

9. Public Enterprises and Privatization

- 9.1 Among the 36 enterprises fully or partially owned by the government, 17 public enterprises (PEs) have earned profit while 19 PEs are operating at loss in FY 2005/06. A comparative analysis suggests that the progress made by PEs in FY 2006/07 looks satisfactory. In current year (2006/07), 21 PEs are expected to make net profit while the other 15 PEs are expected to incur losses. In FY 2005/06, the operating profit of PEs decreased to Rs.1.69 billion from Rs.2.13 billion last year (2004/05). This decrease in operating profit is due to heavy operating loss incurred by the Nepal Oil Corporation (NOC). In the current year, it is expected that the operating profit of PEs would reach Rs. 7.80 billion. Based on the available information received from PEs, the operating profit is expected to reach Rs. 5.98 billion in the next fiscal year (2007/08). The total shareholders' fund stood at Rs. 39,570 million at the end of FY 2005/06 as against Rs. 32,480 million in FY 2004/05. Primarily, Rs.5 billion new equity investment in the Agriculture Development Bank and Rs. 4.96 billion net profit earned by the Nepal Telecom have contributed to the increase in the shareholders' fund. On the other hand, the loss of Rs. 3.67 billion incurred by NOC affected negatively the growth of equity fund. Although many PEs are running at loss, the total net profit turns out to be Rs.2.54 billion in FY 2005/06. Such net profit was Rs. 1.50 billion in FY 2004/05. As compared to previous year, the profit of Nepal Telecom, Rastriya Banijya Bank and Civil Aviation Authority increased by Rs. 1.41 billion, Rs. 300 million, and Rs. 200 million respectively, whereas the increase in the loss of NOC and Udayapur Cement Factory by Rs. 660 million and Rs. 120 million respectively exerted negative effect on the aggregate profit of all PEs. Besides this, the Agriculture Development Bank and Nepal Airlines Corporation, operating at loss in FY 2004/05 moved to a profit situation in FY 2005/06. This contributed positively to the aggregate profit of all PEs. Even among the profit-making PEs, many have weak financial position, poor capacity utilization and low staff productivity. By the end of FY 2005/06, Nepal Government's share investment in the PEs stood at Rs. 65.68 billion (Rs. 59.67 billion in previous year), and loan investment at 62.72 billion (Rs. 64.55 billion in previous year). Nepal Government, received dividend amounting Rs.2.08 billion in FY 2005/06, equivalent to 3.2 percent of the total share investment. In the current year, the net profit of PEs is expected to reach Rs. 6.91 billion.

Sector-wise Analysis

Industrial Sector

- 9.2 Out of 7 PEs under industrial and productive sector, Dairy Development Corporation made sales transactions worth Rs. 1.59 billion, and Janakpur Cigarette Factory was second in the list by making a turnover Rs. 1.08 billion in FY 2005/06. Similarly, Hetauda Cement Industry earned Rs.650 million, Udayapur Cement Industry earned Rs.530 million and Nepal Drugs and Medicinal Herbs Production and Processing Company earned Rs. 50 million by selling their respective products in the market. In FY 2005/06, the total sales revenue was Rs. 3.97 billion, which is marginally less than previous year's sales of Rs. 4.04 billion. The Dairy Development Corporation and the Medicinal Herbs Production and Processing Company Ltd. increased their sales transactions by equal amounts, whereas other corporations' sales amount has declined.

