employees as an important factor to be considered. This was due to the interests of the group, as they represent the labourers. The other major factors that should be taken into account while implementing the privatisation policy are the technical capability of the bidder (7%) and the welfare of employees (7%). The three least important factors are reducing the liability of the government (5%), financial status of the bidder (3%) and revenue generation (2%).

Most of the key respondents suggested that the government must be honest and fully committed, with a vision to promote economic development, restructuring the enterprises and consulting all the stakeholders prior to privatisation. They also felt that property of the SOEs should be properly evaluated, and that a technically and financially sound party/bidder should be selected. Similarly, some of the respondents stressed the need for reforming all the economic policies of the government so that a favourable environment could be created and a mechanism developed to increase the efficiency of the enterprises in order to facilitate the growth of domestic enterprises.

\textsuperscript{24} See the opinion of the political parties in Chapter Four where the main differences were on the valuation process.
6.3.2 Types of Public Enterprises to be Privatised

I attempted to ascertain what types of enterprises stakeholders wanted to privatise on a priority basis; the following table reveals the results:

**Table 6.3.2: Types of Public Enterprises to be Privatised**

<table>
<thead>
<tr>
<th></th>
<th>Policy makers and academicians</th>
<th>Employees of the privatised enterprises</th>
<th>Trade Union Representatives</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq.</td>
<td>Percent</td>
<td>Freq.</td>
<td>Percent</td>
</tr>
<tr>
<td>For which private sector is capable</td>
<td>62</td>
<td>46</td>
<td>33</td>
<td>45</td>
</tr>
<tr>
<td>Running at a loss</td>
<td>34</td>
<td>25</td>
<td>22</td>
<td>30</td>
</tr>
<tr>
<td>Mismanaged enterprises</td>
<td>25</td>
<td>19</td>
<td>17</td>
<td>23</td>
</tr>
<tr>
<td>Enterprises susceptible to political interference</td>
<td>8</td>
<td>6</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Running at a profit</td>
<td>5</td>
<td>4</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>134</td>
<td>100</td>
<td>74</td>
<td>100</td>
</tr>
</tbody>
</table>

(Source: Sub-Sample one, two and three of the Field Survey 2003/2004)

The majority of the respondents (45%) expressed that the type of enterprises that should be privatised are whichever ones the private sector is capable of operating; specifically, most of them said that the trading sector enterprises, financial sector enterprises and some industrial sector enterprises could be privatised, as the private sector is capable of running those. Similarly, they expressed that the service sector and social sector should remain in the hands of the government until the private sector is fully developed. However, the trade union representatives gave first priority to the enterprises running at a loss; 28% of respondents believed that loss-making enterprises should be privatised first, so that the government could be relieved from its huge investment in these enterprises. However, the core of economic theory does not support this opinion, as the private sector would not be willing to take over such enterprises. Mismanaged enterprises (20%) and enterprises susceptible to political interference (4%) should be privatised first before privatising profit-making (3%) enterprises. Hence, profit-making enterprises should be privatised only after loss-making enterprises and mismanaged enterprises; this viewpoint is inherently flawed, and I believe that in Nepal’s case, the main reason that privatisation has failed is because we started privatising loss-making enterprises first.
6.3.3 Whether the Performance of PEs could be Improved without Privatisation

Respondents were asked to state whether the performance of PEs could be improved without privatisation; the majority said no. The following table shows the results:

Table 6.3.3: Whether the Performance of Public Enterprises could be Improved without Privatisation

<table>
<thead>
<tr>
<th></th>
<th>Policy makers and Academicians</th>
<th>Trade Union Representatives</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq.</td>
<td>Percent</td>
<td>Freq.</td>
</tr>
<tr>
<td>Yes</td>
<td>59</td>
<td>44</td>
<td>10</td>
</tr>
<tr>
<td>No</td>
<td>75</td>
<td>56</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>134</td>
<td>100</td>
<td>12</td>
</tr>
</tbody>
</table>

(Source: Sub-Sample one and three of the Field Survey 2003/2004)

Only 47% of total respondents (majority of the sub-group—trade union representatives—83%) said that without privatisation, the performance of PEs could be improved. They gave examples of a performance contract (though this is almost failing in Nepal due to the ongoing conflict, which is shown in the following box), autonomous management, less political interference, clarity of objectives—conducting in a business-like manner (profit motive) or social manner (service motive irrespective of profit), and so on. However, the majority of the policy makers and academicians (56%) were in favour of privatisation. Hence, the majority of the respondents (53%) stated that privatisation is important to improve the performance of PEs, which again paints a bleak picture, since in reality most of the privatised enterprises are hardly running (some of them have already closed down and some may be closed at any time). The following box indicates that one of the alternatives of privatisation has already almost failed in Nepal:
Box 9: Performance contract suffers setback

The government's plan to extend performance contract in additional debt-ridden state owned enterprises (SOEs) has suffered a severe blow as the heads of the most of the enterprises are expressing reluctance to sign the contract.

"The risk imposed by fragile security system and rigid labour law of the country has become so high that the most of the managing directors of SOEs nowadays do not feel comfortable in signing the Memorandum of Understanding (MoU) with the government," said a high ranking official of Ministry of Finance. Talking to the Post he said that the SOEs chiefs fear that they would not be able to deliver the required outputs expected from them due to growing Maoist activities and possible impulsive actions of workers. Concerned officials at the ministry said that the government had planned to sign performance contract for Janakpur Cigarette Factory, Nepal Electricity Authority, Herbs Production and Processing Centre and National Productivity and Economic Development Centre, among others, in the latest phase. "However due to unavoidable circumstances we have not been able to extend the contracts to those," states the source. According to him, frequent blockades and bandas called by Maoists, which has prevented SOEs from delivering goods to the market, and demands of the labour unions, regarding hike in salaries and provision of other benefits, could be identified as reasons which has induced fear among them.

"As one of the major objectives of the contract is to enhance productivity of the enterprise by making optimum utilization of available resources and capacity, the heads of the SOEs deem that they would not be able to produce desired results amidst such situation," he said. "And they probably will never gain the confidence to sign the contract unless political stability is maintained and required amendments are made in the labour laws of the country," he added.

The government had initiated the process of performance contract with inefficient SOEs in 2003 by signing memorandum of understanding (MoU) with Udaypur Cement Industry, Hetauda Cement Industry, Employees Provident Fund, Agriculture Development Bank and Janak Education Materials.

The measure was considered a milestone in reform process initiated by the government as it provided entrepreneurial autonomy to the General Managers (GM) to undertake any decision regarding procurement and finance and made them accountable of the decisions they had taken. This was unlike in the past when the heads of the SOEs had to endorse each and every decision from the Board of Directors. Furthermore the contracts had also identified duties of the Board, which were limited to formulation of policies, implementation of directives and orders and reviewing corporate plans and budgets. While evaluation of the performance of each SOE were made on the basis of scores it obtained on stipulated indicators such as capacity utilization, return on investment, sales, turnover, employees' productivity and net profit.

(Source: THE KATHMANDU POST, April 19, 2005)

6.3.4 Modality of Privatisation which could be Appropriate and Effective in the Nepalese Context

When the respondents were asked about the methods/modalities to be followed for effective privatisation, most of the respondents suggested that share sale is the best possible mode for the trading sector (28%) and financial sector (32%); assets sale for the manufacturing sector (29%); management contract (21%) for social sector; and co-operatisation for the public utility sector (26%) and social sector (38%). Some key
respondents, however, emphasised broad-based public participation and public-private partnerships, and some favoured active participation of workers in management. The following table, however, shows the overall priority given by the stakeholders for choosing the modality for the Nepalese privatisation program:

Table 6.3.4: Modality of Privatisation suitable for Nepal

<table>
<thead>
<tr>
<th>Modality</th>
<th>Policy makers and academicians</th>
<th>Employees of the privatised enterprises</th>
<th>Trade Union Representatives</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq.</td>
<td>Percent</td>
<td>Freq.</td>
<td>Percent</td>
</tr>
<tr>
<td>Share sale</td>
<td>35</td>
<td>28</td>
<td>31</td>
<td>44</td>
</tr>
<tr>
<td>Assets and business sale</td>
<td>40</td>
<td>32</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Co-operatisation</td>
<td>7</td>
<td>6</td>
<td>16</td>
<td>22</td>
</tr>
<tr>
<td>Management contract</td>
<td>12</td>
<td>10</td>
<td>12</td>
<td>17</td>
</tr>
<tr>
<td>Lease</td>
<td>10</td>
<td>8</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Mgmt/employee buyout</td>
<td>12</td>
<td>10</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Reorganisation</td>
<td>7</td>
<td>6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>123</td>
<td>100</td>
<td>71</td>
<td>100</td>
</tr>
</tbody>
</table>

(Source: Sub-Sample one, two and three of the Field Survey 2003/2004)

The table shows that the widely chosen model for Nepal is the ‘share sale’ method, which was selected by 34% of respondents. However, sub-sample one (policy makers and academicians) chose the ‘assets and business sale’ method as a first priority, which shows the varying interests of different strategic groups based on the resources at hand. Employees and trade union representatives chose ‘share sale’ as a suitable modality. Similarly, ‘assets and business sale’ (23%), ‘co-operatisation’ (12%), ‘management contract’ (12%) and ‘lease’ (9%) are other methods that our respondents identified. Only a few, however, chooses ‘management/employee buy-out’ (7%) and ‘reorganisation’ (3%) of the enterprises. Similarly, the key respondents who chose ‘assets and business sale’, stressed that it should be done by ensuring the workers’ participation in management. Some other key respondents thought that ‘management contract’ would be the best method of privatisation for Nepal. A few respondents suggested that ‘lease’ would be a good alternative.
6.3.5 The Pace of the Privatisation Process in Nepal

I have attempted to identify whether the pace of privatisation should be rapid or made gradual with due assessment; the results are as follows:

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rapid</td>
<td>17</td>
</tr>
<tr>
<td>Gradual, after due assessment</td>
<td>106</td>
</tr>
<tr>
<td>No Privatisation</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>132</td>
</tr>
</tbody>
</table>

(Source: Sub-Sample one of the Field Survey 2003/2004)

The table shows that only 13% of respondents believed that the process should be rapid in order to boost privatisation, while 80% expressed that it should be gradual only after undergoing due assessment. They were of the opinion that in a country like Nepal, where the role of the private sector in development is at an early stage, the privatisation process should be implemented gradually using the ‘learning by doing’ principle. Abu Shair (1997:124) has rightly pointed out that “if privatisation within the context of developing countries is to be sustainable and people-centred, it has to be a gradual process, relatively crisis-free, untroubled and unforced, marked by the fashion of collective participation from below and individual participation in the market place” (Shair, Abu and Osma J A Rahim, 1997 cf. KC, 1999:235). Only 7% of respondents, however, were completely against privatisation, saying they preferred no privatisation at all. Almost all (95%) key respondents expressed that the pace of privatisation should be gradual after conducting due assessment of the program and should correct such allegations as the process is not transparent, valuation of the enterprises is not scientific and evaluation of bids is not properly disseminated to the public, etc.

6.3.6 The Necessary Pre-Requisites for the Success of Privatisation in Nepal

“Policies are continuously transferred by implementing actions that simultaneously alter resources and objectives…. It is not policy design but redesign that goes on most of the time. Who is to say, then, whether implementation consists of altering objectives to correspond with available resources or of mobilising new resources to accomplish old
objectives? …Implementation is evolution. …When we act to implement a policy, we change it” (Majone and Wildavsky, 1978 cf. Mazmanian and Sabatier, 1983:8). The views expressed here by the writers clearly state that the implementation of any policy is a dynamic process that can be modified—redesigned in due course for most effective implementation. The implementation of the Nepalese privatisation policy has encountered so many problems that have already been discussed in the previous sub-section. Here, attempts have been made to find out what pre-requisites are necessary for the effective implementation of the privatisation policy. The respondents were asked to express their opinion of what they thought were the most important factors to be considered while implementing the policy—how privatisation could be successful in Nepal. The following table shows their responses:

**Table 6.3.6: The Necessary Pre-Requisites for the Success of Privatisation in Nepal**

<table>
<thead>
<tr>
<th>Pre-requisite</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Detailed studies of the PEs</td>
<td>57</td>
<td>43</td>
</tr>
<tr>
<td>Political consensus</td>
<td>34</td>
<td>25</td>
</tr>
<tr>
<td>Transparency</td>
<td>20</td>
<td>15</td>
</tr>
<tr>
<td>Discipline in financial matters</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Improvement of the valuation process</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Improvement of the implementation process</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Competency in civil service /efficient bureaucracy to implement the policy</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>134</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

(Source: Sub-Sample one of the Field Survey 2003/2004)

The table shows that the majority of the respondents (43%) expressed that the detailed study of PEs in the pipeline of privatisation is a very important factor for the success of privatisation in Nepal. During the interview the respondents expressed that the overall diagnosis of the enterprise—an actual picture showing pros and cons—could help the prospective buyer to consider the bidding process, which ultimately helps the overall implementation process. The other most important prerequisites are political consensus (25%) and transparency (15%) in the whole process, which enables the success of privatisation in Nepal. Regarding the process of privatisation, most of the key respondents (about 70%) expressed that the process was quite transparent and that
information regarding privatisation was made publicly available; although there is a room for improvement, to a great extent the process was appropriate. However, some respondents showed their dissatisfaction and critically commented that transparency has been ignored, and the information relating to the selection of bidders and valuation of the enterprises has not been publicly shared with the stakeholders. Some others expressed that discipline in financial matters of the PEs (5%), improvements in the valuation process of PEs (4%), and improvements in the implementation process itself (4%) are other pre-requisites. Similarly, 4% of respondents stated that the civil service (bureaucracy), the implementing body, needed to be competent to ensure the success of privatisation in Nepal. They openly opined that until the implementing agency could be efficient and effective, any sound policy could not achieve its objectives, in the absence of effective implementation. Hence, their focus was on the institutional arrangement, which comprises the legal framework as well as the manpower arrangement.

6.4 Summary

In this chapter I have discussed the problems faced in the process of implementation of the privatisation policy, the problems faced by privatised enterprises and some suggested improvements that should be taken into consideration, which could be helpful for implementing successful privatisation in Nepal.

