

Impact of Privatization in Nepal

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Abstract

Privatisation of public enterprises have been very much in the agenda of economic liberalisation in contemporary world specially in developing and countries in transition. Different modalities of privatisation with lofty goals such as enhancing productive efficiency, allocative efficiency, economic efficiency and to rescue governments from budgetary burdens. Upon evaluation of private and public undertakings in Nepal it was revealed that public enterprises were capital intensive, better in capacity utilisation, profitability and with high economic returns compared to private undertakings. Barring a few, production level did not increase much. Three out of ten enterprises studied showed a marked improvement in sales of their products after privatisation whereas only two enterprises turned out to be profitable. On various yardsticks such as price, employment and labour productivity, product diversification, privatised enterprises have not been successful to the level committed before privatisation. Privatisation therefore might not be beneficial unless it is accompanied by competition in the market place. The key issue is whether such privatisation better serves the long run development interest of a nation by promoting a more sustainable and equitable pattern of economic and social progress.

Introduction

Privatization is relatively a new conceptual phenomenon in Nepal. Efforts on the privatization of public enterprises were made only in the early 1990s. A total of 16 public enterprises have been privatized under different modalities in three phases. More enterprises are in the pipeline for privatization in the government policy and programmes.

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The process of privatization has been comparatively slow as envisaged particularly due to frequent changes in the government. During the fiscal year 1995-96, the privatization programme was delayed with a view to study the impact of the programme and adopt corrective measures if required. As a change in the government the study programme could not be materialized. Since then, privatization of public enterprises in Nepal has been continued.

Privatization policy was implemented for improving the socio-economic conditions on the one hand and the government financial position on the other. However, the economic, financial, productive, allocative and distributional efficiencies as well as participation of the private sector in the economic activities to a large extent can be identified as the major reasons for adopting the policy.

Basic Expectations from Privatisation

Privatization has been advocated primarily as a means of improving the performance of the public enterprise sector. It is increasingly argued that privatization may have significant impact on the performance efficiency, financial efficiency and distributional efficiency (Cook and Kirkpatrick (1987). Privatization can cut government expenditures and help restore budgetary balance. Privatization can also be justified in terms of economic efficiency (Kempe – 1996). There are three kinds of efficiency gains that can be potentially derived from privatization. These are gains in allocative efficiency, productive efficiency, and nonmarket efficiency (Van de Walle – 1989).

A change to partial or complete private ownership is expected to lesson the scope for political intervention in the operations of the enterprise. The objectives of enterprises will be simplified, overly complex networks of dysfunctional bureaucratic controls will be reduced, and the likelihood of arbitrary 'interference' in operating decisions will be lessened. Each of these changes is expected to achieve particularly productive efficiency, allocative efficiency and economic efficiency. On the other hand, an important motive for privatization is the anticipated alleviation of budgetary burden of the public enterprise on the government. It is further expected that privatization may contribute in the redistribution of income and wealth.

Public vs. Private Enterprise Performance Issues

There has been an increasing tendency to replace the public enterprise policy by the privatization policy in most of the countries these days. The increasing trend has been the

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consequence of the belief that private enterprises are comparatively better than public enterprises in the operation of commercial and industrial activities.

Heald and Steel (1984) argued that privatization of public enterprises has been seen by the government as it will enhance freedom by extending the sphere of the market and contracting that of the state, it will improve efficiency because private sector organizations are inherently more efficient than public ones, it will reintroduce market disciplines missing in the determination of public sector pay. Commandar and Kilck (1988) on the other hand note that privatization movement is part of a more comprehensive reassertion of the merits of market solutions. It is claimed that private ownership will lead to a more efficient, higher productivity use of resources. Kay and Thompson (1986) state that the view privatization contributes to economic efficiency is derived from the belief that private sector managers are subject to incentives and disciplines different from, and more demanding than, those which apply to their public sector counterparts. It indicates, thus, that private sector enterprises perform better as compared to the public sector enterprises. Thus, attempts have been made to analyse a comparative performance of the private sector enterprises.

Public and Private Sector Comparative Performance

Public enterprises are criticized mainly for revealing unsatisfactory financial returns on the capital employed. Advocates of privatization argue that private ownership restores incentives which promote productive efficiency. To examine this claim, attempts have been made to compare public and private enterprise performance in the following section.