Profit and Loss

- 9.3 In FY 2005/06, total net loss incurred by the industrial sector stood at Rs. 278.8 million (Rs. 98.4 million in the previous year), of which, Udayapur Cement Industry incurred net loss of Rs. 204.6 million (Rs. 83.7 million in previous year). Of all the PEs in the industrial sector, Hetauda Cement Industry has earned highest amount of net profit of Rs.40 million (Rs. 65.7 million in previous year). Janakpur Cigarette Factory has earned net profit of Rs. 9.1 million. All the rest PEs are operating at loss. In spite of having equal amount of production of cement by both Udayapur and Hetauda Cement Factories (265 thousand metric ton); Udayapur Cement Factory comparatively incurred heavy loss due to big amount of investment in the fixed asset. This led the Udayapur Cement Factory to pay interest of Rs. 92.5 million and depreciation expenses of Rs. 207 million. Apart from this, it is estimated that the fixed cost of Udayapur Cement Industry is likely to go up because of Rs. 3.05 billion investment in its construction assets and the associated depreciation cost, in the coming years. Taking into account of its investment in the fixed asset and 41 percent sales profit ratio, it is apparent that the production of Udayapur Cement Industry tends to be quite low. This industry can make profit if production and sales volume are increased. Dairy Development Corporation has the highest sales volume of its products, but it incurred loss of Rs. 25.5 million because of low gross profit margin (4 percent). Nepal Orind Magnesite is still not in operation, but it has to bear huge amount of interest expense (Rs. 68 million this year). This year, the total expenditure of this company amounts to Rs. 107.1 million, including staff expense and depreciation cost. After deducting the sales amount of Rs. 15 million from magnesite and tail, Rs.91.4 million needs to be written off. All expenses made before the company came into operation are shown under pre-operation expenses, thus such expenses do not appear in the profit and loss statement. Nevertheless, for the purpose of analysis such amounts are shown as net loss item. The Company's pre-operation cost, to be written off, amounts to Rs. 3.37 billion.

Debt, Asset and Shareholders Fund

- 9.4 By the end of FY 2005/06, the total outstanding long -term debt owed by the industrial sector has come down to Rs. 3.81 billion from Rs.3.86 billion in FY 2004/05. Similarly, the net fixed asset has decreased by about 10 percent from Rs. 2.2 billion last year. No significant change has been seen in the construction asset from last year, which amounts to Rs. 3.14 billion this year. Shareholders fund includes shareholder's share capital, accumulated loss and profit and other reserve funds. In the end of FY 2005/06, the shareholders fund of all seven PEs showed negative (-Rs. 271.1 million) balance. Medicinal Herbs Production and Processing Company Ltd., Nepal Drugs Limited and Nepal Orind Magnesite Private Limited have negative shareholder funds of Rs. 60 million, Rs. 186.5 million and Rs. 292 million respectively.

Business Sector

- 9.5 In FY 2005/06, the total sales transactions of all 6 PEs under the business sector category reached Rs. 33.92 billion from Rs. 28.88 billion in FY 2004/05, registering an increase of 17 percent over the previous year. Among all public enterprises under the business sector, Nepal Oil Corporation contributed 98 percent of total sales value. The total sales transactions of Nepal Oil Corporation has increased by 21 percent, where as other companies' sales transactions do not show much progress. The total sales transactions of Agriculture Inputs Ltd. and National Trading Ltd. have decreased by 52 percent and 50 percent respectively.

Profit and Loss Situation

- 9.6 All PEs under the business sector have incurred total net loss of Rs. 3.82 billion in FY 2005/06. This amount is higher than previous year's loss, by Rs. 860 million. Nepal Oil Corporation has been bearing 9 percent loss in its sales price, and with the increased volume in its total sales, loss continues to grow. Only 2 PEs in this sector, namely, National Seeds Company and the Timber Corporation of Nepal have been successful in making some profits. All other corporations under this sector have incurred losses. The total accumulated loss of all corporations under the business sector amounts to Rs. 5.7 billion by the end of FY 2005/06 (Rs. 1.66 billion previous year). The total accumulated net loss of Rs. 3.67 billion of Nepal Oil Corporation (this year) against the loss of Rs. 450 million (in last year), contributed significantly to the overall loss incurred by PEs under the business sector. In FY 2005/06, all corporations incurred operational loss to the tune of Rs. 4.18 billion. It is expected that the operational loss is expected to grow in the FY 2006/07 due to accumulated loss in the transactions of NOC. Furthermore, it is projected that the accumulated loss of corporations under business sector would reach Rs.2.57 billion in FY 2007/08, of which the share of NOC would be a major one.