The problems encountered during the process of privatisation in Nepal are identified as political instability, which is evident from the fact that there have been 15 governments during the 15-year period since the political change in 1990; a lack of political commitment/consensus; a lack of developed capital markets (weak capital markets); a lack of investors (shortage of capital); a lack of adequate funding for a smooth privatisation; employee-related problems such as protests, strikes, etc; the poor conditions of public enterprises, which de-motivate the investors to take over them; a lack of transparency in the process itself; delaying of the process and the formation of a privatisation committee. The implementation of a privatisation policy in Nepal has been
greatly affected by all of these constraints, which have impeded the achievement of the desired goals of the policy.

Similarly, we have tried to determine the problems that have been faced by the privatised enterprises after they were transferred to private ownership, and found that weak management, lack of entrepreneurship in the private sector, lack of a conducive environment for the operation of the enterprises, lack of adequate cooperation from the government, lack of funding for expansion, lack of market, frequent protest of labourers, etc, all contribute to the failure of privatisation. There are many problems but the government is capable if it shows a commitment to and clear vision of implementing the policy in an honest and efficient manner.

We have also explored what could be done to improve the implementation process so that the future of privatisation, which in Nepal’s case is considered inevitable, may be successful (positive). Some identified factors are the proper valuation of assets/property, consideration of national interest, transparent decision making, evaluating the technical capability of bidders, privatisation of PEs for which the private sector is capable and those enterprises who are running at losses, gradual privatisation after due assessment, choosing the modality of share sale, detailed studies of the PEs before initiating the privatisation, reaching political consensus, improvement of the valuation process, strict discipline in financial matters while privatising the enterprises, improvement of the implementation process itself, and enhancing the efficient of the bureaucracy. In this chapter we have identified that although Nepal has faced problems during the implementation process of privatisation, the situation could be improved by adopting appropriate measure and the future of privatisation may be made secure, as the government cannot run the rest of the PEs. Hence, the prospects of privatisation can be seen as positive by correcting the weaknesses that had been discovered by the privatisation implemented thus far.

The next chapter will deal with theoretical implications, a summary of the research findings, recommendations, future research and conclusions.
Chapter Seven
Implementing Privatisation Policy in Nepal: Discussion of Findings and Conclusions

7.0 Introduction

As I pointed out in the first chapter, the purpose of this study was to understand the implementation process and the impact of the privatisation policy in Nepal. In this regard, an attempt has been made to discuss the entire implementation process in general, and in particular four separate cases. I have also attempted to examine the changes brought about after the implementation of the privatisation policy and compare them with the pre-privatisation situation. This comparison enabled me to reach a conclusion regarding whether the policy was/is a viable policy option.

The aim of this chapter is to present the major findings of the study in relation to the issues mentioned in the first chapter (research questions). In the first part of this chapter, the theories used and their implications are discussed and in the second part, a summary of the research findings has been drawn from the study. Policy recommendations and future research have been discussed in the third part, and finally the conclusions.

7.1 Implementing Privatisation Policy in Nepal: How far is it Compatible with the Theories and Models Presented as an Analytical Framework?

It has often been assumed that implementation is a simple technical process of executing preconceived plans. This assumption, according to Wittrock (1986), fundamentally misconstrues the realities of implementation and inhibits the formulation of a sound theoretical basis (Adjei, 1996: 85).

As I mentioned in previous chapters, the theories of implementation and strategic group analysis and the concept of privatisation have been used for this study. In this subsection, I have tried to show how far the theories and models are compatible with the Nepalese situation and its realities. The concept of privatisation helped us to understand the subject matter. It helped us to understand what exactly it is, why it is necessary, what methods we can follow and what the characteristics of each method are. On the other
hand, the theory of implementation has provided us with a different way of understanding and analysing the process of reform, and described the perspectives of those who want to make the change and those who resist or support the change. Similarly, the strategic group theory has helped us to identify the actors/strategic groups that were influential in formulating the policy and their role in its implementation, which may be beneficial for their own benefit.

The concept of privatisation has been discussed and defined in different ways by various writers in Chapter Two. Political to economic meanings of privatisation have been discussed, yet the main concept taken from the different writers’ points of view is that it is the transfer of a function, activity, or organisation from the public to the private sector. It is a move towards the divestment of total ownership from government, the public to the private sector; it entails the conversion of enterprises formerly controlled by the government into private hands (Starr, 1989; Nelson, 1996; Adam, et al. 1992; Stiglitz, 1992; Savas, 2000; Hodge, 2000; Farazmand, 2001; Narain, 2003; Parker and Saal, 2003; Bortolotti and Siniscalco, 2004). In Nepal, ‘privatisation’ means involving the private sector in the management of an enterprise, or selling or leasing it, or an act to infuse participation by any means, either wholly or partly, of the private sector or of the employees or workers, or of all desirous groups (Article 2(b) of the Privatisation Act of 1994 of Nepal). Hence, the concept discussed in Chapter Two and that perceived by the government of Nepal are, in a broad sense, identical. Furthermore, the meanings perceived by various writers and perceived by the Nepalese government are in agreement.

The five forces that influence the promotion of privatisation are: pragmatic, economic, ideological, commercial, and populist (Savas, 2000). The effects of those forces are better government; less dependence on government; less government; more business opportunities; and better society, respectively. Hence, the five forces are quite similar to that necessity of privatisation felt by the government in Nepal in 1991. The high-level
Administrative Reform Commission (1992) recommended that the government roll back its activities that could be performed by the private sector25.

The objectives/goals of privatisation are varied, i.e. political goals such as reducing the size of the public sector, restoring or strengthening the private sector; efficiency goals such as increasing productivity and microeconomic efficiency; fiscal stabilisation goals such as maximising the proceeds of sales, reducing the future drain of subventions and capital contributions from government revenue, increasing tax revenues from higher profits and reducing public debts; and resources mobilisation goals such as promoting foreign investment in the country, and releasing limited state resources for investment in other sectors such as education and health. Similarly, other objectives could be stated as follows: reduce the government’s operating deficit, raise cash through SOE sales, generate new sources of tax revenue, deepen domestic capital markets and broaden domestic equity ownership, promote domestic investment, increase competition, increase production and operating efficiency, reduce the role of the state in the economy and reduce public sector borrowing requirement (PSBR) (Steel and Heald, 1984; Vickers and Yarrow, 1988; Stiglitz, 1992; Dobek, 1993; Lieberman, 1993; Bennett, 1997; Savas, 2000; Hodge, 2000; Narain, 2003; Bortolotti and Siniscalco, 2004; GTZ, 2004).

In Nepal’s case, the privatisation policy had three objectives: reducing the financial and administrative burden on the government; improving operational efficiency; and involving the participation of the general public and the private sector in the management of public enterprises (SCOPE, 1997:4). Similarly, according to the preamble of the Privatisation Act of 1994, the objectives of privatisation in Nepal are to increase productivity through the enhancement of efficiency of state-owned enterprises; mitigate the financial administrative burden to the government; and to usher in all-round economic development of the country by broadening the participation of the private sector in the operation of such enterprises (Preamble of the Privatisation Act of 1994). Hence, the broad objectives discussed by various writers are identical to the objectives set out by the

25 The report of the Administrative Reform Commission (1992) discussed that the government’s role should be reduced and it should involve more guidance and regulation, and for this purpose privatisation policy should be adopted.
Nepalese government. Similarly, the objectives that the writers have presented/discussed certainly contribute to understanding why the different governments have been implementing the policy in different political and economic environments.

The privatisation of PEs can be accomplished by a public offering of shares, the sale of shares to private buyers (private sale of shares), sale of government or SOE assets, the restitution of assets to former owners, and by management/employee buy-outs, lease and management contracts, reorganisation (or ‘break-up’) into component parts, or other forms of ‘self’ privatisation (Vuylsteke, 1988; UNIDO, 1994; Pirie, Madsen, 1988, cited from UNESCAP, 1999; Savas, 2000; Farazmand, 2001; Narain, 2003; Parker and Saal, 2003 and GTZ, 2004). In Nepal, four techniques have been applied so far, which are share sale, assets and business sale, lease and management contract. Share sale in Nepal corresponds with a public offering of shares as described by the writers. The implementation issues described in each of the seven methods by Vuylsteke (1988) helps to inform prior to choosing the appropriate method and the possible threat or pressure of the effective implementation. The four cases discussed in the thesis represent three methods—assets and business sale, share sale and lease. In the first (HBTF) and second (BPM) cases, the ‘assets sale’ method was applied. In these cases the procedure discussed by Vuylsteke was followed. In the third case (NFI), the ‘share sale’ method was applied and the procedure discussed by the writer on the public offering of shares was applied. Similarly, in the fourth case (BJM), the company was leased out for a five-year period. In this case, the procedures explained by the writer for leases and management contracts have been followed to some extent. The methods used in Nepal are the popular methods used in most countries.

In short, the concept of privatisation, as well as the objectives and methods discussed in the theoretical part, give us a better understanding of it and also enables us to compare the Nepalese situation with the views expressed by various writers.

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The implementation theory helps us understand the reform process with the policy-making procedure, i.e. agenda setting, decision making and implementation, and the challenges met during the process. It also helps us to identify the actors involved in the process who want to either make the change or resist the change.

Policy implementation encompasses those actions by public and private individuals (or groups) that are directed at the achievement of objectives set forth in previous policy decisions. The implementation phase does not commence until goals and objectives have been established (or identified) by prior policy decisions; it takes place only after legislation has been passed and funds committed. It may include a wide variety of actions such as issuing and enforcing directives, disbursing funds, signing contracts, collecting data, analysing problems, assigning and hiring personnel, creating organisational units, and negotiating with private citizens, business, interest groups, legislative committees, bureaucratic units, and even other countries. Implementation may be viewed as a process of interaction between the setting of goals and actions geared to achieving them. Similarly, as a process, implementation is dependent on knowing what you want to do, the availability of the required resources and the ability to control these resources to achieve the desired end (Van Meter and Van Horn, 1975; Edwards, 1980; Barrett and Fudge, 1981; Pressman and Wildavsky, 1984; Lane, 1995; Blair, 2000; Schofield, 2001; Hill, 2003; Barrett, 2004; O’Toole, 2004; Harding, 2005). Definitions of the policy implementation offered by various writers are quite relevant to understanding what implementation is. Although in the Nepalese context no clear definition of implementation has been found, the concepts discussed here are helpful in finding out whether it was similarly perceived by the actors involved in the implementation process. The empirical study shows that the concept was indeed similarly perceived by Nepalese actors. Hence, those concepts are quite clear and applicable to the Nepalese case.

There are two approaches to implementation: forward mapping and backward mapping (Elmore, 1982). Forward mapping begins at the top of the process, with as clear a statement as possible of the policy maker’s intent, and proceeds through a sequence of increasingly specific steps to define what is expected of implementers at each level.
Backward mapping shares with forward mapping the notion that policy makers have a strong interest in affecting the implementation process and the outcomes of policy decisions. Similarly, there are other approaches to implementation—top-down and bottom-up approaches (Sabatier, 1986). In four points Sabatier summarised the differences between top-down and bottom-up approaches: initial focus, identification of major actors in the process, evaluation criteria and overall focus. The features of top-down approaches to implementation and forward mapping are compatible with the implementation procedure of the Nepalese privatisation policy. For example, the government decided to implement the policy at a central level, enacted the Privatisation Act in the parliament and implemented it thereafter by involving the different actors. Hence, the approaches described in Chapter Two help us become familiar with the notion.

Several models of implementation can be found in the literature, with their various pros and cons. For the sake of analysis, we have briefly discussed some models in Chapter Two—the rationalist, linear and interactive models (Van Meter and Van Horn, 1975; Dunsire, 1990; and Grindle and Thomas, 1990, 1991). The rationalist model assumes that although the government chooses correct and appropriate policy objectives, it may fail in their implementation if the other factors have not been given due attention. Grindle and Thomas (1990, 1991) discussed two models of policy reform—linear and interactive. According to the linear model, a proposed reform gets on the agenda for government action, a decision is made on the proposal, and the new policy or institutional arrangement is implemented, either successfully or unsuccessfully. In this model, focus is due to the policy analysis and implementation is either ignored or considered to be the responsibility of another group; the managers. Hence, the implementation has been neglected in this model. But the interactive model focuses more on implementation. In this model, pressure to put reform issues on the policy agenda comes from many sources, as we have seen in our case too. Some issues receive active consideration by policy makers and the authorisation process may move through one or more stages of the bureaucracy and may have to be confirmed at some level of political decision making. There would be issues to be discussed and a policy agenda to be made.
The effects of change in policy become more visible as implementation proceeds, and there are likely to be more challenges to the original conception of the reform. The characteristics of the policy will have an important influence on the nature of the reaction or response to change. The distribution of the costs and benefits of a policy or institutional change, its technical complexity, its administrative intensity, its short- or long-term impact, and the degree to which it encourages participation determine whether the reaction or response to the initiative will occur primarily in a public or a bureaucratic arena (Grindle and Thomas, 1991:126). When we linked this to our case, we found that with the implementation of the privatisation policy, resistance comes primarily from the labourers and to some extent from the public. On the one hand, its main aim was to reduce the burden on the government and to generate revenue for the government, it tends to increase the prices of goods and services produced by the enterprises and this consequently has a direct impact on society. However, the resistance from the public in Nepal’s case was surprisingly limited; only a few people tried to block the government from implementing this policy by challenging the government decision in the Supreme Court of Nepal. From the study, it appears that the amount of explicit opposition to the adopted policy has been, to some extent, limited, as we saw in the opinion of the major political parties where we found more common ground than differences. On the other hand, the privatisation of public enterprises is directly related to the future of workers working in the enterprises. So the opposition from the employees was critical. Despite the explicit opposition from the political parties in policy content as such, the problems of implementation are more closely related to the process of implementation and other factors which are discussed in Chapter Six, for example, political instability, lack of developed capital market, lack of investors, poor conditions of public enterprises, lack of transparency, problems with delay, lack of monitoring and evaluation systems and the formation of a privatisation committee. In fact all of these problems contribute to the process of privatisation.

When we refer to the interactive model of implementation, we see that the processes described by the writers regarding issues, policy agenda and decision stages correspond
to the processes applied in the privatisation policy making in Nepal. However, in the implementation arena, resistance from the public and/or political parties was rather limited and to a greater extent came from the employees. But there were other implementation-related problems in Nepal (which are presented in Chapter Six), though such problems are not expected/mentioned in the model. Such problems arose perhaps because of the different political/social environment and/or the institutionalised cultural setting of the country.