Aylen (1988) compared two publicly-owned steel enterprises, one (POSCO) in South Korea and its counterpart (SAIL) in India, and found that labour productivity per worker in SAIL was only one tenth that in its counterpart. Likewise, Shair (1988) found that the annual growth for labour productivity in the private sector was 6.7 percent while in the public industrial sector it was only 5.3 percent in Iraq.

Millward (1987) studied the comparative performance of public and private enterprises in less developed countries (LDCs) in terms of productivity and cost effectiveness over the period 1976-86. There was no statistically significant evidence that private enterprises in LDCs functioning at the same scale of operation as their counterparts in the public sector are technically more efficient.

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The concept of privatization of public enterprises has been emerged as a result of general observation and empirical studies on the capability of financial earnings of the private sector. In Israel, a study of a sample of 25 public industrial enterprises and 37 private companies showed considerably lower financial profitability for the public enterprises than for the latter (Ayab and Hagstad – 1986). Table 1 provides a comparative picture of public and private sector enterprises on the financial profitability.

Table 1
Profitability of Public and Private Enterprises by Industry, 1984

Industry	Public Enterprises	Private Enterprises
Mining	7.4	15.5
Petroleum	3.8	4.4
Tobacco	1.8	8.5
Chemicals	1.6	3.5
Aerospace	0.9	2.9
Electronics	0.4	3.6
Steel and Metal	-3.8	0.7
Motor Vehicle	-5.7	3.3
Weighted Average	1.7	4.0

Note: Data relate to the 500 largest non-US companies as listed in the Fortune, 1985.

Source: V.V. Bhatta (1987), "Public Enterprise Sector and Development: Lessons from International Experience in Vikalpa, Journal of Indian Institute of Management, India.

It could be seen from the table that profitability position of public enterprises is less than that of the private sector. The poor financial performance of the public enterprises had increased government subsidies and foreign loans. Due to their huge deficits public enterprises have exerted sizeable demand on government budget, bank credit and foreign borrowings. Search for policy option to the public enterprise policy can be seen against this background.

In the issue of performance between the private and public sector managerial aspect obtains prime focus. It is due to the managerial superiority private sector enterprises out performed the public sector enterprises in many respects of performance. Table 2 presents a comparative picture of performance between these two sectors.

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Table 2
Comparative Performance of Public and Private Sector Jute Mills in Nepal

Year	Capital-Output Ratio		Value Added/Employment		Profitability	
	Public	Private	Public	Private	Public	Private
1970	2.03	4.96	17904	17770	31.26	23.22
1971	1.29	1.22	17612	16713	51.00	41.00
1972	1.86	1.77	13000	17795	40.52	26.00
1973	2.08	1.09	20409	16508	26.19	12.37
1974	4.10	3.57	16371	15560	2.74	3.84

Source: CCC & ISC (1980), performance of Public Enterprises in Nepal: A Managerial Analysis, Kathmandu, Nepal, pp. 115-116.

The comparative performance of two jute mills operated in the public and private sector showed that other than in the capital-output ratio, the public sector jute mill performed well in terms of value added per employee and profitability ratio.

Another comparative study of public and private enterprises revealed that (i) public enterprises were nearly twice as capital intensive than the private enterprises, (ii) capacity utilization in public sector is better than in the private sector, (iii) both profitability and economic return is higher in private enterprises than in public enterprises, and (iv) higher effective protection rates for private enterprises and (v) more domestic resource cost savings by the public enterprises than private enterprises in the year 1980-81 but reverse in the year 1981-82 as seen in table 3. However, in 1988, the UNIDO study on output per employee in public and private sector in Nepal indicated that except for the jute industry, the private sector was more efficient than the public sector.

Table 3
Comparative Performance of Public Versus Private Enterprises

	Public		Private	
	1980-81	1981-82	1980-81	1981-82
Capital/Labour	0.14	0.14	0.08	0.08
Capacity Utilization	0.44	0.65	0.41	0.49
Profitability	0.11	0.17	0.40	0.48
Protection	1.12	0.65	1.54	1.50
Domestic Resource	1.37	0.76	0.81	0.79
Economic Return	0.07	0.12	0.13	0.15

Source: Ramesh Adhikari (1986), "Industrial Projects and Economic Policies: Future Lessons from Past Projects (Nepal)", in Project Appraisal, (Sept.).