Debt, Assets and Shareholders Fund

- 9.7 By mid-July 2006, although the long-term debt of PEs remained Rs. 270 million (Rs. 270 million last year), the short-term debt of all PEs under the business sector increased substantially and reached Rs. 4.19 billion (Rs. 3 billion last year). Out of this, Nepal Oil Corporation, National Trading Ltd. and Nepal Food Corporation owed debt of Rs. 3.44 billion, Rs. 385.9 million and Rs. 324.1 million respectively. Compared to last year, the total short-term debt increase is Rs. 1.12 billion, in which Nepal Oil Corporation debt contribution is Rs. 1.31 billion. The National Trading Ltd. and Nepal Food Corporation have reduced their debt by Rs. 200 million and Rs. 60 million respectively in this year. This year, the total net asset of PEs under this category has declined by 6 percent to Rs. 1.63 billion from Rs. 1.74 billion last year. It appears that there was no major purchase and sales of fixed assets by corporations this year. The total share investment in PEs under business sector is equivalent to Rs. 1.82 billion. By mid-July 2006, shareholders' fund shows negative worth of Rs. 3.78 billion. This is mainly due to negative shareholders fund of Rs. 3.98 billion of Nepal Oil Corporation. Agriculture Inputs Company, National Seeds Company and National Trading Ltd., have positive position in their shareholders funds.

Service Sector

- 9.8 The total operating income of 7 PEs under service sector increased by 7.6 percent to Rs. 5.99 billion in FY 2005/06. As compared to last year's operating income, Nepal Airlines Corporation and Civil Aviation Authority have increased their operating income by Rs. 330 million and Rs. 150 million respectively in this year. However, the total operating income of National Productivity and Economic Development Center has declined to Rs. 5 hundred thousand in FY 2005/06 from Rs. 66 hundred thousand in FY 2004/05. The operating profit of Industrial Estate Management Company, National Construction Company, Nepal Transit and Warehouse Management Company and Nepal Engineering Consultancy Services Center Ltd, has declined slightly in this year.

Profit and Loss Situation

9.9 In FY 2005/06, the total operating loss incurred by PEs under service sector reached Rs. 57 million. The total operating loss was almost the same last year. Nepal Airlines Corporation's operating loss increased by 92 percent and reached Rs. 271.4 million, whereas the Civil Aviation Authority's operating profit increased by 263 percent to Rs.224.8 million in FY 2005/06. In FY 2005/06 there has been improvement in the net profit account. In FY 2005/06, PEs under service sector earned net profit of Rs. 314.9 million against the loss of Rs. 29.7 million last year. Civil Aviation Authority added Rs.201.2 million to its net profit, and the net profit reached Rs. 348.3 million this year. In FY 2005/06, Nepal Airlines Corporation earned net profit of Rs. 11.7 million against the loss of Rs. 140 million in FY 2004/05. In sum, the service sector PEs remained at accumulated loss position in FY 2005/06. Records from Nepal Airlines Corporation and Civil Aviation Authority showed Rs. 2.32 billion and Rs. 920 million accumulated loss respectively. Other 5 PEs showed accumulated profit of Rs. 337.4 million. Despite this profit of some PEs, the total accumulated loss of service sector PEs stands at Rs. 2.9 billion. In FY 2005/06, the total operating loss of PEs stands at Rs. 57.5 million. In FY 2006/07, it is expected that the operating loss would come down to Rs.8.1 million. By the end of this year, the overall operating loss of PEs is expected to decrease on the ground that NAC would gain operation profit of Rs. 121.1 million from its existing operation loss of Rs.271.4 million. Similarly, it is projected that the operation loss of three corporations, i.e., Industrial District Management Ltd., Nepal Transit and Warehouse Ltd, and National Productivity and Economic Development Centre would be Rs. 16.4 million in FY 2007/08.

Debt, Assets and Shareholders Fund

9.10 Among the PEs in the service sector, Nepal Airlines Corporation and Civil Aviation Authority have debt obligation. The long-term debt amount is Rs.1.97 billion in FY 2005/06(Rs. 2.38 billion last year). In FY 2005/06, Civil Aviation Authority has paid the debt amount of Rs. 520 million, whereas Nepal Airlines Corporation has added Rs. 290 million in its existing long-term and short-term loan amount. The net worth of service sector PEs is about Rs. 6.66 billion (Rs. 6.9 billion in last year). Of this total net worth, Civil Aviation Authority has the highest net worth of Rs.6.13 billion (92 percent). Likewise, PEs under service sector holds Rs. 8.42 billion in the shareholders fund (Rs. 8.41 billion in preceding year). All PEs have positive shareholders funds, except the Nepal Airlines Corporation that has negative equity fund of Rs. 1.94 billion.