The ten preconditions for the perfect implementation discussed by Gunn (1978, Kendal, 2002) are the most important factors to be considered while implementing a policy. Some of these are controlling external factors; adequate time and resources, based upon a valid theory of cause and effect; single implementer or agency, which need not depend on another agency; perfect communication and coordination; and perfect obedience to those in authority. In Nepal’s case, most of the criticism of the perceived failure of the privatisation policy relates to the implementation process, as discussed in Chapter Six. The failure to fulfil these pre-conditions for policy implementation leads to an implementation deficit.

Similarly, the strategic group theory discussed by Evers (Evers, 1966; 1973; 1982; Evers and Schiel, 1988) helps us to understand how strategic groups could try to gain access to the resources available through privatisation. In Nepal’s case we found that some strategic groups, such as employees of the PEs, tried to block the privatisation process as it was a threat to the security of their jobs. Similarly, trade unions also oppose the policy, as they advocate the welfare of the labourers. In contrast, most of the governments (except the left-leaning UML government, which was in power for nine months in 1997) who were in power, to a great extent, favoured the privatisation policy. Similarly the international financial institutions (which can also be deemed a strategic group in a broad sense) were in favour of privatisation. Hence, the concept of strategic group analysis helps us to recognise which groups favour and which oppose the privatisation policy, which enables us to improve the policy by taking their arguments into account.
7.2 Summary of the Research Findings

As I have mentioned earlier, this research incorporates six research questions, which are as follows:

1. What are the factors that led HMG/N to adopt the privatisation policy and what are the major processes applied to the implementation of the privatisation policy in Nepal?
2. To what extent is the present legal and institutional setting conducive to the implementation of the privatisation policy?
3. Who were/are the main influential actors/strategic groups to adopt the privatisation policy in Nepal?
4. What are the main obstacles encountered in the process of implementation of the privatisation policy in Nepal?
5. What is the impact of the privatisation policy in Nepal?
6. What lessons could be learned from the privatisation policy of Nepal (is privatisation of public enterprises essential in Nepal? If so, has it been successful)?

Based on the study carried out in the implementation process of the overall privatisation program in general and four privatised enterprises in particular, the following is a summary of the research findings. The findings are presented based on the research questions mentioned above.

7.2.1 Causes/Factors and Processes of Privatisation in Nepal

Public enterprises in Nepal have been established mainly to serve various objectives—infrastructural facilities and services, providing basic consumer and development goods, adequate supplies of essential goods, managerial support to needy enterprises. The majority of PEs were established in Nepal during the sixties and early seventies. By the end of the Seventh Plan period (1985-90), there were 63 PEs in Nepal.
The failure of state-owned enterprises, especially in developing countries, in achieving the desired goals has been the most important contributing factor for the adoption of the philosophy of privatisation. The high costs and poor performance of PEs and the modest and fleeting results of reform efforts have turned the government towards privatisation. Multilateral institutions were also at the forefront in encouraging the government to accept rationalisation of the public sector as part of the wider reforms incorporated in its program of structural adjustment. Promptings from the World Bank, USAID, UNDP, and IMF were influential in the government’s decision to divest itself of poorly performing PEs. At the same time, shifting development theory, ideologies and fiscal crises, and the emergence of a dynamic private sector have also compelled the government to embark upon the path of globalisation, liberalisation and privatisation since 1992. On the one hand, the private sector was coming of age to shoulder the responsibility of operating huge enterprises (though the empirical evidence showed that it is still at an early stage), while on the other hand, the government was unable to meet the growing challenges posed by the sustained and persistent losses of the PEs. Therefore, the government decided to privatise its PEs in a phase-based manner.

The empirical study confirmed that the privatisation of PEs in Nepal was/is necessary due to the following reasons:

- To increase the productivity of the enterprises
- To reduce financial and administrative burden on the government
- To increase the efficiency of the enterprises
- To reduce political intervention in the enterprises
- To increase government investment in the social sector
- It is necessary because of the pressure from the donor community
- To generate additional revenue for the government
- Because of the shifting preference of the government (ideology)

However, some respondents were against privatisation and argued that it is not necessary. They stated that the welfare of employees, regular supply of quality goods and services at reasonable prices, optimum use of public resources, and that privatisation promotes the
concentration of wealth and worsens socio-economic conditions. But the majority of respondents and available literature regarding privatisation in Nepal confirm that it is urgently necessary to implement the policy to save the government from these ailing enterprises.

The government issued a policy paper on privatisation in 1991 and formed a privatisation committee. The Privatisation Committee and the Privatisation Cell in the Ministry of Finance are responsible for the implementation of the privatisation policy.

The privatisation policy process also consists of three sets of activities, which are essential to forming a policy according to Grindle and Thomas (1991): agenda setting, decision making and implementation. The study indicated that the privatisation policy to a large extent has the character of what Grindle and Thomas label ‘politics-as-usual’. The policy process has been dominated by professional and bureaucratic concerns in all arenas and politicians, especially in the decision-making arena. In the agenda-setting arena, Administrative Reform Commission and a series of seminars/workshops have had a key role in formulating the national policy goals. In the decision-making arena, resource allocation and administrative measures have been integrated into the national planning process through the five-year plans. And in the implementation arena, the Privatisation Committee, Privatisation Cell and finally the cabinet are responsible for carrying out the privatisation of the PEs on a case-by-case basis. Hence, many strategic groups were involved in the policy-making and implementation processes in Nepal.

The policy paper and the Privatisation Act of 1994 have set the major processes in the implementation phase. After getting the report from the technical committee, valuation and appraisal of the enterprise, selection of candidates, and determination of privatisation process, the government publishes a notice for bidding. After receiving bids from interested bidders, preliminary and high-level negotiating committees negotiate at least once with all the valid bidders. These committees discuss with all bidders and recommend to the Privatisation Committee and the committee decides upon the successful bidders and the Privatisation Cell prepares the proposal and sends it to the
cabinet for a final decision. These are the main steps for the implementation of the privatisation policy in each transaction (in each PE).

To date, a total of 24 PEs have been privatised. Of the privatised corporations until now, three corporations have been privatised by selling the assets and business, ten by selling the shares, nine by dissolution/liquidation and 1/1 by management contract and leasing out and selling the assets respectively.

7.2.2 Whether the Present Legal and Institutional Settings are Conducive for the Smooth Implementation of Privatisation Policy?

To implement the privatisation policy, there is a separate implementation unit (Privatisation Cell) operating under the Ministry of Finance in Nepal. The white paper on the privatisation policy firstly recommended the institutional arrangement, which was later included in the Privatisation Act of 1994. Now there is a high-level Privatisation Committee under the chairmanship of the Minister or State Minister for Finance. The other members of the committee include the chairman of the Finance Committee of the House of Representatives; two members of parliament nominated by the government; National Planning Commission member; secretaries of Ministry of Finance, Ministry of Law, Ministry of Labour, ministry concerned with the enterprises being privatised and president of the Federation of Nepalese Chamber of Commerce and Industry. Joint secretary of the corporation coordination and privatisation division of the Ministry of Finance is the member secretary of the committee. After the deliberation and intensive evaluation of the proposals, the committee recommends its decision to the cabinet to take a final decision on the privatisation of the particular enterprises. Hence, the main institutions responsible for privatisation are the Privatisation Committee and finally the cabinet.

The privatisation white paper was the main basis for privatisation in the initial period but since the enactment of the Privatisation Act in 1994, the act is the principal legal instrument for privatisation through which many provisions have been set out. These include the formulation of a privatisation committee; powers, functions and duties of the
committee; committee meeting and decision procedures; publication of notices for privatisation; evaluation process of enterprises; determination of privatisation process; evaluation of the proposals; agreement to be concluded for privatisation; formation of sub-committees; settlement of disputes; provisions relating to employees; liquidation of enterprises; delegation of powers for smooth privatisation in Nepal. Apart from this, the yearly budget speech of the government is also a legal basis in which the policies and programs of the government for the coming fiscal year are declared.

During the field research, respondents drawn from different strategic groups were asked whether the present legal and institutional setting is conducive for the smooth implementation of the policy. Only about 36% respondents said yes, about 39% said no and about 25% did not know or did not have any opinion. Hence, the majority of the respondents/strategic groups expressed that the present legal and institutional settings are not conducive, though the margin was not very significant. They mainly criticised the transparency and seek for the modification of legal provisions including enacting the privatisation regulations to ensure transparent and efficient implementation. However, most of the key respondents (about 30 people) expressed that the real problem of implementation was/is not due to the present legal provisions, as we already have the Privatisation Act of 1994, in which most of the issues have been enlisted including the process, but to some extent the institutional setting, as there are only a few staff in the Privatisation Cell, most of whom do not have technical knowledge of implementing the policy.

7.2.3 Main Influential Actors/Strategic Groups to Adopt the Privatisation Policy in Nepal

The study also identified the policy elite in the process of privatisation. Obviously the members of the Administrative Reform Commission 1991, and the Privatisation Committee members would be part of the privatisation policy elite. Outside the commission/committee, a wider set of actors joining the national discourse on privatisation policy would include bureaucrats, academics, researchers, consultants, journalists and representatives of international donors, who are influential for setting the
agenda for the reform initiatives. In a nutshell, the main actors for the policy reform, therefore, were policy elites including the prime minister, the Finance Minister, the Vice-Chairman of the National Planning Commission, high-ranking government officials, the members of parliament, the business community and the donor agencies. All these elites had their followers and supporters, who hoped to gain from the privatisation process. Our study shows that all these were actors/strategic groups who were influential in setting the agenda for the policy reforms.

In the decision-making arena, the privatisation committee members and bureaucrats would definitely be key players. However, the government who were in power when the legal provisions were enacted on privatisation, as well as the then–parliament, are major actors in the formulation of the Privatisation Act of 1994. Without the government’s commitment and initiation for the policy change, the privatisation policy would not have been implemented. The empirical study also confirmed that the then-government, after the political change in 1990, who was committed to implement the economic reform in Nepal, was an important actor, including the international donor community who were also encouraging, if not compelling, the government to implement the privatisation policy. Also in the implementation arena the privatisation committee members, the technical committee members and the bureaucrats are among the key players. However, the Privatisation Cell and the cabinet play a key role in the implementation arena.

7.2.4 Main Obstacles Encountered in the Process of Privatisation in Nepal

When it comes to implementation, things tend to develop in unexpected ways. Grindle and Thomas proposed that when policy decisions are not implemented, this may be due to opposition by influential groups and a lack of resources among decision makers to tackle this opposition (Askvik, 2001:21). Based on this study, it seems that the explicit opposition to the adopted policy has been, to some extent, limited, as we saw in the opinion of the major political parties, where we found that they had more common ground than differences. However, the opposition of the employees was/is crucial; at the same time opposition from the general public also existed, as we have seen through the cases filed in the Supreme Court of Nepal. Despite explicit opposition from the political
parties regarding policy content as such, the problems of implementation were more closely related to the process of implementation and other factors, such as evaluation of the enterprise, selection of bidders, political instability, political commitment/consensus, lack of developed capital market, lack of investors, poor conditions of public enterprises, lack of confidence in government transactions, lack of monitoring and evaluation systems, problem of delaying, the formation of privatisation committee, privatisation fund and buck passing. At the same time the private sector media (especially left-leaning) and opposition parties accused the government of a lack of transparency in the process of implementation. In fact, all of these problems contribute to the goal of privatisation. At the same time, privatised enterprises have also faced some problems, which appear to affect the impact of privatisation. The problems that they have faced have been identified as weak management, lack of entrepreneurship in the private sector, lack of a conducive environment for the operation of the enterprises, lack of adequate cooperation from the government, lack of funding for expansion, lack of market, frequent protesting of labourers, unfavourable export and import policy of the government, lack of trained manpower in the country, deteriorated law-and-order situation in the country, and ongoing conflict between the different political forces.

7.2.5 What is the Impact of the Privatisation Policy in Nepal?

Privatisation is too often a process rather than a pragmatic solution. In fact, it takes time to see the exact outcome of a privatisation policy. However, production, sales, and technological improvement aspects of privatised enterprises have satisfactorily improved. In addition, they are doing well in capacity growth and production diversification areas. These efforts will help to improve the performance of privatised enterprises in future.

From the production and sales point of view, performances of privatised enterprises are in a very good state. In all four cases production and sales had increased. On the other hand, almost all enterprises failed to increase their profits.

In fact, privatisation appears to have a negative impact on employment. About four-fifths of privatised enterprises have reduced the number of employees, but about 18% of
privatised enterprises created more jobs. One of the objectives of the privatisation program was to reduce the financial burden on the government of the PEs. In terms of subsidies, the situation is disappointing. Even after the completion of privatisation of 39% of public enterprises, the volume of total subsidies has not decreased. After the implementation of the privatisation policy, operating subsidies have increased but capital subsidies have been reduced (MoF, 2004- economic survey, 2004). Although the study paints a negative picture in terms of the financial situation, in terms of a case basis, to some extent there is a positive fiscal effect associated with privatisation. The government is no longer providing subsidies to at least 24 privatised enterprises and it has collected revenue by selling these public enterprises. In addition, this has relieved the government of managing these enterprises, as the government was responsible for appointing the board of directors before the privatisation. Thus, at least the government is now free of 39% of the PEs that have already been privatised. The government can now invest its resources in other worthy sectors, including the social sector. This is an important contribution to the economic policy of Nepal.

In terms of impact analysis, there are contradictory results in different studies. For example, the impact analysis conducted by the Ministry of Finance (MoF, 1999) shows very positive results, whereas the research conducted by the Pro Public (Adhikari and Adhikari, 2000) shows a negative result. Although the overall impact of privatisation is negative in this study as well, the question is whether it is due to privatisation or other factors. Since mostly the industrial sector is affected by the ongoing conflicts, many small- and medium-sized enterprises have already been either closed down or reduced their activities. They can hardly run on mere hope that the situation will improve. The deteriorated situation of the country, therefore, may have equally adverse effects on the privatised enterprises. Hence, the independent studies would confirm this dilemma if further research on the effect of the conflict on the Nepalese industrial sector were to be carried out.
7.2.6 What Lessons could be Learned from the Privatisation Policy of Nepal?

The study indicated that we can learn a lot from the Nepalese privatisation policy. The lessons learned can be summarised as follows:

1. Privatisation is a political process to make it economically successful. Politicians must listen to public opinion and win support, even to commit to privatisation. Moreover, political commitment, continuity and consistency should be the hallmarks of privatisation.

2. The privatisation program should be geared towards the development and promotion of the private sector.

3. In order to attain operational efficiency of the privatised units, they should be restructured prior to privatisation.

4. There must be an in-depth study and proper investigation of the possible options and modalities of privatisation.

5. One should not allow considerations of sale price to dominate the whole privatisation activity. Of course price is important; however it must not be the sole consideration.