Thus, the available information on public and private enterprise performance is very inconclusive. If in some dimension the performance of public enterprise is found to be superior (e.g. capacity utilization) than in other they have lagged behind (profitability). As Hemming and Mansoor (1987) have observed that, "despite the inconclusive nature of the evidence, it is difficult to believe that existing public enterprises are not capable of achieving significant improvements in efficiency".

Impact Analysis of Privatised Public Enterprises

Generally private sector possesses comparative advantages in organization, management and operation when compared with the public sector. It has been widely recognized and discussed in the earlier sections too. In view of the efficiency of private enterprises on the one hand and recognition of poor performance of public enterprises on the other, privatization policy was introduced in Nepal particularly concentrating on the privatization of public enterprises. Number of public enterprises have either been privatized or liquidated.

Privatization of public enterprises aims at institutional development, increased efficiency, better services, quality products, employment opportunities, extensive private investment and others. The first phase of privatization process has already completed seven years. And third phase of the policy has also been completed. The country is preparing for the next phase of privatization of public enterprises.

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In the following sections of the study, attempts have been made to evaluate the performance of the privatized public enterprises and analyse the impact of privatization on these enterprises.

1. Capital Investment

Sharing of ownership in the industrial and commercial activities through the private capital investment has been one of the basic motive for initiating privatization policy in Nepal. Privatization can thus be seen as a tool to accumulate the fragmented capital and utilize it in the main stream of the economy. It is also expected that private capital investment will provide relief to the government in course of budgetary arrangements.

One of the major tools to evaluate the success of the privatization policy is increment of private capital in the privatized enterprises. Table 4 presents a comparative picture of capital investment in the enterprises before and after privatization.

Table 4
Capital Investment in Privatized Enterprises

(Rs. In '000)

Enterprises	Capital Investment							
	Before Privatization				After Privatization			
	Share	Loan	Other	Total	Share	Loan	Other	Total
Bhrikuti Pulp & Paper Ltd.	64501	-	84668	149169	373000	628065	-	1001065
Harisiddhi Brick Factory	11340	-	1046	12386	*	*	-	*
Bansbari Leatherage Ltd.	42022	38480	-	80502	46960	36135	-	83095
Nepal Lube Oil Ltd.	16833	-	19046	35907	16899	16792	-	33691
Nepal Bitumen & Barrel Ltd.	21068	1988	6392	29448	21068	23820	-	44888
Nepal Film Development Co.	60000	7201	-	67201	44662	6000	-	50662
Balaju Textile Factory	9300	-	-	9300	25000	20000	-	45000
Nepal Foundry Industry	3233	-	14420	17653	3233	15278	-	18511
Raghupati Jute Mills	180668	20959	-	201627	187528	38550	-	226078
Agriculture Tools Factory	19520	8864	-	28384	19520	8864	-	28384
Total	428515	77492	125572	631579	737870	793504	-	1531374

* = Not Available.

Source: Concerned Enterprises and Ministry of Finance.

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The total capital investment in 10 enterprises before privatization was Rs 631.6 million. The composition of capital investment was Rs 428.5 million in share, Rs 77.5 million in loan and Rs 125.6 million in others. The total capital investment reached Rs 1531.4 million after privatization in these enterprises excluding the amount of Harisiddhi Brick and Tile Factory. Out of the total capital investment, share capital claimed Rs 737.9 million and loan capital claimed Rs 793.5 million. The comparative analysis revealed that loan capital dominated in the total investment after the privatization of these enterprises whereas the scene was opposite before privatization. It signified that private capital has not been injected in these enterprises as per expectation. However, a substantial increment in the capital investment i.e. 571.1 percent has taken place in Bhrikuti Pulp and Paper Factory.

2. Production Situation

Privatization theory entails increase in production will as a result of efficiency of the private sector. Productive resources would be used and managed in a better way which contribute in production. Table 5 shows the production situation of the privatized public enterprises compared with the situation prior to privatization.