Social Sector

9.11 In FY 2005/06, all five PEs under social sector earned Rs. 1.11 billion, which is Rs. 40 million more than the preceding year's earning. The total sales transactions of Janak Educational Materials Center amounted to Rs. 620 million, while the Nepal Television and the Gorkhapatra Corporation earned Rs. 240 million and Rs. 210 million respectively. As compared to last year, Gorkhapatra Corporation has increased its total operating profit by almost 30 percent in FY 2005/06. Similarly, sales transaction of Rural Housing Company has substantially increased to Rs. 26.3 million in FY 2005/06 from Rs. 5.7 million in FY2004/05. Beside than these two PEs, no noticeable change in earning was seen in other PEs.

Profit and Loss Situation

9.12 In FY 2005/06, total operating profit of PEs under the service sector reached Rs.47.9 million. It was Rs. 43.2 million in FY 2004/05. Gorkhapatra Corporation has successfully earned Rs. 23.2 million as operating profit in FY 2005/06 as against operating loss of Rs. 4.2 million in the previous fiscal year. This whole profit was allocated for bonus, gratuity and tax provision leaving no amount for the accumulated profit heading. Thus there was no increase in the accumulated profit of Gorkhapatra Corporation. Out of 5 PEs, three PEs are making operating profit while the other two PEs are operating at loss. In the current year, the operating profit of social sector PEs is expected to be Rs. 58.4 million, and further to Rs. 78.3 million in the year 2007/08. Taking into account the net loss position of PEs, the progress of social sector corporations looks unsatisfactory in 2006/07. The net loss in the current year increased by 107.6 percent to Rs. 65.6 million from 31.6 million last year. The increase in the total loss of service sector is due to net loss incurred by Nepal Television, i.e., an increase of Rs. 47.7 million to reach Rs.77.9 million in the current year. Janak Educational Material Center has been successful in increasing its net profit to Rs. 20 million in FY 2005/06 from Rs. 9 million last year. By the end of this FY 2006/07, it is expected that the net loss of service sector corporations would remain at Rs. 68.4 million. By the end of 2005/06, the accumulated loss of Nepal Television and Cultural Corporation stood at Rs. 405.3 million and Rs. 2.6 million respectively while the other 3 PEs remained at accumulated profit position.

Debt, Assets and Shareholders Fund

9.13 Cultural Corporation and Gorkhapatra Corporation have long-term debt liability, which amounts to Rs. 153.3 million. Cultural Corporation's debt liability has increased by Rs. 25 million compared to last fiscal year. The total fixed assets of social sector PEs decreased to Rs. 990 million in FY 2005/06 from Rs. 1.10 billion in the previous year. Cultural Corporation has added Rs. 26.1 million towards its construction assets. The total shareholders fund of the social sector PEs eroded by 10 percent and reached Rs. 1.68 billion in FY 2005/06 from 1.86 billion in 2004/05.

Public Utility Sector

9.14 In FY 2005/06, total operating income of three corporations under the public utility sector amounts to Rs. 24.45 billion. The operating income of Rs. 2 billion of Nepal Telecom in FY 2005/06 made a significant contribution to 12 percent increase in the total operating income of PEs. All three PEs recorded growth in operating income in this fiscal year as against the last fiscal year.