6. The conditionalities of privatisation should include factors like management improvement, improved technology, quality improvements, transparent pricing policies, among other things.

7. It is important to choose the most appropriate method of privatisation. It has been more than 25 years since the privatisation process began. There are many methods. It is not a simple formula.

8. There is no set standard for privatisation. Each country has its own unique culture and tradition; no two sets of privatisation are ever identical. The approach must be custom tailored to each individual task.

9. The process of privatisation must be transparent. The public must be notified how and in what way the process is being carried out. This information must not be kept from the public.

10. Various groups (strategic groups) may be involved in and affected by privatisation. The skill is in identifying these groups in advance, and involving
them in the outcome, e.g. job guarantee of the workers. It is a very complex process.

11. Different problems may arise during the implementation process. One should be able to identify the problems in advance. It is like playing chess; it is to anticipate in advance what is going to happen and be able to act accordingly.

12. A privatisation program should educate the employees and labourers and effectively communicate with them to ensure a smooth implementation.

13. The process of privatisation should be used to extend share ownership wherever possible. It enhances the economic and social benefits. The advantages of wider share ownership to the new company are several. If people own shares they feel a sense of loyalty to the company and are more likely to use it instead of its competitors.

14. Improving the performance of remaining public enterprises is no less urgent than privatisation.

15. The last lesson is that government must be determined to do it. The benefits take a little time to become evident, as it is a continuous process. Therefore if you want to enjoy the benefits of privatisation, it is not simply a question of contemplating it, you have to actually do it. Making a sound policy alone is not enough, as the implementation is vital to attaining the goal.

7.3 Policy Recommendations and Future Research

Policy Recommendations

Based on the discussion in the previous chapters regarding the problems and prospects of privatisation in Nepal, the following recommendations have been made for the improvement of the policy:

1. As we have found, there are no representatives of trade unions, management and employees of the PEs to be privatised in the Privatisation Committee; it is urgently necessary to include them in the committee to ensure that there are no misunderstandings regarding the PEs and that all voices are heard. Also this
provision would ensure the transparency of the process and help to get cooperation from all stakeholders.

2. As we have found that there was no political consensus among the major political parties, especially on the privatisation process, attempts should be made to achieve a broader consensus among the major political parties, including the civil society members, trade union leaders and employees of the PEs, media and academicians.

3. To reach consensus on the program, to ensure the transparency and soliciting greater support for the program, an awareness program would be helpful. Hence, the use of media such as radio, television, newspapers, etc. would be useful. Similarly, counselling programs for the employees/workers and stakeholders prior to the announcement of candidature should be carried out to obtain a higher level cooperation from them.

4. As some of the respondents opined that the total period of privatisation after the announcement of certain candidates was too long, so the PEs in the pipeline for privatisation developed unprecedented problems, not only from the employees but also from the management itself, as they were trying to misuse the resources of the enterprises for their own benefit, hence the economic/financial condition of the PEs deteriorated. To eliminate this problem, efforts should be made to shorten the time of each transaction by undertaking the necessary action before the announcement of privatisation. The Privatisation Committee should ensure the valuation and other necessary action before announcing privatisation so that none of the stakeholders can misuse the resources for their own personal benefit.

5. After the enactment of the Privatisation Act in 1994, privatisation regulations have not been enacted to ensure a high standard of privatisation. Hence, a separate regulation should be enacted as soon as possible within the framework of the Privatisation Act for regulating and accelerating rational uses of the privatisation proceeds. As the Auditor General’s report also indicated the improper use of privatisation proceeds, regulations could form a legal basis which could not only enable the smooth privatisation but also fulfil the lack of legal provision for privatisation expenses. Similarly, legal provisions should be added to the
regulations for the monitoring and evaluation of the privatised enterprises on a regular basis by the government. Furthermore, regular AGMs (annual general meetings of the shareholders) should be compulsory for the privatised enterprises to ensure the interest of the shareholders. The management should be responsible for this and such provisions should be included in the new privatisation regulation.

6. As the private sector is still at an early stage, privatisation should not be target-based but need-based. Similarly, economically unviable enterprises should be closed down rather than trying to privatise those which the private sector is not willing to take over. The industrial environment of the country has deteriorated day-by-day as the internal conflict deepens. The privatisation program has also been affected since the private sector is unwilling to buy the PEs, the government should not aim to privatise loss-making PEs.

7. The government should ensure the transparency of the valuation process and measures adopted while awarding the contract, by publishing valuation procedures and values ascertained for each company or keeping the valuation report in public libraries after concluding the agreement with the successful bidder. The Privatisation Cell could interact with the media by disseminating the basis of the valuation and final award in due course, which will certainly stop accusations of undervaluation and so on.

8. Pre-privatisation restructuring of the company should be undertaken based on the experts’ recommendation prior to the invitation of proposals from interested bidders. If necessary, the issues of overstaffing, over-capitalisation, problems of liability, etc. should be addressed for the smooth operation of the company after privatisation.

9. Given the limited staff size, the Privatisation Cell is not in a position to act as a regulatory agency. Hence, it should be manned adequately with professionals for ideal implementation. The privatisation program should be accompanied by a strong regulatory and monitoring institutional framework and the cell should be restructured along these lines.
10. The bid evaluation criteria including the weights of each parameter should be clear and disclosed transparently to all concerned prior to the invitation of the bids. Similarly, the negotiation period should be made shorter by developing the well-defined terms of reference of the negotiation. Wherever possible, provisions relating to the fines and penalties, employments and business plans should be maintained with uniformity while finalising the sales and purchase agreement.

11. Though the privatisation of PEs in Nepal has become inevitable in the changing context of liberalisation and free market economy, since Nepal is a member of WTO, selective privatisation should be carried out. Industrial/manufacturing, trading and banking sectors, for which the private sector is developed, should be privatised first on a priority basis. However, PEs related to the service sector and natural resources should be privatised only after strong regulatory mechanisms are put in place.

12. As stated earlier, merely transferring PEs to private control is not enough for Nepal, as most of the privatised enterprises have not performed as expected. Hence, rebalancing the public and private sectors would be better (public-private partnership- PPP). The role and responsibility of the state as well as the scope and activities of the private sector need to be carefully defined with regard to privatisation in Nepal. Only those enterprises for which the private sector is ready should be privatised and the rest of the enterprises should be under government control, but efficiency and effectiveness should be enhanced by giving them more autonomy (in this regard, a performance contract would be the best option, although the result of such an option has also been disappointing for the time being, due to the ongoing conflict situation in Nepal).

13. The share sale method, compared to other methods of privatisation, could be more appropriate, effective and transparent. Hence, priority should be given to involving public and employees as owners to ensure effective participation in privatisation efforts.

14. The new push for privatisation in Nepal is, basically, a result of general despair with public sector inefficiency, rather than hope for the private sector’s efficiency (Manandhar, 1998:109). As is evident, on the one hand the private sector is asking
for liberal and free economic policies, and on the other hand they have demanded incentives, subsidies and protection from competition. Unless the enterprise is left to work in a competitive environment with professional management, the transfer of ownership alone hardly brings about the expected changes in enterprise performance. Hence, in order to enhance the operational efficiency of the enterprises, the government should focus on the need to develop the private sector concurrent with the transfer of ownership. Until the private sector is fully developed, the privatisation program could not be successful as expected. Therefore, there is an urgent need for the promotion and development of the private sector in Nepal. The ongoing conflict between the government and the rebels/opposition should be resolved for the overall development of the country, as it has vicious effects not only on the economic sector but also on the country overall.

**Future Research**

This study has covered the implementation process of the privatisation policy. It has addressed how the privatisation policy has been formulated, how the decision has been made and how the policy has been implemented in different PEs. At the same time what types of problems have emerged during the implementation phase, whether the objectives of privatisation have been met (impact), how the policy could be improved in order to achieve the objectives, etc. have also been discussed in this study. However, the study could not cover why the performance of privatised enterprises did not improve as expected, and why the overall performance of privatised enterprises was not positive. Whether it is due to privatisation (shifting from the government to the private sector) or other factors, for instance, ongoing conflict, the deteriorating law-and-order situation of the country, which has even compelled multinational companies to be closed down (recently Unilever Nepal Limited was shut down for some time due to the threat of the Maoist rebels), may be important subjects of further research that this study could not address. Similarly, looking only at the implementation aspect of all privatised enterprises (this study covered only four cases), or covering all enterprises only in the aspect of
performance (without addressing the implementation aspect) would be a worthy future study to explore the issues with more depth.

Comparing the performance of public enterprises with the enterprises run by the private sector could also be a worthy way to develop a better understanding of whether the private sector is doing better than the public sector, as is widely perceived.

7.4 Conclusions

The following conclusions have been drawn on the privatisation process in Nepal based on the study carried out. The conclusions have been presented in connection with the hypotheses formulated in Chapter One.

The first hypothesis of this study was: privatisation policy has been implemented not only as a necessity of the country (internally) but also as a requirement imposed by the donor community. The study confirmed this hypothesis, as we found that due to the deteriorating conditions of the PEs and the ideological shift of the new government with the advice and suggestions of the international donor community, the government formulated and implemented the privatisation policy in Nepal.

Similarly, the second hypothesis was that the privatisation policy has been implemented to achieve some stated goals but they have not been achieved as expected. As stated earlier, there were three objectives of the privatisation policy in Nepal when the government embarked upon the policy: (a) reduction of managerial and financial burden on the government, (b) promotion of functional expertise to enhance productivity and output, and (c) promotion of the private sector’s role and public employees’ participation in industrial investment. The study showed that to some extent the managerial and financial burden of the government has been reduced as the government is free at least from the privatised enterprises (24 enterprises so far). The second objective has not been met as expected, as the privatised enterprises have not been able to increase managerial expertise as almost all enterprises have been barely surviving. Though production has
increased in almost all of the privatised enterprises, overall performance has not been positive. The third objective has been met partially, as the participation of the private sector was active during the implementation though there was very limited competition in the bidding process. Hence, the major objective of the privatisation was not met. At the same time, public employees’ participation in privatised enterprises has been totally nil, as they were not interested in taking over the 5% shares allocated for them at a reduced price. This could be attributed to the ailing situation of the enterprises that have been privatised so far.

The third hypothesis was that privatisation policy has some implementation barriers that affect the policy’s ability to meet its objectives. The study showed that there were many implementation barriers that in turn affect the achievement of the objectives of the policy. In Chapter Six we discussed the obstacles encountered during the implementation phase. Similarly the privatised enterprises have also suffered from some problems, due to which they could not operate the companies in a conducive environment. Hence, the third hypothesis has also been confirmed.

The fourth hypothesis was that privatisation has brought about some positive changes, i.e. assisted in reducing financial burdens on the government, contributed to enhancing the efficiency of enterprises, and facilitated popular participation in management; these benefits, however, are negligible. As almost all privatised enterprises have suffered in one way or another, and the overall financial performance has been negative, the overall picture of the privatisation in Nepal is negative, although it is yet to be confirmed whether this is due to privatisation or other external or internal factors, i.e. ongoing conflict.

The final hypothesis was that the privatisation policy *per se* is not necessarily conducive to improving the efficiency of the enterprises. The overall result of the study shows that in principle, privatisation would enhance the efficiency of the enterprises by ensuring open competition and a liberalised market economy, the participation of private sector expertise to enhance the productivity of the enterprises, etc. but it could not contribute
equally in all economic environments. It depends on other factors, like the law-and-order situation of the country, a conducive environment for foreign investment, sound economic policy, committed and positive attitudes of the government for the development of the private sector, political stability in the country, and so forth. Hence, privatisation in the absence of those crucial factors does not necessarily enhance the efficiency of the enterprises.

According to Rondinelli, privatisation was commonplace throughout the world in the nineties; in communist, socialist, and capitalist countries, in developed and developing countries, in democracies and dictatorships; more than one hundred countries had officially endorsed privatisation and more were considering it (1998: 149-70). In the United States it was being supported by Democrats and Republicans, liberals and conservatives. It was no longer a partisan or ideological issue but a pragmatic and increasingly routine approach to governing and to managing public services (Daley, 1996: 629-31). In this global situation Nepal could not be exempt and therefore the privatisation policy was adopted in the nineties in line with the global wave, in the hope that the policy could improve the efficiency of PEs. So what this shows is that adopting the privatisation policy in Nepal was not only an option but also a compulsion. However, it should not be overstated. As the major advocate of privatisation, the World Bank has conceded/admitted that privatisation in developing countries was overstated and it has not been had the expected positive impacts (Kessides, 2004: 6). Though privatisation was regarded as successful in South American countries like Chile (Birch and Haar, 2000), the trend has now changed. Opinion polls in several developing and transition economies, especially in Latin America, reveals growing public dissatisfaction with privatisation. Disapproval ratings were higher in 2002 than in 2000 and higher in 2000 than in 1998. In 2002 almost 90% of Argentines and 80% of Chileans surveyed disapproved of privatisation (Kessides, 2004: 6). It has been stated that “as with all economic elixirs, privatisation has been oversimplified, oversold, and ultimately a disappointment—delivering less than promised.”
Finally what we can conclude from the study is that although the overall impact of privatisation in Nepal is not very promising, it is necessary for the overall development of the country, as the government cannot continue to run such loss-making enterprises in the age of globalisation and liberalisation (as the government has already been admitted as a member in the WTO system); nevertheless privatisation should be implemented in a cautious manner. The government should go ahead with the policy selectively but conduct a re-evaluation of the process it applied earlier and learn from the previous shortcomings. It should educate the people and disseminate to them the pros and cons of privatisation in order to obtain public support, so that this process that is necessary for the country may be carried out effectively.
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Annex-1: Methodology

Primarily, the study followed a qualitative approach to research that is concerned with the meaning and process. Through this research I intended to explore the process, meaning and understanding of the implementation of the privatisation policy in Nepal. Hence, a qualitative approach to research has been followed in this study. However, a quantitative method has also been used to interpret the data collected.