Table 5
Production of Privatized Enterprises

	Unit	Before Privatization	Production for the year 1996/97	Increase/Decrease	
				Quantity	Percentage
1. Bhrikuti Pulp & Paper Ltd.	M. Ton	1500	9124	7624	508.27
2. Harisiddhi Bricks & Tile Factory	Pcs.	1700000	2110000	410000	24.12
3. Bansbari Leatherage Ltd.	Sq. Ft.	190000	947192	757192	398.52
4. Nepal Lube Oil Ltd.	Lt.	505800	971881	466081	92.15
5. Nepal Bitumen & Barrel Industry					
* Bitumen	M. Ton	2889	4900	2011	69.60
* Bitumen Drum	Unit	14072	29348	15276	108.56
* Lube Oil	M. Ton	2327	200	-2127	-91.41
* Emulsion	M. Ton	1	500	499	99.90
6. Nepal Film Development Company	Film	8	15	7	87.50
7. Balaju Textile Industry	Metre	689160	1097175	408015	59.20
8. Nepal Foundry Industry	Kg.	151000	170000	9000	5.59
9. Raghupati Jute Mills Ltd.	M. Ton	22	23	1	4.55
10. Agriculture Tools Factory	M. Ton	400	400	0	0.00

Source: Department of Auditor-General (1998), 35th Annual Report 2055 (Kathmandu: DAG), Vol. 2, p. 13.

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The comparative production analysis of the privatized enterprises signified that except in a few enterprises, production in these enterprises have not been increased. Some of them were able to increase their production marginally or remain at constant level.

Out of 10 privatized enterprises under the study two enterprises were found expanding the production level of their products in the fiscal year 1996-97. The production of Bhrikuti Pulp and Paper Industry was increased by 508.3 percent while the production of Bansbari Leatherage Ltd. increased by 398.5 percent. Four enterprises had modest increment in production. Nepal Lube Oil increased its production by 92.2 percent. Similarly Balaju Textile Industry had an increase of 59.2 percent, Nepal Film Development Company an increase of 97.5 percent and Harisiddhi Brick and Tile Factory had an increase of 24.1 percent in its production. In the case of Nepal Bitumen and Barrel Industry, lube oil was decreased by 91.4 percent whereas other products; bitumen, bitumen drum and emulsion were increased by 69.6 percent, 108.6 percent and 87.5 percent respectively. Nepal Foundry Industry and Raghupati Jute Mills had a marginal increase in their production by 5.6 percent and 4.6 percent respectively. Agriculture Tools Factory was in a constant position.

3. Sales Situation

Sales is an important indicator to measure performance of an enterprise. It has multi-lateral effects in the performance particularly on production and profits. Comparisons of sales of the privatized enterprises, before and after privatization, is shown in Table 6.

Table 6
Sales of Privatized Enterprises

(Rs. In '000)

Enterprises	Sales, (When Privatized)	Sales for the year 1996-97	Increase/Decrease	
			Amount	Percentage
1. Bhrikuti Pulp & Paper Ltd.	76542	340432	263890	344.76
2. Harisiddhi Brick & Tile Factory	27827	43093	15266	54.86
3. Bansbari Leatherage Ltd.	52044	76090	24046	46.20
4. Nepal Lube Oil Ltd.	75352	69641	-5711	-7.58
5. Nepal Bitumen & Barrel Ltd.	31086	74853	43767	140.79
6. Nepal Film Development Co.	9182	27608	18426	200.67
7. Balaju Textile Factory	17117	9342	-7775	-45.42
8. Nepal Foundry Industry	5065	4035	-1030	-20.34

Source: Department of Auditor-General (1998), Op. Cit., p. 14.

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The three enterprises viz. Bhrikuti Pulp and Paper Industry, Nepal Bitumen and Barrel Ltd. and Nepal Film Development Co. have improved their sales situation after privatization. Their sales have been increased by 344.8 percent, 140.8 percent and 200.7 percent respectively. Harisiddhi Brick and Tile Factory and Bansbari Leatherage Ltd. had moderate improvement in their sales by 54.9 percent and 46.2 percent in the year 1996-97. On the contrary, the sales of Balaju Textile Industry, Nepal Foundry Industry and Nepal Lube Oil Ltd. has decreased in their sales by 45.4 percent, 20.3 percent and 7.6 percent respectively. It indicates that the sales situation of the privatized enterprises have not been improved significantly except in a few enterprises.