Profit and Loss Situation

9.15 In FY 2005/06, the total operating profit of PEs under this sector increased by 70 percent to Rs. 3.98 billion from Rs.2.34 billion in FY2004/05. Nepal Telecom is the only profit making PE in this sector. Nepal Telecom's operating profit increased by 38 percent and reached Rs. 5.97 billion in FY 2005/06. Nepal Water Supply Corporation's loss has increased to Rs. 76.6 million in FY 2005/06 from Rs.28.5 million in FY 2004/05. It is expected that the total operating profit of PEs would reach Rs. 5.24 billion by the end of current year, and to Rs. 5.93 billion by the end of next fiscal year. The continuing growth of profit of Nepal Telecom is

expected to materialize the above projection. The net profit of this sector amounts to Rs.3.68 billion in FY 2005/06. Similarly, the public utility sector is expected to have net profit to the tune of Rs. 4.60 billion in this fiscal year. The total accumulated loss of two corporations reached at Rs. 6.32 billion, of which the share of Nepal Water supply Corporation and Nepal Electricity Authority is Rs. 240 million and Rs. 6.08 billion respectively. Nepal Telecom's accumulated profit reached Rs. 8.75 billion in 2005/06.

Debt, Assets and Shareholders Fund

9.16 By mid-July 2006, the long-term debt liability of Nepal Water Supply Corporation and Nepal Electricity Authority amounted to Rs. 2.2 billion and Rs. 50.64 billion respectively, leading to a total long-term liability of Rs. 52.84 billion. However, Nepal Telecom is debt free. PEs of this sector have made huge investment in fixed assets. The total net worth, including construction asset has increased to Rs. 99.04 billion by the end of FY 2005/06 from Rs.92.12 billion in FY 2004/05. This increase is attributed mainly by Rs. 5 billion investment in construction asset made by Nepal Electricity Authority and Rs 2 billion worth of additional property procured by Nepal Telecom. The shareholders fund increased by 34 percent and reached Rs.52.34 billion in 2005/06 from Rs. 39 billion.

Financial Sector

9.17 In FY 2005/06, the total operating income of eight PEs under the financial sector reached Rs. 8.95 billion. No significant change in the operating income of any PE is noticed in FY 2005/06 as compared to FY 2004/05.

Profit and Loss Situation

9.18 Compared to last year performance, the operating profit of PEs under this sector has shown some improvements in FY 2005/06. The operating profit has reached Rs. 2.25 billion in FY 2005/06, with an increase of 25 percent over the last year amount of Rs. 1.8 billion. Similarly, it is expected that the net profit of this sector would reach Rs. 4.89 billion by the end of this fiscal year registering a growth over 100 percent. Based on the information received from six financial corporations, it is envisaged that their operation profit would reach Rs. 2.40 billion by the end of FY 2007/08. Similarly, compared to last year, the net profit grew by 14.45 percent to Rs. 2.72 billion in the current year. Agriculture Development Bank has been successful in making Rs. 227.5 million net profit in FY 2005/06 as against net loss of Rs. 78.6 million in last fiscal year. On the other hand, Nepal Industrial Development Corporation incurred Rs.273.8 million net losses in FY 2005/06 as against net profit of Rs. 53.3 million in previous fiscal year. The total profit of Rastriya Banijya Bank has increased by (23 percent) Rs. 300 million and reached Rs. 1.62 billion. All PEs under financial sector, except than Nepal Industrial Development Corporation, have made net profit in FY 2005/06. In the current year, it is expected that the net profit of all financial corporations would amount to Rs. 4.58 billion. By the end of FY 2005/06, the total accumulated loss of ADB, NIDC and RBB has reached Rs. 7.85 billion, Rs.1.08 billion and Rs. 19.85 billion respectively. Beside these corporations, other PEs are at a position of accumulated profits.

Debt, Deposit, Investment and Shareholders Fund

9.19 Normally financial sector enterprises do not have to borrow loan; nevertheless, long-term debt of such PEs amounts to Rs. 5.96 billion. Of which NIDC, ADB and RBB have Rs. 1.09 billion, 510 million and Rs. 4.36 billion debt respectively. Four PEs have been accepting deposits from the general public, and this has been the main source of financial resources for them. Such deposits increased by 7.8 percent and reached Rs. 76.56 billion by the end of FY 2005/06 from Rs. 70.97 billion in FY 2004/05. In FY 2005/06, RBB and ADB deposits grew by Rs. 2.4 billion and Rs. 3.18 billion. Of the deposit collecting institutions, ADB, NIDC, RBB and Nepal Housing and Development Finance Company are extending credit facilities. By the end of FY 2005/06, these institutions have extended Rs.49.84 billion credit, which is less by Rs. 1.8 billion compared to the previous fiscal year. RBB's credit declined by Rs. 3.90 billion. However, except than NIDC, two other institutions' credit amount has increased. In total financial institutions' aggregate shareholders fund is negative by Rs. 18.8 billion. RBB has negative net worth, of Rs. 18.68 billion, whereas other financial institutions (except RBB, ADB and NIDC) have positive share capital.