A total of four privatised enterprises representing different methods of privatisation have been selected for this study. Among the selected enterprises, two were privatised by ‘asset and business sale’, one by ‘share sale’ and another by ‘management contract’, which was later on changed to a ‘lease contract’. Thus the selection of the case was based on the fair representation of the method used in the implementation process and geographical location. Though data has been collected on other enterprises as well from the secondary sources, for the case study only four were selected and studied in depth. Those were as follows:

1. Harisiddhi Brick and Tile Factory (HBTF) located in Kathmandu
2. Bhrikuti Paper Mills (BPM) located in Gaidakot, Nawalparasi (Western part of Nepal),
3. Nepal Foundry Industry (NFI) located in Kathmandu, and

Among these four enterprises, Harisiddhi and Bhrikuti paper mills were privatised in the first phase of privatisation in 1992; Nepal Foundry Industries in the third phase in 1996; and Biratnagar Jute Mills was privatised in the third phase in 1996 by management contract, but later on it was converted to a lease contract in 2002. To see the effect of the privatisation it must be operated for some years after the privatisation. So those enterprises privatised early in the process that have been operating since then would be worthy to collect data from, that would help to evaluate the changes brought about by privatisation. It would also help to compare the company’s performance before and after the privatisation so that the prospects of the policy could be understood. With these aspects in mind, the four cases were purposefully selected and studied.
Data Collection Method

In order to collect data from the primary sources some commonly used strategies, such as interviewing, questionnaire survey and observations were used. I have collected the primary and the secondary information as follows:

**Primary information:** Primary information was collected using two methods—field survey 2003/2004 (272 people) and in-depth interview with selected key respondents (30 people).

**Field Survey 2003/2004**

In total 272 people from four different strategic groups were purposively selected and interviewed by using a structured questionnaire. The field survey 2003/2004 was comprised as follows:

1. **Sub-sample one of the field survey 2003 /2004:** In this category, policy makers (including higher level government officials and others who were directly or indirectly involved on the implementation process of the privatisation policy) and academicians were included. Mixing both groups in one strategic group was done due to the similar responses to most of the questions they expressed during the interview period. Altogether 136 persons were interviewed from this category. Hence, this was the biggest group in terms of numbers of persons interviewed.

2. **Sub-sample two of the field survey 2003 /2004:** In this category, employees of the privatised enterprises (in four selected enterprises) were interviewed. Altogether 74 people from the different levels (managers to lower level employees, from administrative fields to technical fields) were interviewed.

3. **Sub-sample three of the field survey 2003 /2004:** In this category, private sector officials, especially trade union representatives of two major trade unions in Nepal—Nepal Trade Union Congress (NTUC - affiliated with the Nepali Congress Party) and General Federation of Nepalese Trade Unions (GEFONT-affiliated with the Communist Party of Nepal unified Marxist and Leninist-UML). Altogether 12 people were interviewed from this category.

4. **Sub-sample four of the field survey 2003 /2004:** In this category, consumers and the general public living in the vicinity of the selected privatised enterprises
were included. The purpose was to ascertain their experience of how they perceive privatisation and to what extent they are affected by the privatised enterprises. Altogether 50 persons were interviewed.

**Characteristics of survey:**

<table>
<thead>
<tr>
<th>People interviewed</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total no. of persons interviewed</td>
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</tr>
<tr>
<td>Male</td>
<td>240</td>
</tr>
<tr>
<td>Female</td>
<td>32</td>
</tr>
<tr>
<td>Dominant age group</td>
<td>30-40</td>
</tr>
<tr>
<td>Dominant education level</td>
<td>Bachelor’s degree and above</td>
</tr>
</tbody>
</table>

In addition to this, I obtained first-hand information on the implementation process by studying the minutes and other records provided by the implementing agencies, including the Privatization Cell, MoF and various companies.

**In-depth interview**

In-depth interviews (formal and informal) were conducted with 30 key respondents from different walks of society, including higher-level government officials, privatisation committee members, trade union leaders, experts on privatisation, representatives of various organisations/institutes and others who have in-depth knowledge of privatisation and policy implementation. Unstructured interviews/discussions were conducted with the respondents using the interview guidelines.

**Characteristics of in-depth interview:**

<table>
<thead>
<tr>
<th>People interviewed</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total no. of persons interviewed</td>
<td>30</td>
</tr>
<tr>
<td>Male</td>
<td>29</td>
</tr>
<tr>
<td>Female</td>
<td>1</td>
</tr>
<tr>
<td>Dominant age group</td>
<td>40-50</td>
</tr>
<tr>
<td>Dominant education level</td>
<td>Masters Degree and above</td>
</tr>
</tbody>
</table>

To compare the performance of the privatised enterprises, available data for pre- and post-privatisation were collected from the four enterprises using a structured data form.
Five different sets of questionnaire were used in this research. One set was employed for collecting relevant information from sub-sample one, i.e. policy makers and academicians. The large portion of the survey belongs to this group. Another set was for the employees working in the privatised enterprises (sub-sample two). The third set was for the trade union representatives and the fourth was for the general public and the neighbours of the privatised enterprises. Hence, four sets of questionnaires were used for the four different strategic groups. Additionally, another set was used for collecting the quantitative data from the four privatised enterprises selected for this study, to compare their performance before and after the privatisation.

Collected data from the four different strategic groups and the quantitative data from the four selected enterprises were first entered into SPSS and analysed in different ways. Mainly, frequency was calculated from the four strategic groups and pre- and post-analyses were done on the quantitative data collected from the four enterprises. Similarly, in-depth interviews were presented in a qualitative way in different parts of the dissertation.

Opinions of different strategic groups and other interviewees were used to analyse the facts. In other words, I tried to show how our respondents reacted to the facts collected from various sources, including company records, government minutes and records. The opinions expressed by the different strategic groups, therefore were used to connect with the facts and reality of the privatisation policy in Nepal.

**Secondary Information**

Besides the primary information collected from interviews, some secondary data were also collected. I have collected the information on the following topics:

- Performance of state-owned enterprises.
- Issues and goals of privatisation in Nepal.
- Need for privatisation.
- Historical development of privatisation in Nepal.
- Institutional and legal arrangements for privatisation.
- Performance and achievements of privatised enterprises.
- Implementation process of the privatisation program.
- Study reports of the privatised enterprises.
- Status reports of the PEs.
- Available literature on privatisation, public sector reform, efficiency, policy implementation and other related materials.
- Public documents (newspapers, gazette, etc.).

Most of the information collected on the above topics was from written documents, reports, study reports, journals and newspapers.

**Difficulties and Obstacles in Conducting the Research**

During my research period, I faced some problems due to the ongoing conflict between the Nepalese government and the Maoist Rebels. Political uncertainty in the country caused frequent nationwide strikes, vandalism, riots, arson and so on, and disturbed the planning and conduct of my research. So the overall law-and-order situation of the country became an influential obstacle to conducting my fieldwork. I had to cancel my schedule many times due to strikes organised by various political parties and the Maoist rebels.

Because of the sensitive nature of the subject matter, due to a lack of a proper recording system and in some cases the reluctant cooperation of the officials, it was difficult to obtain information as expected. In most cases, I had to cancel appointments repeatedly, since most office holders (senior government officials) were busy attending meetings on a regular basis (in some cases just in the name of their ‘business’). There were hardly any instances that I met senior officials on the first appointment. It was, however, possible to get the necessary documents and to hold interviews with senior officials through the relentless efforts of the researcher.

Most of the employees working in the privatised enterprises showed fear about responding to questions. They tried to avoid the questions that we wanted to ask out of

 v
fear of the management knowing what their responses were. However, after assuring them that neither the management nor other parties would find out about their personal opinions, they were ready to help us. It was a difficult task to convince them. However, with the help of my research assistants, and in some cases good connections with some officials, I have somehow managed to gather the information related to my research project.
Annex-2: Description of the Respondents

1. Sub sample one: Policy makers and academicians
2. Sub sample two: Employees of the privatized enterprises
3. Sub sample three: Trade union Representatives
4. Sub sample four: General public residing around the privatised enterprises

Annex 2.1 Gender of the respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th>Sub sample one</th>
<th>Sub sample two</th>
<th>Sub sample three</th>
<th>Sub sample four</th>
<th>Key Respondents</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Freq.</td>
<td>%</td>
<td>Freq.</td>
<td>%</td>
<td>Freq.</td>
<td>%</td>
</tr>
<tr>
<td>Female</td>
<td>19</td>
<td>14</td>
<td>6</td>
<td>8</td>
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<tr>
<td>Male</td>
<td>117</td>
<td>86</td>
<td>68</td>
<td>92</td>
<td>11</td>
<td>92</td>
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<tr>
<td>Total</td>
<td>136</td>
<td>100</td>
<td>74</td>
<td>100</td>
<td>12</td>
<td>100</td>
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</table>

Annex 2.2 Age of the respondents

<table>
<thead>
<tr>
<th>Age</th>
<th>Sub sample one</th>
<th>Sub sample two</th>
<th>Sub sample three</th>
<th>Sub sample four</th>
<th>Key Respondents</th>
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</tr>
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<td>%</td>
<td>Freq.</td>
<td>%</td>
<td>Freq.</td>
<td>%</td>
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<tr>
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<td>3</td>
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<td>-</td>
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<tr>
<td>26-30</td>
<td>31</td>
<td>23</td>
<td>14</td>
<td>19</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>31-35</td>
<td>21</td>
<td>15</td>
<td>15</td>
<td>20</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>36-40</td>
<td>26</td>
<td>19</td>
<td>28</td>
<td>38</td>
<td>4</td>
<td>34</td>
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<td>41-45</td>
<td>15</td>
<td>11</td>
<td>10</td>
<td>13</td>
<td>5</td>
<td>42</td>
</tr>
<tr>
<td>46-50</td>
<td>29</td>
<td>22</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>51-55</td>
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<td>3</td>
<td>4</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>56-60</td>
<td>3</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>136</td>
<td>100</td>
<td>74</td>
<td>100</td>
<td>12</td>
<td>100</td>
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</tbody>
</table>
### Annex 2.3 Education level of the respondents

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<th>Sub sample one</th>
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<th>Sub sample three</th>
<th>Sub sample four</th>
<th>Key Respondents</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
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<td>Freq.</td>
<td>%</td>
<td>Freq.</td>
<td>%</td>
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<tr>
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<tr>
<td>Class 10</td>
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<td>11</td>
<td>-</td>
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<td>-</td>
<td>18</td>
<td>24</td>
<td>2</td>
<td>17</td>
</tr>
<tr>
<td>IA</td>
<td>-</td>
<td>-</td>
<td>10</td>
<td>14</td>
<td>2</td>
<td>17</td>
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<tr>
<td>Bachelors</td>
<td>48</td>
<td>35</td>
<td>17</td>
<td>23</td>
<td>3</td>
<td>25</td>
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<tr>
<td>Masters</td>
<td>85</td>
<td>63</td>
<td>7</td>
<td>9</td>
<td>4</td>
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<td>CA</td>
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<td>1</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>PhD</td>
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<td>2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>136</td>
<td>100</td>
<td>74</td>
<td>100</td>
<td>12</td>
<td>100</td>
</tr>
</tbody>
</table>

### Annex 2.4 Numbers of the respondents (sub sample four) interviewed from the four Enterprises

<table>
<thead>
<tr>
<th>Enterprises</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>BJM</td>
<td>9</td>
<td>18</td>
</tr>
<tr>
<td>BPM</td>
<td>15</td>
<td>30</td>
</tr>
<tr>
<td>HBTF</td>
<td>15</td>
<td>30</td>
</tr>
<tr>
<td>NFI</td>
<td>11</td>
<td>22</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>
## Annex-3: Performance of Privatized enterprises

### Table 3.1: Production of Privatized Enterprises

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Unit</th>
<th>Production (before privatization)</th>
<th>Production (for the year 1996/97)</th>
<th>Increase / Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>First Phase (1992)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bhrikuti Paper Mills</td>
<td>M.T 1500</td>
<td>9124</td>
<td>7624</td>
<td>508.27</td>
</tr>
<tr>
<td>Harisiddhi Bricks &amp; Tile Factory</td>
<td>Pieces 17000000</td>
<td>21100000</td>
<td>4100000</td>
<td>24.12</td>
</tr>
<tr>
<td>Bansbari Leather &amp; Shoe Factory</td>
<td>Sq.Ft. 190000</td>
<td>947192</td>
<td>757192</td>
<td>398.52</td>
</tr>
<tr>
<td><strong>Second Phase (1993-1994)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nepal Lube Oil</td>
<td>Lt 505800</td>
<td>971881</td>
<td>466081</td>
<td>92.15</td>
</tr>
<tr>
<td>Nepal Bitumin &amp; Barrel Industry</td>
<td>M.T 2889</td>
<td>4900</td>
<td>2011</td>
<td>69.60</td>
</tr>
<tr>
<td>bitumen</td>
<td>M.T 2327</td>
<td>200</td>
<td>-2127</td>
<td>-91.41</td>
</tr>
<tr>
<td>lube oil</td>
<td>M.T 1</td>
<td>500</td>
<td>499</td>
<td>99.90</td>
</tr>
<tr>
<td>emulsion</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nepal Film Development Company</td>
<td>Film 8</td>
<td>15</td>
<td>7</td>
<td>87.5</td>
</tr>
<tr>
<td>Balaju Textile Industry</td>
<td>Meter 689160</td>
<td>1097175</td>
<td>408015</td>
<td>59.20</td>
</tr>
<tr>
<td><strong>Third Phase (1996-1997)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nepal Foundry Industry</td>
<td>Kg 161000</td>
<td>170000</td>
<td>9000</td>
<td>5.59</td>
</tr>
<tr>
<td>Raghupati Jute Mills</td>
<td>M.T 22</td>
<td>23</td>
<td>1</td>
<td>4.55</td>
</tr>
<tr>
<td>Agriculture Tools Factory</td>
<td>,, 400</td>
<td>400</td>
<td>0</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Table 3.2: Sales of Privatized Enterprises

(Rs. in ‘000)

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Sales (before privatization)</th>
<th>Sales (1996/97)</th>
<th>Increase / Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Amount</td>
</tr>
<tr>
<td><strong>First Phase (1992)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bhrikuti Paper Mills</td>
<td>76542</td>
<td>340432</td>
<td>263890</td>
</tr>
<tr>
<td>Harisiddhi Bricks &amp; Tile Factory</td>
<td>27827</td>
<td>43093</td>
<td>15266</td>
</tr>
<tr>
<td>Bansbari Leather &amp; Shoe Factory</td>
<td>52044</td>
<td>76090</td>
<td>24046</td>
</tr>
<tr>
<td><strong>Second Phase (1993-1994)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nepal Lube Oil</td>
<td>75352</td>
<td>69641</td>
<td>-5711</td>
</tr>
<tr>
<td>Nepal Bitumin &amp; Barrel Industry</td>
<td>31086</td>
<td>74853</td>
<td>43767</td>
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<tr>
<td>Nepal Film Development Company</td>
<td>9182</td>
<td>27608</td>
<td>18426</td>
</tr>
<tr>
<td>Balaju Textile Industry</td>
<td>17117</td>
<td>9342</td>
<td>-7775</td>
</tr>
<tr>
<td><strong>Third Phase (1996-1997)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nepal Foundry Industry</td>
<td>5065</td>
<td>4035</td>
<td>-1030</td>
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</table>