4. Profit Situation

Financial profit is the yardstick for measuring the success of an enterprise. It provides a general picture of performance improvement or vice-versa. Table 7 presents the profit position of the privatized enterprises for the year 1996-97 and their comparison with prior to privatization of these enterprises.

Table 7
Profit Position of Privatized Enterprises

(Rs. In '000)

Enterprises	Profit, before privatization	Profit for the year 1996-97	Increase/Decrease	
			Amount	Percentage
1. Bhrikuti Pulp & Paper Ltd.	4234	12466	8232	149.43
2. Harisiddhi Brick & Tile Factory	1323	N.A.	-1323	-100.00
3. Bansbari Leatherage Ltd.	764	3000	2236	292.67
4. Nepal Lube Oil Ltd.	12148	6280	-5868	-48.30
5. Nepal Bitumen & Barrel Ltd.	2535	588	-1947	-76.80
6. Nepal Film Development Co.	6521	5845	-678	-10.37
7. Balaju Textile Factory	-4743	N.a.	-	100.00
8. Nepal Foundry Industry	-2643	-967	1676	-6341
9. Raghupati Jute Mills Ltd.	N.A.	N.A.	-	-
10. Agriculture Tools Ltd.	N.A.	N.A.	-	-

N.A. = Not Available.

Source: Department of Auditor-General (1998), Op. Cit., p. 14.

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Bhrikuti Pulp and Paper Industry and Bansbari Leatherage Ltd. were the only profitable enterprises among the privatized enterprises in the fiscal year 1996-97. Their profits were increased by 149.4 percent and 292.7 percent respectively. Remaining enterprises are not found earning profits. Before privatization, all enterprises were in profits except Balaju Textile Industry and Nepal Foundry Industry. After privatization, Harisiddhi Brick and Tile Factory, Nepal Lube Oil Ltd., Nepal Bitumen and Barrel Ltd. and Nepal Film Development Corporation have also been found as loss-making enterprises. There could be several reasons for incurring financial losses in these enterprises. However, it can be remarked in general that most of the enterprises have not been able to earn profits after privatization.

5. Price Effects

Privatization has been perceived in a negative way in the country for a sudden price rise immediately after the privatization of public enterprises. There could be a number of factors influencing in the price rise such as inflationary pressure, rise in prices of inputs and subsidiaries etc. However, a substantial increase in prices have been remarked in the privatized enterprises.

Table 8
Changes in Prices in Privatized Enterprises

Enterprises	Price Before Privatization	Price After Privatization	Remarks
1. Harisiddhi Brick & Tile Factory (Rs. Per '000)			
- Bricks	1,600	2,400	50% increase
- Roof Tiles	4,140	10,000	142% increase
- Floor Tiles	1,600	3,500	119% increase
2. Balaju Textile Industry (Rs. Per metre)	27.60	41.90	34% increase
3. Raw Hide Collection and Development Corporation (Hide Rs. Per piece)	250	650	160% increase

Source: CRPS (1995), Rastrasewak, Vol. 1, No. 3, Summer, p. 34.

In case of Harisiddhi Brick and Tile Factory, the price of bricks, roof tiles and floor tile have increased by 50 percent, 142 percent and 119 percent respectively immediately

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after privatization. Similarly, the product prices of Balaju Textile Industry increased by 50 percent after privatization of the enterprise. In case of Raw Hide Collection and Development Corporation, the prices of raw hides had increased by 160 percent. It therefore suggests that the prices of privatized enterprises have been increased after privatization. It may, of course, be a result of the ending of government control on the one hand and the free play of demand and supply forces in the market on the other.

6. Employee/Labour Productivity

It is generally envisaged that the employee/labour productivity would be high in the private sector enterprises as compared with the public sector enterprises. Productivity is, by and large, an average output per employee or labour. Table 9 provides a picture on the employee/labour productivity in the privatized enterprises.

Table 9
Employee/Labour Productivity

Enterprises	Before Privatization	After Privatization	Remarks
1. Bhrikuti Pulp and Paper Factory (Mt. Ton)	9.43	11.66	Increased
2. Harisiddhi Brick and Tile Factory (Bricks)	29,000	32,000	Increased
3. Balaju Textile Industry (Metres)	4,150	2,200	Decreased
4. Nepal Bitumen and Barrel Industry (Mt. Ton)			
Bitumen	52	37	Decreased
Barrel	248	251	Increased

Source: CRPS (1995), Rastrasewak, Op. Cit., p. 31.