Status of Audit

9.20 There is a mandatory legal provision to conduct annual audit in case of all PEs. However, some PEs have not been able to perform audit work within the specified period. Out of total 36 PEs, 20 PEs have completed audit of accounts up to FY 2005/06, whereas 10 PEs have completed audit of accounts up to FY 2004/05. Of them, 2 PEs have completed audit up to FY 2003/04. Other than these institutions, the following corporations are behind the schedule in completing audit work.

Table 9(a): PEs behind the given time frame in Audit

S.N.	Name of PEs	Year of latest audit conducted
1.	Nepal Oil Corporation	2002/03
2.	Nepal Airlines Corporation	2001/02
3.	Nepal Orind Magnesite	2001/02
4.	National Insurance Corporation	2000/01

Source: Ministry of Finance, Corporation Coordination Division.

9.21 While some improvements have been made to make these PEs comply with auditing and accounting requirements mandated by laws, the task of audit could not get completed as expected. Despite the repeated instructions to comply with the requirements and continuous monitoring rendered to these PEs, no progress in doing audit was seen mainly due to the attitude of shifting of responsibility, lack of accountability and punishment system for those found guilty in these PEs.

Reform in Corporations' Board of Directors

9.22 The government has adopted a policy of appointing competent, enterprising and professional person in the Board of these PEs. The size of Board members was also set to five members.

These policy provisions have been effective in almost all PEs. Since the number of Board members in some of the PEs is specified by concerned Act/Rules, limiting to 5 members in such PEs through amendment of such Act/Rules is yet to be done.

Nepal Government's Share and Loan Investment

9.23 As per the information received by Financial Controller General Office (FCGO) Nepal Government's equity investment and loan investment in these 36 PEs reached Rs. 65 billion 681 million and Rs. 62 billion 723.7 million respectively by the end of FY 2005/06. There appears differences in record held by FCGO and the information submitted by 16 PEs as to the share investment made by Government in these institutions. The account maintained by PEs and FCGO does not tally. For example, as of mid July 2005/06 Nepal Civil Aviation Authority noted Rs.10.72 billion and FCGO showed Rs.14.51 billion; Agriculture Input Corporation noted 415.8 million whereas FCGO showed 221.4 million; Dairy Development Corporation noted Rs. 558.0 million whereas FCGO record shows 58.0 million; Industrial District Management Ltd. recorded Rs.138.0 million whereas FCGO noted Rs. 50 million; Nepal Telecom's record showed Rs.14.99 billion whereas FCGO showed Rs. 1.37 billion; and NAC noted Rs. 162.2 million whereas FCGO record showed Rs.379.3 million. Similarly, there are also differences in record between concerned PEs and FCGO as to loan investment made by Government in these enterprises. For example, as of mid-July 2005/06, ADB showed loan investment of 1.7 million whereas FCGO record showed Rs.605.4 million; Nepal Civil Aviation Authority showed Rs.1.68 billion whereas FCGO noted Rs. 2.79 billion; Udayapur Cement Factory Ltd. showed Rs 1.86 billion and FCGO recorded Rs. 2.33 billion; and Nepal Electricity Authority showed Rs. 50.64 billion whereas FCGO record showed Rs.52.50 billion.