(Source: Office of the Auditor-General. 1998)

Table 3.3: Profit Situation of Privatized Enterprises

(Rs. in ‘000)

<table>
<thead>
<tr>
<th>Enterprises</th>
<th>Profit (before privatization)</th>
<th>Profit (1996/97)</th>
<th>Increase / Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Amount</td>
</tr>
<tr>
<td><strong>First Phase (1992)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bhrikuti Paper Mills</td>
<td>4234</td>
<td>12466</td>
<td>8232</td>
</tr>
<tr>
<td>Harisiddhi Bricks &amp; Tile Factory</td>
<td>1323</td>
<td>N.A.</td>
<td>N.A</td>
</tr>
<tr>
<td>Bansbari Leather &amp; Shoe Factory</td>
<td>764</td>
<td>3000</td>
<td>2236</td>
</tr>
<tr>
<td><strong>Second Phase (1993-1994)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nepal Lube Oil</td>
<td>12148</td>
<td>6280</td>
<td>-5868</td>
</tr>
<tr>
<td>Nepal Bitumin &amp; Barrel</td>
<td>2535</td>
<td>588</td>
<td>-1947</td>
</tr>
<tr>
<td>Nepal Film Development Company</td>
<td>6521</td>
<td>5845</td>
<td>-678</td>
</tr>
<tr>
<td><strong>Third Phase (1996-1997)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nepal Foundry Industry</td>
<td>-2643</td>
<td>-967</td>
<td>1676</td>
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</table>

Table 3.4: Employee/Labour Productivity

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Unit</th>
<th>Before privatization</th>
<th>After privatization</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Phase (1992)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bhrikuti Paper Mills</td>
<td>M. T</td>
<td>9.43</td>
<td>11.66</td>
<td>Increased</td>
</tr>
<tr>
<td>Harisiddhi Bricks &amp; Tile Factory</td>
<td>Pieces</td>
<td>29,000</td>
<td>32,000</td>
<td>Increased</td>
</tr>
<tr>
<td>Nepal Bitumen &amp; Barrel Industry</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bitumen</td>
<td>M. T</td>
<td>52</td>
<td>37</td>
<td>Decreased</td>
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<tr>
<td>Barrel</td>
<td>M. T</td>
<td>248</td>
<td>251</td>
<td>Increased</td>
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<td>Balaju Textile Industry</td>
<td>Meters</td>
<td>4150</td>
<td>2200</td>
<td>Decreased</td>
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</table>

(Source: CRPS 1995:31)

Table 3.5: Government Subsidy to Public Enterprises (Rs in million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating/Transport Subsidy</th>
<th>Capital Subsidy</th>
<th>Total Subsidy</th>
<th>Annual Growth Subsidy</th>
<th>Inflation (Percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before Privatization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1988/89</td>
<td>36.2</td>
<td>410.5</td>
<td>446.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989/90</td>
<td>18.1</td>
<td>446.8</td>
<td>464.9</td>
<td>6.67</td>
<td>13.63</td>
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<tr>
<td>1990/91</td>
<td>43.2</td>
<td>724.0</td>
<td>767.2</td>
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<tr>
<td>1991/92</td>
<td>170.0</td>
<td>372.2</td>
<td>542.2</td>
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<tr>
<td>1992/93</td>
<td>NA.</td>
<td>791.2</td>
<td>791.2</td>
<td></td>
<td></td>
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<tr>
<td>After Privatization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1994/95</td>
<td>571.4</td>
<td>77.5</td>
<td>648.9</td>
<td></td>
<td></td>
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<tr>
<td>1995/96</td>
<td>726.0</td>
<td>179.0</td>
<td>905.0</td>
<td>17.95</td>
<td>12.84</td>
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<tr>
<td>1996/97</td>
<td>713.6</td>
<td>180.0</td>
<td>893.6</td>
<td></td>
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<tr>
<td>1997/98</td>
<td>988.0</td>
<td>76.9</td>
<td>1064.9</td>
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</table>

(Source: Ministry of Finance, 1998)
Table 3.6: Employment Effects of Privatization

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Before Privatization</th>
<th>After Privatization</th>
<th>Difference No.</th>
<th>Remarks</th>
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<tbody>
<tr>
<td><strong>First Phase (1992)</strong></td>
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<td></td>
</tr>
<tr>
<td>Bhrikuti Paper Mills</td>
<td>1321</td>
<td>1800</td>
<td>479 36.26</td>
<td>Increase</td>
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<tr>
<td>Harisiddhi Bricks &amp; Tile Factory</td>
<td>595</td>
<td>500</td>
<td>-95 -15.97</td>
<td>Decrease</td>
</tr>
<tr>
<td>Bansbari Leather &amp; Shoe Factory</td>
<td>545</td>
<td>83</td>
<td>-462 -84.77</td>
<td>Decrease</td>
</tr>
<tr>
<td><strong>Second Phase (1993-1994)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nepal Lube Oil</td>
<td>101</td>
<td>93</td>
<td>-8 -7.92</td>
<td>Decrease</td>
</tr>
<tr>
<td>Nepal Bitumin &amp; Barrel Industry</td>
<td>58</td>
<td>54</td>
<td>-4 -6.90</td>
<td>Decrease</td>
</tr>
<tr>
<td>Raw Hide Collection &amp; Dev. Corp.</td>
<td>564</td>
<td>0</td>
<td>-564 100.00</td>
<td>Closed</td>
</tr>
<tr>
<td>Nepal Film Development Company</td>
<td>99</td>
<td>54</td>
<td>-45 -45.45</td>
<td>Decrease</td>
</tr>
<tr>
<td>Balaju Textile Industry</td>
<td>165</td>
<td>101</td>
<td>-64 -38.79</td>
<td>Decrease</td>
</tr>
<tr>
<td><strong>Third Phase (1996-1997)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nepal Foundry Industry</td>
<td>65</td>
<td>20</td>
<td>-45 -69.23</td>
<td>Decrease</td>
</tr>
<tr>
<td>Raghupati Jute Mills</td>
<td>1114</td>
<td>1446</td>
<td>332 29.80</td>
<td>Increase</td>
</tr>
<tr>
<td>Agricultural Tool Factory</td>
<td>287</td>
<td>0</td>
<td>-287 100.00</td>
<td>Closed</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4914</td>
<td>4151</td>
<td>-763 -15.63</td>
<td>Decrease</td>
</tr>
</tbody>
</table>

(Sources: Office of the Auditor-General 1998 & CRPS 1995)

Patterns of Overall Impact

Table 3.7: Overall Performance of Selected Privatized Enterprises

<table>
<thead>
<tr>
<th>Indicators</th>
<th>N&lt;sup&gt;*&lt;/sup&gt;</th>
<th>Increase (%)</th>
<th>Decrease (%)</th>
<th>No effects (%)</th>
<th>Mix (%)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>9</td>
<td>88.9</td>
<td>-</td>
<td>-</td>
<td>11.1</td>
<td>Very Good</td>
</tr>
<tr>
<td>Sales</td>
<td>8</td>
<td>62.5</td>
<td>37.5</td>
<td>-</td>
<td>-</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Profit</td>
<td>6</td>
<td>33.3</td>
<td>67.7</td>
<td>-</td>
<td>-</td>
<td>Poor</td>
</tr>
<tr>
<td>Productivity</td>
<td>4</td>
<td>50.0</td>
<td>25.0</td>
<td>-</td>
<td>25.0</td>
<td>Poor</td>
</tr>
<tr>
<td>Employment Effects</td>
<td>11</td>
<td>18</td>
<td>64</td>
<td>18</td>
<td>-</td>
<td>Poor</td>
</tr>
</tbody>
</table>

(Source: based on the above table 3.1 to 3.6)

<sup>*</sup> It shows the number of privatised enterprises whose data has been analysed.
<sup>©</sup> Scale of comparison is presented as follows: Very Good for more than 80 percent; Good for 71 to 80 percent; Satisfactory for 61 to 70 percent; Fair for 51 to 60 percent; and Poor for 50 and below than 50 percent.
Table 3.8: Present Status of Privatized Enterprises

<table>
<thead>
<tr>
<th>Privatized Enterprises</th>
<th>Investment</th>
<th>Production</th>
<th>Sales</th>
<th>Employment</th>
<th>Borrowings</th>
<th>Profit/Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>BPM</td>
<td>Increased</td>
<td>Increased</td>
<td>Increased</td>
<td>Increased</td>
<td>Increased</td>
<td>Loss</td>
</tr>
<tr>
<td>HBTF</td>
<td>Increased</td>
<td>Increased</td>
<td>Increased</td>
<td>Minor change</td>
<td>Increased</td>
<td>Loss</td>
</tr>
<tr>
<td>BLSF</td>
<td>Increased</td>
<td>Decreased</td>
<td>Decreased</td>
<td>Decreased</td>
<td>Increased</td>
<td>Profit</td>
</tr>
<tr>
<td>NFDC</td>
<td>Increased</td>
<td>Increased</td>
<td>Increased</td>
<td>Decreased</td>
<td>Increased</td>
<td>Profit</td>
</tr>
<tr>
<td>NLOL</td>
<td>Increased</td>
<td>No Significant Change</td>
<td>No Significant Change</td>
<td>Decreased</td>
<td>Increased</td>
<td>Profit</td>
</tr>
<tr>
<td>NBBI</td>
<td>Increased</td>
<td>Increased</td>
<td>Increased</td>
<td>Minor Change</td>
<td>Increased</td>
<td>Profit</td>
</tr>
<tr>
<td>NFI</td>
<td>Increased</td>
<td>Increased</td>
<td>Increased</td>
<td>Decreased</td>
<td>Increased</td>
<td>Profit</td>
</tr>
<tr>
<td>RJM</td>
<td>Increased</td>
<td>Increased</td>
<td>Increased</td>
<td>Increased</td>
<td>Increased</td>
<td>Loss</td>
</tr>
<tr>
<td>BTI</td>
<td>Increased</td>
<td>Decreased</td>
<td>Decreased</td>
<td>Decreased</td>
<td>Increased</td>
<td>Loss</td>
</tr>
<tr>
<td>BBF</td>
<td>Decreased</td>
<td>Decreased</td>
<td>Increased</td>
<td>Minor Change</td>
<td>Increased</td>
<td>Loss</td>
</tr>
</tbody>
</table>

Annex-4: Questionnaires

Annex 4.1 Questionnaire one
(For Sub sample one: Policy makers and academicians)
(This questionnaire is only for the academic purpose. The answers you give us will be kept fully confidential.)

General Information of the Respondent:
1. Name: 2. Age: 3. Position (if any):
4. Education: 5. Office: 6. Address:
7. Name of Interviewer: 8. Date of Interview:

1. Do you think that privatization of public enterprises is essential in Nepal?
☐ Yes ☐ No ☐ Others (specify)…☐ Don’t know

1.1. If yes, why? (Please give in order 1, 2, 3 etc. 1 for the highest preference)
☐ To increase productivity of the enterprises
☐ To increase efficiency of the enterprises
☐ To reduce political intervention in the enterprises
☐ To reduce financial and administrative burden of the government
☐ To increase Govt. investment in social sector
☐ To promote private sector
☐ To generate additional revenue for the government
☐ To reduce the public sector borrowing requirement
☐ Because of the pressure from the donor community
☐ Because of the shifting preference of the government (ideology)
☐ Because of the government budget deficit
☐ Others
☐ Don't know

1.2. If no, why? (Please give in order 1, 2, 3 etc. 1 for the highest preference)
☐ Welfare of employees
☐ Regular supply of quality goods/services in reasonable prices
☐ Optimum use of public resources
☐ Because it promotes the concentration of wealth
☐ Because it worsens the socio-economic conditions
☐ Others …….. …..

2. Do you think that the objectives of privatization have been met?
☐ Yes ☐ No ☐ Don’t know/ No comment
If no, what could be done? ………

3. Who were the influential actors for adopting this policy?
☐ Political leaders of the ruling party ☐ Higher-level government officials
4. What are the gains of privatization of public enterprises? (Please give in order 1, 2, 3 etc. 1 for the highest preference)

- Increased private participation
- Reduced financial and administrative burden of the government
- Increased employment
- Increased revenue
- Increased efficiency/productivity of the enterprises
- Reduced corruption
- Reduced political interference
- Supply of quality goods and services
- Strengthened market competition
- Don’t know
- Others (please specify) ….

5. What are the losses of privatization of public enterprises? (Please give in order 1, 2, 3 etc. 1 for the highest preference)

- Poor service/quality of goods
- Loss of revenue
- Price increase
- Loss of employment
- Creation of private monopoly
- Others
- Don’t know

6. What issues/factors should be considered while privatizing public enterprises in future? (Please give in order 1, 2, 3 etc. 1 for the highest preference)

- Proper valuation of asset/property
- Technical capability of bidder
- Financial status of bidder
- Transparent decision
- Welfare of employees
- Reducing liability of the government
- Revenue generation
- National interest
- Don’t know
- Others (please specify) …

7. What types of public enterprises should be privatized? (Please give in order 1, 2, 3 etc. 1 for the highest preference)

- For which private sector is capable
- Running in losses
- Running in profit
- Mismanaged enterprises
- Enterprises susceptible to political interference
- Others (please specify if any) …

8. What are the main obstacles that met in the process of implementation of the policy? (Please give in order 1, 2, 3 etc. 1 for highest preference)

- Political instability
- Lack of political consensus
- Lack of investors
- Lack of developed capital markets
- Lack of privatization fund for the implementation
- Worst condition of PEs
- Lack of transparency
- Employee-related problems
- Delaying in the process
- Lack of monitoring and evaluation system
- Buck shifting

Donor community
Private sector (FNCCI etc.)
9. How do you rate the overall impact of privatization in Nepal?
☐ Good  ☐ Average  ☐ Poor  ☐ Don’t know

10. Has the economic burden of the government been reduced/increased after privatization?
☐ Reduced  ☐ Increased  ☐ Don’t know

11. What are the major problems of the privatized enterprises? (Please give in order 1, 2, 3 etc. 1 for highest preference)
☐ Lack of fund for expansion  ☐ Frequent protest of labourers
☐ Lack of adequate cooperation from the government
☐ Lack of conducive environment for the operation of the enterprises
☐ Unfavourable export and import policy for the enterprises
☐ Lack of market  ☐ Lack of entrepreneurship in the private sector
☐ Lack of trained manpower  ☐ Weak management

12. How these problems could be solved? (Please give in order 1, 2, 3 etc. 1 for the highest preference)
☐ Govt. should come up with positive attitude
☐ Sound government policies and programs
☐ Creating friendly environment for the operation of the enterprises
☐ Availability of fund in reasonable interest rate
☐ Freedom of choosing the employees
☐ Strong monitoring and evaluation system
☐ Others (please specify)………………

13. What is the existing role of the government in management of the privatized enterprises?
☐ Positive  ☐ Negative  ☐ Don’t know

14. Do you think that existing policies, statutes and regulations are sufficient to promote privatization process in Nepal?
☐ Yes  ☐ No  ☐ Don’t know

If no, what changes are required in the policies, statutes and regulations? …

15. Do you think that present legal and institutional provisions are conducive for the successful implementation of privatization policy?
☐ Yes  ☐ No  ☐ Don’t know

16. Do you think that performance of PEs could be improved without privatization?
☐ Yes  ☐ No  ☐ If yes, how? …………………
17. What is the existing role of the government for the welfare of workers of the privatized enterprises?