Out of the four enterprises, for which information was available in two enterprises namely Bhrikuti Pulp and Paper Factory and Harisiddhi Brick and Tile Factory, the employee/labour productivity was increased. In case of Balaju Textile Industry, the productivity was substantially decreased. However, the productivity of Nepal Bitumen and Barrel had a mixed result. It indicated that the productivity of privatized enterprises need not necessarily be at an increasing trend. Productivity, indeed, depends upon several intrinsic and extrinsic factors of employees and labour.

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7. Capacity, Technology, Market Expansion and Product Diversification

Competition is the essence of privatization. It is, indeed, the basic element which provides the quality of goods and services on the one hand and competitive price on the other. These benefits are virtually to be consumed by the consumers. But the competitive capability of an enterprise largely depends upon various elements such as the capacity utilization, technological advancement, market expansion, product development and diversification besides others. The privatized enterprises have revealed diversified picture in relation to their production, sales and profit earning capacities. Attempts have been made therefore to analyze a relationship between the strategy towards expansion and development in organizational aspects and profitability along with production and sales.

Table 10
Capacity Increment, Technology Development, Market Expansion and Product Diversification

Enterprises	Capacity Before Privatization	February 1998			
		Capacity Increment	Technology Development	Market Expansion	Product Diversification
1. Bhrikuti Pulp & Paper Ltd	10 Ton (daily)	Yes	Yes	Yes	Yes
2. Harisiddhi Bricks & Tile Factory	2000000 Pcs.	Yes	Yes	Yes	Yes
3. Bansbari Leatherage Ltd.	4000 Sq. Ft.	Yes	No	No	No
4. Nepal Lube Oil Ltd.	5000 M. Ton	No	Yes	Yes	Yes
5. Nepal Bitumen & Barrel Industry	Bitumen 1200 M.Ton B. Drum 80000 Unit Lube Oil 8000 Unit Emulsion 3000 Mt.	No	Yes	Yes	Yes
6. Nepal Film Development Co.	Film 8	Yes	Yes	Yes	Yes
7. Balaju Textile Industry	2200000 Metre	No	No	No	No
8. Nepal Foundry Industry	700 Mt.	No	Yes	Yes	No
9. Raghupati Jute Mills Ltd.	22 Mt. (daily)	Yes	Yes	No	Yes
10. Agriculture Tools Factory	450 mt.	Yes	No	No	No

Source: Department of Auditor-General (1998), Op, Cit., p. 13.

(a) Capacity Increment

Most of the privatized enterprises have increased their capacities. Out of 10 enterprises, six enterprises have been found being increased their capacities which include Bhrikuti Pulp and Paper Industry, Harisiddhi Brick and Tile Factory, Bansbari Leatherage Ltd., Nepal Film Development Co., Raghupati Jute Mills and Agriculture Tools Factory. A comparative study shows that those enterprises which face the problem of capital investment have not been able to increase their capacity affecting ultimately in the production, sales and profitability. Nepal Foundry Industry, Balaju Textile Industry, Nepal Lube Oil and Nepal Bitumen and Barrel Co. fall under this category.

(b) Technological Development

Out of the ten privatized enterprises, as many as seven enterprises are found involved in technological development. Most unprofitable enterprises viz. Agricultural Tools Factory, Balaju Textile Industry have not launched the technological development programmes as a result they are found being negatively affected in several fronts.

(c) Market Expansion

Enterprises such as Raghupati Jute Mills, Agriculture Tools Factory, Balaju Textile Industry are found not being involved in the market expansion activities. As their market is limited to a certain geographic area or certain group of consumers, these enterprises have not been able to achieve their objectives as envisaged. As a consequence, they have not been very successful in their line of operation.

(d) Product Diversification

Product diversification is correlated mainly with market, sales and production. Enterprises like Balaju Textile Industry, Nepal Foundry Industry, Agriculture Tools Factory are not diversifying their products. As such, these enterprises are not only making financial losses but also facing with the problems of market, sales and production.

Indeed, these are the key elements for the success of an enterprise. The table presents that those enterprises which have adopted and utilised these elements are seen as the most successful enterprises. Bhrikuti Pulp and Paper Industry, Harisiddhi Brick and Tile Factory, Nepal Bitumen and Barrel Ltd., Nepal Film Development Co. and Nepal Lube Oil Ltd. can be seen as few successful privatized enterprises. However, these

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enterprises ought to concentrate on these aspects more seriously if they have to earn more financial profits as well as retain in the market.

8. Employment

It has been the preliminary expectation that the active participation of the private sector in industrial and commercial activities would increase the scope of activities which would generate employment opportunities. As such employment can be seen as the other indicator to assess the performance of the privatized enterprises from the national economic perspective. Table 11 presents a general scenario with regard to employment situation in the privatized enterprises.

Table 11
Employment Effects of Privatization

Enterprises	No. of Employee		Remarks
	Before Privatization	After Privatization	
1. Bhrikuti Pulp and Paper Ltd.	297	576	Increases
2. Harisiddhi Brick & Tile Factory	602	545	Decreases
3. Bansbari Leatherage Ltd.	478	70	Decreased
4. Nepal Film Development Co.	87	54	Decreased
5. Balaju Textile Industry	196	101	Decreased
6. Raw Hide Collection & Development Co.	564	0	Closed
7. Nepal Lube Oil Ltd.	120	91	Decreased
8. Nepal Bitumen & Barrel Co.	58	46	Decreased
9. Nepal Foundry Industry	65	20	Decreased
10. Raghupati Jute Mills	1114	1446	Increased
11. Agriculture Tools Factory	283	278	Decreased
Total	3864	3127	-537

Source: Development Associates Nepal (DEAN), (1998), Privatization and Labour Relations in Nepal, Unpublished Research Report, October.

Employment opportunities have not been increased substantially in the privatized enterprises as shown by the table. Most of the enterprises have indeed been failed to generate employment opportunities. Out of eleven enterprises, only two enterprises were able in generating employment namely Bhrikuti Pulp and Paper Factory and Raghupati Jute Mills. Eight enterprises in fact failed to maintain previous employment level. One

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enterprise was closed. Analysis of the overall employment situation, it is found that 3864 number of employees were engaged in 11 enterprises before privatization. But the number has come down to 3127 after privatization. However the substantial decrease in employment can be seen as the result of closure of Raw Hide Collection and Development Co. where 564 employees were engaged. As a successful enterprise in the private sector Bhrikuti Pulp and Paper Ltd. has employed 279 additional employees where 297 employees were employed before privatization. Similarly, Raghupati Jute Mills has employed additional 332 employees after privatization. Despite the significant employment generation by these two enterprises, the overall employment effect has been adverse in eight privatized enterprises. From the analysis of the privatized enterprises, it provides an indication that privatization of public enterprises has failed to contribute employment generation rather it has curtailed employment opportunities.

9. Financial Subsidies

Public enterprises are remarked as the white elephant because they rely much on the government financial resources. Government is bound to subsidize the financial losses of these enterprises mainly because of their inefficiencies. Government provides subsidies to public enterprises in the form of operating subsidy, transport subsidy and capital subsidy. A comparative picture of government subsidy to public enterprises before and after privatization is shown in Table 12.

Table 12
Government Subsidy to Public Enterprises

(Rs. in Million)

Year	Operating/Tra nsport Subsidy	Capital Subsidy	Total
Before Privatization:			
1989/90	36.2	410.5	446.7
1990/91	43.2	724.0	767.2
1991/92	170.0	372.2	442.2
1992/93	NA	791.2	791.2
After Privatization			
1994/95	571.4	77.5	648.9
1995/96	726.0	179.0	905.0
1996/97	713.6	180.0	893.6
1997/98	867.5	91.0	958.5

Source: Ministry of Finance (1998), Economic Survey (1997-98), Kathmandu, P. 31, (Table 3.8).

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Reducing financial and administrative burden of the government in managing the public enterprises is one of the most important objectives of privatization in Nepal. The government may have been able to shed some of its financial burden associated with subsidizing loss making sick units like Bansbari Leather and Shoe Factory, Royal Nepal Film Corporation, Balaju Textile Industry, and Raghupati Jute Mills. After privatizing a couple of public enterprises, the volume of government subsidy has not been decreased so far. Before privatization, the government subsidy to Public Enterprises in the fiscal Years 1990-91 and 1991-92 were Rs. 767.2 million and Rs. 442.2 million respectively, while after privatization, these figures rose to Rs 893.6 million and Rs 958.5 million in the Fiscal Year 1996-97 and 1997-98 respectively. After privatization, volume of capital subsidy seems to be decreased, but amount of operating and transport subsidy has been increased substantially. Moreover, all privatized enterprises have not yet demonstrated the revenue generation to government in the immediate present. Thus the financial burden of the government have not been reduced as expected.