☐ Positive    ☐ Negative    ☐ Don’t know

18. Have there been any facilities/supports provided by the government for the overall development of the privatized enterprises?

☐ Yes        ☐ No        ☐ Don’t know/no comment

If yes, please specify……………………

19. Was there any conflict during the implementation of the policy between/among different actors?

☐ Yes        ☐ No        ☐ Don’t know

If yes, please specify……………. 

20. Which modality of privatization would be more appropriate and effective in Nepalese context?

<table>
<thead>
<tr>
<th>PEs sector</th>
<th>Modalities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Assets sale</td>
</tr>
<tr>
<td>Manufacturing Sector</td>
<td></td>
</tr>
<tr>
<td>Trade Sector</td>
<td></td>
</tr>
<tr>
<td>Public Utilities Sector</td>
<td></td>
</tr>
<tr>
<td>Service Sector</td>
<td></td>
</tr>
<tr>
<td>Social Sector</td>
<td></td>
</tr>
<tr>
<td>Financial Sector</td>
<td></td>
</tr>
</tbody>
</table>

Mgmt. = management

21. Please state whether the process of privatization should be-

☐ Rapid    ☐ gradual, after due assessment ☐ No privatization

22. In your opinion, what is the necessary pre-requisite for the success of privatization in Nepal? (Please give in order 1, 2, 3 etc. 1 for the highest preference)

☐ Political consensus ☐ Detailed studies of the PEs

☐ Transparency

☐ Competency in civil service/efficient bureaucracy to implement the policy

☐ Discipline in financial matters

☐ Improvement in the implementation process

☐ Improvement in the valuation process ☐ Others (please specify)

23. To what extent are you satisfied with the privatization process adopted in Nepal with respect to:
24. In your opinion, who would be the principal beneficiaries and losers of privatization program (please give in order 1, 2, 3 etc. 1 for the highest preference)

<table>
<thead>
<tr>
<th>Principal Beneficiaries</th>
<th>Principal Losers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Big business houses (big investors)</td>
<td>Big business houses (big investors)</td>
</tr>
<tr>
<td>Small investors</td>
<td>Small investors</td>
</tr>
<tr>
<td>Government/ Decision makers</td>
<td>Government/ Decision makers</td>
</tr>
<tr>
<td>Consumers</td>
<td>Consumers</td>
</tr>
<tr>
<td>Employees</td>
<td>Employees</td>
</tr>
<tr>
<td>Others (please specify)</td>
<td>Others (please specify)</td>
</tr>
</tbody>
</table>

25. Please kindly state your other Comments/ Suggestions if any?………

Annex 4.2 Questionnaire Two
(For Sub sample Two: Employees of the Privatized enterprises)
(This questionnaire is only for the academic purpose. The answers you give us will be kept fully confidential.)

General Information of the Respondent
1. Name:  
2. Age:  
3. Education:  
4. Caste/ethnicity:  
5. Designation:  
6. Employment duration:  
7. Training (if any):  
8. Name of the enterprise:  
9. Address:  
10. Name of interviewer:  
11. Date of interview:  

1. Do you think that privatization of public enterprises is essential in Nepal?
   - Yes  
   - No  
   - Others (specify).  
   - Don’t know
1.1. If yes, why? (Please give in order 1, 2, 3 etc. 1 for the highest preference)

☐ To increase productivity of the enterprises
☐ To increase efficiency of the enterprises
☐ To reduce political intervention in the enterprises
☐ To reduce financial and administrative burden of the government
☐ To increase Govt. investment in social sector
☐ To promote private sector
☐ To generate additional revenue for the government
☐ To reduce the public sector borrowing requirement
☐ Because of the pressure from the donor community
☐ Because of the shifting preference of the government (ideology)
☐ Because of the government budget deficit
☐ Others
☐ Don't know

1.2. If no, why? (Please give in order 1, 2, 3 etc. 1 for the highest preference)

☐ Welfare of employees
☐ Regular supply of quality goods/services in reasonable prices
☐ Optimum use of public resources
☐ Because it promotes the concentration of wealth
☐ Because it worsens the socio-economic conditions
☐ Others … ……..

2. What type of public enterprises should be privatized?

☐ For which private sector is capable ☐ Running in losses
☐ Running in profit ☐ Mismanaged enterprises
☐ Enterprises susceptible to political interference ☐ Others

3. What are the gains of privatization of public enterprises? (Please give in order 1, 2, 3 etc. 1 for the highest preference)

☐ Increased private participation
☐ Reduced financial and administrative burden of the government
☐ Increased employment ☐ Increased revenue
☐ Increased efficiency/productivity of the enterprises
☐ Reduced corruption ☐ Reduced political interference
☐ Supply of quality goods and services ☐ Strengthened competitive market
☐ Don’t know ☐ Others

4. What are the losses of privatization of public enterprises? (Please give in order 1, 2, 3 etc. 1 for the highest preference)

xix
5. How do you rate the level of transparency followed by the government during the process of privatization of public enterprise?
☐ Good ☐ Average ☐ Poor ☐ Don’t know

6. What methods of privatization should be followed in the future to make privatization more effective and transparent? (Please give in order 1, 2, 3 etc. 1 for the highest preference)
☐ Assets and businesses sale ☐ Share sale
☐ Management/employee buyout ☐ Management contract
☐ Lease ☐ Co-operatization
☐ Others ☐ Don’t know

7. What issues/factors should be considered while privatizing public enterprises? (Please give in order 1, 2, 3 etc. 1 for the highest preference)
☐ Proper valuation of asset/property ☐ Technical capability of bidder
☐ Financial status of bidder ☐ Transparent decision
☐ Welfare of employees ☐ Reducing liability of the government
☐ Revenue generation ☐ National interest
☐ Don’t know ☐ Others

8. What do you think regarding the efficiency of the enterprise after privatization?
☐ Increased ☐ Decreased
☐ No change ☐ Don’t know

9. What is the status of market shares of this enterprise after privatization?
☐ Increased ☐ Decreased
☐ No change ☐ Don’t know

10. What are the major problems of privatized enterprises? (Please give in order 1, 2, 3 etc. 1 for highest preference)
☐ Lack of fund for expansion ☐ Frequent protest of labourers
☐ Lack of adequate cooperation from the government
☐ Lack of conducive environment for the operation of the enterprises
☐ Unfavourable export and import policy for the enterprises
☐ Lack of market ☐ Lack of entrepreneurship in the private sector
☐ Lack of trained manpower ☐ Weak management
11. How these problems could be solved? (Please give in order 1, 2, 3 etc. 1 for the highest preference)
   ☐ Govt. should come up with positive attitude
   ☐ Sound government policies and programs
   ☐ Creating friendly environment for the operation of the enterprises
   ☐ Availability of fund in reasonable interest rate
   ☐ Freedom of choosing the employees
   ☐ Strong monitoring and evaluation system
   ☐ Others (please specify)………………..

12. What do you think about the management of this enterprise after privatization?
   ☐ Improved    ☐ Deteriorated    ☐ No change    ☐ Don’t know

13. What do you think about employment status of this enterprise after privatization?
   ☐ Increased    ☐ Decreased    ☐ No significant change    ☐ Don’t know

14. How do you compare your salary and benefits with other similar types of enterprises?
   ☐ Higher    ☐ At par    ☐ Lower    ☐ Don’t know

15. What is the level of job security in the enterprise?
   ☐ High    ☐ Average    ☐ Low    ☐ Don’t know

16. Do you have any say/role in the decision making process of the enterprise?
   ☐ Yes    ☐ No

17. In your opinion, who would be the principal beneficiaries and losers of privatization program (please give in order 1,2,3 etc. 1 for the highest preference):

<table>
<thead>
<tr>
<th>Principal Beneficiaries</th>
<th>Principal Losers</th>
</tr>
</thead>
<tbody>
<tr>
<td>☐ Big business houses (big investors)</td>
<td>☐ Big business houses (big investors)</td>
</tr>
<tr>
<td>☐ Small investors</td>
<td>☐ Small investors</td>
</tr>
<tr>
<td>☐ Government/ Decision makers</td>
<td>☐ Government/ Decision makers</td>
</tr>
<tr>
<td>☐ Consumers</td>
<td>☐ Consumers</td>
</tr>
<tr>
<td>☐ Employees</td>
<td>☐ Employees</td>
</tr>
<tr>
<td>☐ Others (please specify)</td>
<td>☐ Others (please specify)</td>
</tr>
</tbody>
</table>
18. How do you see the following conditions in the privatized enterprises?

<table>
<thead>
<tr>
<th>Condition</th>
<th>New addition</th>
<th>Increased</th>
<th>No change</th>
<th>Decreased</th>
<th>Abolished</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Salary/Allowances</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Leaves</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Other Facilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Working Conditions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Working Time</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Number of Workers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Security</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Union Activities</td>
<td></td>
<td></td>
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<tr>
<td>9. Worker’s Exploitation</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>10. Company’s Capacity</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>11. Capacity Utilization</td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>12. Sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Profits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14. Bonus</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15. Social Security (insurances, pension, gratuity etc.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

19. Please kindly state your suggestions, comments if any? …… ……..
(Thank you very much for your kind cooperation.)

Annex 4.3 Questionnaire Three
(For Sub sample three: Trade Union Representatives)
(This questionnaire is only for the academic purpose. The answers you give us will be kept fully confidential.)

Personal Information of the respondent:
1. Name:              2. Age:    3. Education:
4. Designation:  5. Enterprises (if affiliated):  6. Address:
7. Name of Interviewer:               8. Date of Interview:

2. Do you think that the privatization of public enterprises is essential in Nepal?
   □ Yes    □ No    □ Others (specify)    □ Don’t know

1.1. If yes, why? (Please give in order 1, 2, 3 etc. 1 for the highest preference)
   □ To increase productivity of the enterprises
   □ To increase efficiency of the enterprises
   □ To reduce political intervention in the enterprises
   □ To reduce financial and administrative burden of the government
   □ To increase Govt. investment in social sector
☐ To promote private sector
☐ To generate additional revenue for the government
☐ To reduce the public sector borrowing requirement
☐ Because of the pressure from the donor community
☐ Because of the shifting preference of the government (ideology)
☐ Because of the government budget deficit
☐ Others ☐ Don't know

1.2. If no, why? (Please give in order 1, 2, 3 etc. 1 for the highest preference)
☐ Welfare of employees
☐ Regular supply of quality goods/services in reasonable prices
☐ Optimum use of public resources
☐ Because it promotes the concentration of wealth
☐ Because it worsens the socio-economic conditions
☐ Others …… ….

2. What type of public enterprises should be privatized? (Please give in order 1, 2,3 etc. 1 for the highest preference)
☐ For which private sector is capable ☐ Running in losses
☐ Running in profit ☐ Mismanaged enterprises
☐ Enterprises susceptible to political interference ☐ Others

20. What are the gains of privatization of public enterprises? (Please give in order 1, 2, 3 etc. 1 for the highest preference)
☐ Increased private participation
☐ Reduced financial and administrative burden of the government
☐ Increased employment ☐ Increased revenue
☐ Increased efficiency/productivity of the enterprises
☐ Reduced corruption ☐ Reduced political interference
☐ Supply of quality goods and services ☐ Strengthened competitive market
☐ Don’t know ☐ Others

21. What are the losses of privatization of public enterprises? (Please give in order 1, 2, 3 etc. 1 for the highest preference)
☐ Poor service/quality of goods ☐ Loss of revenue
☐ Price increase ☐ Loss of employment
☐ Creation of private monopoly ☐ Others ☐ Don’t know

22. How do you rate the level of transparency followed by the government during the process of privatization of public enterprise?
☐ Good ☐ Average ☐ Poor ☐ Don’t know
23. What is the existing role of the government in management of the privatized enterprises?
☐ Positive   ☐ Negative   ☐ Don’t know

24. Do you think that existing policies, statutes and regulations are sufficient to promote privatization process in Nepal?
☐ Yes       ☐ No        ☐ Don’t know
If no, what changes are required in the policy, acts and regulations? ……

25. Do you think that present legal and institutional provisions are conducive for the successful implementation of privatization policy?
☐ Yes       ☐ No        ☐ Don’t know

26. Do you think that performance of PEs could be improved without privatization?
☐ Yes       ☐ No        ☐ If yes, how? …………………

27. What is the existing role of the government for the welfare of workers of the privatized enterprises?
☐ Positive   ☐ Negative   ☐ Don’t know

28. What methods of privatization should be followed in the future to make privatization more effective and transparent? (Please give in order 1, 2, 3 etc. 1 for the highest preference)
☐ Assets and businesses sale   ☐ Share sale
☐ Reorganization              ☐ Management/employee buyout
☐ Management contract        ☐ Lease
☐ Cooperatisation            ☐ Others   ☐ Don’t know

29. What issues/factors should be considered while privatizing public enterprises? (Please give in order 1, 2, 3 etc. 1 for the highest preference)
☐ Proper valuation of asset/property   ☐ Technical capability of bidder
☐ Financial status of bidder         ☐ Transparent decision
☐ Welfare of employees              ☐ Reducing liability of the government
☐ Revenue generation                ☐ National interest
☐ Don’t know                        ☐ Others

30. What do you think regarding the efficiency of the enterprise after privatization?
☐ Increased   ☐ Decreased   ☐ No change   ☐ Don’t know

31. What are the main obstacles that met in the process of implementation of the policy? (Please give in order 1, 2, 3 etc. 1 for the highest preference)
☐ Political instability   ☐ Lack of political consensus
☐ Lack of investors       ☐ Lack of developed capital markets
☐ Lack of privatization fund for the implementation
32. What are the major problems of privatized enterprises? (Please give in order 1, 2, 3 etc. 1 for the highest preference)
- Lack of fund for expansion
- Frequent protest of labourers
- Lack of adequate cooperation from the government
- Lack of conducive environment for the operation of the enterprises
- Unfavourable export and import policy for the enterprises
- Lack of market
- Lack of entrepreneurship in the private sector
- Lack of trained manpower
- Weak management
- Others (please specify) ……

33. How these problems could be solved? (Please give in order 1, 2, 3 etc. 1 for the highest preference)
- Govt. should come up with positive attitude
- Sound government policies and programs
- Creating friendly environment for the operating of the enterprises
- Availability of fund in reasonable interest rate
- Freedom of choosing the employees
- Strong monitoring and evaluation system
- Others (please specify) ……

34. What do you think about the managerial level effectiveness of the enterprise after privatization?
- More efficient
- Deteriorated
- No change
- Don’t know

35. What do you think about employment generation after privatization?
- Increased
- Decreased
- No significant change
- Don’t know

36. What is the level of job security in the enterprise?
- High
- Average
- Low
- Don’t know

37. Do you think that the employee have any role in the decision making process of the enterprise?
- Yes
- No

38. In your opinion, who would be the principal beneficiaries and losers of privatization program (please give in order 1,2,3 etc. 1 for the highest preference):
39. How do you rate the overall impact of privatization in Nepal?

☐ Good       ☐ Average   ☐ Poor       ☐ Don’t know

40. How do you see the following conditions in the privatized enterprises?

<table>
<thead>
<tr>
<th></th>
<th>New addition</th>
<th>Increased</th>
<th>No change</th>
<th>Decreased</th>
<th>Abolished</th>
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<tr>
<td>1. Salary/allowances</td>
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<td>2. Leaves</td>
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<td>3. Other facilities</td>
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<td>4. Working conditions</td>
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<td>5. Working time</td>
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<td>6. Number of workers</td>
<td></td>
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<td>7. Security</td>
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<td>8. Union activities</td>
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<td>9. Worker’s exploitation</td>
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<td>10. Company’s capacity</td>
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<td>13. Profits</td>
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<td>14. Bonus</td>
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<td>15. Social security (insurances, pension, gratuity etc.)</td>
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</table>

41. Please kindly state your suggestions, comments if any? ……………………………

(Thank you very much for your kind cooperation.)
Annex 4.4 Questionnaire Four
(For Sub sample four: General public residing around the privatised enterprises)
(This questionnaire is only for the academic purpose. The answers you give us will be kept fully confidential.)

General Information of the Respondent:


1. Do you know about privatization?
   □ Yes  □ No

2. Did you know that ……………………………has been privatized in …….?  
   □ Yes  □ No

3. Have you felt any changes in the operation of this company after privatization?  
   □ Yes  □ No  □ Don’t know

4. Has there been any change in the prices of the goods/services supplied by the privatized enterprise after privatization?  
   □ Increased  □ Decreased  □ No change  □ Don’t know

5. Has there been any change in the quality of services/products provided/delivered by the privatized enterprise after privatization?  
   □ Improved  □ Decreased  □ Not significant change  □ Don’t know

6. Has the company adversely affected the local environment to a greater extent than before privatization?  
   □ Yes  □ No  □ Don’t know  If yes, please specify… …

7. Has the privatized enterprise generated an additional employment for the local people?  
   □ Yes  □ No  □ Don’t know

8. How do you evaluate the delivery situation of services/products of the privatized enterprise compared to other similar enterprises?  
   □ Good  □ Average  □ Poor  □ Don’t know

9. How do you evaluate the good will of the privatized enterprise compared to other similar enterprises?  
   □ Good  □ Average  □ Poor  □ Don’t know

10. Is privatization of public enterprises essential in Nepal?  
   □ Yes  □ No  → (Q. 10.2)  □ Don’t know

10.1 If yes, why? (Please give in order 1, 2, 3 etc. 1 for the highest preference)  
   □ To increase productivity of the enterprises  
   □ To increase efficiency of the enterprises  
   □ To reduce political intervention in the enterprises
To reduce financial and administrative burden of the government
To increase Govt. investment in social sector
To promote private sector
To generate additional revenue for the government
To reduce the public sector borrowing requirement
Because of the pressure from the donor community
Because of the shifting preference of the government (ideology)
Because of the government budget deficit
Others

10.2. If no, why? (Please give in order 1, 2, 3 etc. 1 for the highest preference)
Welfare of employee
Regular supply of quality of goods/services
Optimum use of public resources
Because it promotes the concentration of wealth
Because it worsens the socio-economic conditions
Others

11. How do you rate the level of transparency followed by the government during the process of privatization of this enterprise?
Good
Average
Poor
Don’t know

12. In your opinion, what are the gains of privatization of public enterprises? (Please give in order 1, 2, 3 etc. 1 for the highest preference)
Increased private participation
Reduced financial and administrative burden of the government
Increased employment
Increased revenue
Increased efficiency/productivity of the enterprises
Reduced corruption
Reduced political interference
Supply of quality goods and services
Strengthened competitive market
Others

13. In your opinion, what are the losses of privatization of public enterprises? (Please give in order 1, 2, 3 etc. 1 for the highest preference)
Poor service/quality of goods
Loss of revenue
Price increase
Loss of employment
Creation of private monopoly
Others
Don’t know

14. Has the privatized enterprises launched any social welfare programs for the local people?
Yes
No
Don’t know
If yes, please specify

15. Have you experienced any problem because of the privatization of the company?
Yes ☐ No ☐ Don’t know ☐
If yes, please specify…… ……… ………….. ………

16. Do you have any comments/suggestions? Please specify.

(Thank you very much for your kind cooperation.)

Annex 4.5 Questionnaire Five
(Survey Questionnaire for privatized Enterprises)
(This questionnaire is only for the academic purpose. The answer you give us will be kept fully confidential.)

1. Background Information:
   1.1 Name of the Company:   1.2 Central Offices:
   1.3 Date of Registration: 1.4 Managing Directors:
   1.5 Chairman: 1.6 Directors:
   1.7 Method of Privatization: 1.8 Year of Privatization:
   1.9 Terms of Payment (including total proceeds, interest rate, if any):

2. Relevant Statistical Indicators:

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<th>After Privatization (Latest Three Years)</th>
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1. **Production**
   a.
   b.
   c.
   d.
   e.
   f.
   g.

Total Production
Product Diversification (Name)

2. **Sales**
   a.
   b.
   c.
   a. Capacity Utilization (in %)
   b. Capacity Expansion

3. **Price (in Rs)**
   (i) .........
   (ii) .........
   (iii) .........
   (iv) .........
Import (in quantity)
<p>| | | | | |</p>
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<td>Price (per unit)</td>
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<td>5</td>
<td>Closing Stock (in quantity)</td>
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<td>(i) ……</td>
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<td>(ii) ………</td>
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<td>(iv) ………..</td>
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<td>6</td>
<td>Debt (in Rs)</td>
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<td></td>
<td>i) Foreign</td>
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<td>ii) Government</td>
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<td>iii) Local</td>
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<td>7</td>
<td>Grant (in Rs.)</td>
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<td></td>
<td>i) Foreign</td>
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<td>ii) Government</td>
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<td>8</td>
<td>Govt. Subsidy (in Rs.)</td>
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<td>9</td>
<td>Tax Payment (in Rs)</td>
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<td>(a) Customs</td>
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<td>(b) VAT (Sales Tax)</td>
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<td>c) Income Tax</td>
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<td>d) Other Taxes</td>
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<td>10</td>
<td>Net Profit (in Rs)</td>
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<td>11</td>
<td>Social Welfare Program (if any)</td>
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<td>12</td>
<td>Total Employment (Number)</td>
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<tr>
<td></td>
<td>i) Administrative</td>
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<td>a. Permanent</td>
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<td>b. Temporary</td>
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<td></td>
<td>c. Daily wages</td>
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<td>ii) Technical</td>
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<td>a. Permanent</td>
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<td>b. Temporary</td>
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<td></td>
<td>c. Daily wages</td>
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<td>iii) Labourer</td>
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<td>a. Permanent</td>
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<td></td>
<td>b. Temporary</td>
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<td>c. Daily wages</td>
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<td>Total</td>
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<tr>
<td>13</td>
<td>Total expenditure (in Rs.)</td>
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<td></td>
<td>a. Administrative</td>
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<td>b. Other</td>
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(Thank you very much for your kind cooperation.)
Annex 4.6 Interview Guide for Key Respondents

General Information

1. Why privatization policy has been adopted in Nepal?
2. Do you think these objectives have been met? If no, what could be done?
4. What are the gains of privatization of public enterprises?
5. What are the losses of privatization of public enterprises?
6. How do you rate the overall level of transparency in the process of privatization?
7. How the process of privatization could be made more transparent?
8. What method should be followed to make privatization more effective?
9. What issues/factors should be considered while privatizing public enterprises in future?
10. What are the main obstacles that met in the process of implementation of the policy?
11. Has there been any conflict while during the policy implementation process? If yes could you please specify?
12. How do you rate the impact of privatization in Nepal?
13. Has the government's revenue (received from the enterprises) increased after privatization?
14. Has the economic burden of the government reduced/increased after privatization?
15. What are the major problems of privatized enterprises?
16. How these problems could be solved?
17. What facilities/supports have been provided by the government for the overall development of the privatized enterprises?
18. Do you think that existing policy, acts and regulations are sufficient to promote privatization process in Nepal? If no, what changes are required in the policy, acts and regulations?
19. What is the existing role of the government for the welfare of workers of the privatized enterprises?
20. Do you think that performance of PEs could be improved without privatization?
21. Which modality of privatization would be more appropriate and effective in Nepalese context?
22. In your opinion, what is the necessary pre-requisite for the success of privatization in Nepal?
23. To what extent are you satisfied with the privatization process adopted in Nepal?
24. In your opinion, who are the principal beneficiaries and losers of privatization program?

25. Other Comments/ Suggestions
### Annex-5: Name of the Key Respondents

<table>
<thead>
<tr>
<th>SN.</th>
<th>Name</th>
<th>Designation</th>
<th>Office (if any)</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Prof. Dr. Bhim Dev Bhatta</td>
<td>Member</td>
<td>Public Service Commission</td>
</tr>
<tr>
<td>2</td>
<td>Dr. Madhunithi Tiwari</td>
<td>Ex-member</td>
<td>Public Service Commission</td>
</tr>
<tr>
<td>3</td>
<td>Dr. Bhoj Raj Ghimire</td>
<td>Secretary</td>
<td>National Planning Commission</td>
</tr>
<tr>
<td>4</td>
<td>Dr. Hira Mani Ghimire</td>
<td>Governance Advisor</td>
<td>DFID /Nepal</td>
</tr>
<tr>
<td>5</td>
<td>Dr. Shree Krishna Shrestha</td>
<td>Reader/Chairman</td>
<td>Public Administration Campus, TU, Pro-Public</td>
</tr>
<tr>
<td>6</td>
<td>Dr. Narayan Manandhar</td>
<td>Advisor</td>
<td>Commission for Investigation of Abuse of Authority (CIAA)</td>
</tr>
<tr>
<td>7</td>
<td>Dr. Mohan Chandra Adhikari</td>
<td>Advisor</td>
<td>Biratnagar Jute Mills Ltd.</td>
</tr>
<tr>
<td>8</td>
<td>Dr. Dev Bhakta Shakya</td>
<td>Executive Director</td>
<td>FNCCI</td>
</tr>
<tr>
<td>9</td>
<td>Dr. Maheshwor P. Bharti</td>
<td>Project coordinator</td>
<td>Seed Sector Support Project (SSSP) (HMGN/DFID)</td>
</tr>
<tr>
<td>10</td>
<td>Mr. Dev Raj Dahal</td>
<td>Country Director</td>
<td>FES/Nepal</td>
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<tr>
<td>11</td>
<td>Mr. Bala Nanda Paudel</td>
<td>Joint Secretary</td>
<td>National Planning Commission Secretariat</td>
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<td>Mr. Bimal Wagle</td>
<td>Joint Secretary</td>
<td>Ministry of Industry, Commerce and Supply</td>
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<tr>
<td>13</td>
<td>Mr. Pramod Kumar Karki</td>
<td>Joint Secretary</td>
<td>Ministry of Finance</td>
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<td>Mr. Sushil Pd. Sharma Dhungel</td>
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<td>15</td>
<td>Mr. Chandi Pd Dhahal</td>
<td>Joint Secretary</td>
<td>Revenue Administration Training Center, Board member, Udayapur Cement Industry</td>
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<tr>
<td>16</td>
<td>Mr. Kisore Bhakta Mathema</td>
<td>Managing Director</td>
<td>Harisiddhi Brick and Tile Factory</td>
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<tr>
<td>17</td>
<td>Mr. Bishnu Rimal</td>
<td>General secretary</td>
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<td>Mr. Gopi Nath Mainali</td>
<td>Senior Instructor</td>
<td>Revenue Administration Training Centre</td>
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<td>Mr. Krishna Pd. Acharya</td>
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<td>Mr. Narayan Pd. Shanjel</td>
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<td>Mr. Ravi Bhattarai</td>
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<td>Privatization Cell, Ministry of Finance</td>
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<td>22</td>
<td>Mr. Uttam Bk.Wagle</td>
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<td>Mr. Rudhra Pd. Adhikari</td>
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<td>Mr. Som Adhikari</td>
<td>Executive Officer</td>
<td>Morang Udhog Sang, Biratnagar</td>
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<td>26</td>
<td>Mr. Mahesh Hamal</td>
<td>Administrative Officer</td>
<td>Biratnager Jute Mills Ltd.</td>
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<td>Ms Binda Pandey</td>
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<td>Mr. Rajendra Acharya</td>
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<td>NTUC</td>
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<td>29</td>
<td>Mr. Mahendra Baniya</td>
<td>Union Leader</td>
<td>Biratnagar Jute Mills Ltd</td>
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<tr>
<td>30</td>
<td>Mr. Dinesh Rai</td>
<td>Union Leader</td>
<td>Biratnagar Jute Mills Ltd</td>
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