10. Equity Ownership

Wide ownership in the enterprise is also one of the major objective of privatization. It therefore concentrated on the capital market development of the country. It is believed that as much as equities are videded, ownership of an enterprise would be shared and extended. As a result the private sector participation will also be increased in the operational activities of the enterprises. The structure of equity ownership in the privatized enterprises is shown in Table 13.

Majority of shares have been held by the management. Public at large have sparticipated in equity capital in a range between 20 percent to 49 percent in most of the enterprises. Employees and workers are found owtakinging 5 percent equity shares.

The share of equity ownership gives a contrast picture for some enterprises. In Raw Hide Collection and Development Co., 5 percent of the equity has been held by employees and workers of the company whereas 95 percent has been owned by the management. The equity share in Bansbari Leatherage Ltd. has been 80 percent and 20 percent by the management and public respectively. In two privatized enterprises viz. Bhrikuti Pulp and Paper Ltd. and Bitumen and Barrel Ltd., the equities have been shared by management, employees/workers and public with a ratio of 65 percent, 5 percent and 30 percent, respectively. The ratio has been 72 percent, 5 percent and 33 percent in Nepal Lube Oil Ltd. In some enterprises, the equity ownership has been shared by the management and public only. For example, the equity ownership share were 65 percent and 35 percent in

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Raghupati Jute Mills and Agriculture Tools Factory to the management and public. In some cases, government has still owned the minority equity shares of the enterprise for example, Nepal Bank Ltd. whereas some enterprises have been transferred to the private sector on management contract or lease retaining the ownership with the government, for example Biratnagar Jute Mills and Bhaktapur Brick and Tile Factory respectively.

Table 13
Equity Ownership of Privatized Enterprises

Enterprises	Equity Ownership		
	Management	Employees/ Workers	Public
1. Bhrikuti Pulp & Paper Ltd.	65	5	30
2. Harisiddhi Brick & Tile Factory	72	5	23
3. Bansbari Leatherage Ltd.	80	–	20
4. Nepal Film Development Co.	51	24	25
5. Nepal Lube Oil Ltd.	62	5	33
6. Bitumin & Barrel Ltd.	65	5	30
7. Raw Hide Collection & Devt. Co.	95	5	–
8. Nepal Foundry Industry	51	–	49
9. Raghupati Jute Mills	65	–	35
10. Biratnagar Jute Mills	–	–	(Mgmt. Contract)
11. Nepal Bank Ltd.	54	5	41 (Govt.)
12. Agriculture Tools Factory	65	–	35
13. Bhaktapur Brick & Tile Factory	–	–	100 Govt. Lease

The foregoing analysis revealed that the impact of privatization is not very affirmative in the issues of government budgetary burden i.e. subsidies, institutional development, sharing of organizational ownership, capital market development, private capital investment, employment generation and financial profits. In some aspects; for example employment, financial profits, production and sales, privatization has adversely affected. The situation has been poor when compared with the pre-privatization period. These can be seen as serious challenges for the successful implementation of privatization policy in Nepal. From the review of the impact evaluation there is no conclusive evidence on both, the micro and macro-economic level to support the argument for private ownership superiority in the context of Nepal.

Impact of Privatization in Nepal

Privatization, therefore, might not be beneficial unless it is accompanied by competition in the market place. Identification of problems associated with the policy and implementation procedure along with the environmental aspects and coping with suitable measure would be the ideal steps towards this end with regard to impact of privatization in developing countries. In this perspective, Michael Todaro (1993) rightly concluded that "It is not sufficient to claim that privatization can lead to higher profits, greater output, or even lower costs. The key issue is whether such privatization better serves the long run development interests of a nation by promoting a more sustainable and equitable pattern of economic and social progress. Despite all of the ideological trumpeting by "free-marketeers", on this issue the evidence so far is less than persuasive."

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