Status of Employees/ Workers

9.24 In these fully and partially owned 36 government PEs, the total number of staff and workers has increased from 36,957 in FY 2004/05 to 36,974 in FY 2006/07. This number is expected to reach 38,545 by the end of FY 2007/08. Overstaffing is common in most PEs. The production of goods and services is minimum compared to the number of staff employed in these corporations. With this situation overhead cost and financial burden goes up, while productivity of staff/workers declines and ultimately leads to fall in productivity of the entire sector. The PEs are wrangled in a situation wherein, government's protection inhibits motivation towards being competitive, and that political interference obstructs in making their own professional decisions. Despite this, some PEs have been producing and marketing goods and services effectively.

Privatization and Liquidation of Public Enterprises

9.25 The government adopted the principles of economic liberalization and open market policy since one and half decades ago. In line with these principles, the government took policy of divesting goods and services provided by the PEs to the private sector and started privatization process since 1992/93. Since then 29 PEs have undergone different modality of privatization such as sale of shares, transfer of management, liquidation, sale of assets and lease of immovable property.

Table 9 (b): Privatized and Liquidated Public Enterprises

S.N.	PEs Name	The Year of Privatization / Dissolve (A.D.)	Privatization Mode	Lump-sum Share Sold (%)	Received amount (in '000)
1.	Bhrikuti Paper Factory Ltd.	1992	Assets and Business sale	-	229800
2.	Harisiddhi Briks and Tile Factory Ltd.	1992	Assets and Business sale	-	214830
3.	Bansbari Leather & Shoes Factory Ltd.	1992	Assets and Business sale		29854
4.	Nepal Film Industry Ltd.	1993	Share Sale	51.0	64662
5.	Balazu Textile Industry	1993	Share Sale	70.0	17716
6.	Raw Hide Collection & Processing Co Ltd.	1993	Share Sale	100.0	3990
7.	Nepal Bitumen & Barrel Industry Ltd.	1994	Share Sale	65.0	13127
8.	Nepal Lube Oil Ltd.	1994	Share Sale	40.0	31057
9.	Nepal Jute Dev. Co. Ltd.	1993	Liquidation		
10.	Tobacco Dev. Co.	1994	Liquidation	-	-
11.	Nepal Foundry factory Ltd.	1996	Share Sale	51.0	14473
12.	Raghupati Jute Mills Co. Ltd.	1996	Share Sale	65.0	82204
13.	Nepal Bank Ltd.	1997	Share Sale	10.0	125140
14.	Agriculture Project Service Center Ltd.	2001	Liquidation	-	-
15.	Nepal Tea Dev. Corporation	2000	Share Sale	65.0	267105
16.	Biratnagar Jute Mills Co. Ltd.	2002	Management Contract	-	-
17.	Himal Cement Ind. Ltd.	2002	Liquidation	-	-
18.	Cottage Handicraft Sales Emporium Ltd.	2002	Liquidation	-	-
19.	Nepal Coal Ltd.	2002	Liquidation	-	-
20.	Hetaunda Textile Ind. Ltd.	2002	Liquidation	-	-
21.	Nepal Transport Corporation	2002	Liquidation	-	-
22.	Butwal Power Co.	2003	Share Sale	75.0	874200+USD 1 million
23.	Birjung Sugar Factory	2003	Liquidation	-	-
24.	Agriculture Tool Factory	2003	Liquidation	-	-

S.N.	PEs Name	The Year of Privatization / Dissolve (A.D.)	Privatization Mode	Lump-sum Share Sold (%)	Received amount (in '000)
25.	Bhaktapur Brick Factory	2004	Assets sale and Rent	-	14500 (Assets sell 31900) 10Yrs. rent
26.	Lumbini Sugar Factory	2006	Assets sale and Rent	-	78600 (Assets Sell 4212) rent Per year
27.	Nepal Rosin & Turpentine Ltd.	2006	Assets sale and Rent	-	110100 (Assets Sell 3012) rent per year

Source: Ministry of Finance, Privatization cell

9.26 With an objective of involving the staff/workers and private sector participation in PEs and to enhance the productivity of goods and services, Nepal Telecom's Rs. 100 value 7.5 million numbers of shares will be issued to employees in the FY 2007/08. Similarly, 15.0 million shares of Nepal Telecom will be distributed to general public. All preparatory work as to issue of shares is at the final stage. The process for converting NAC into a Company has begun. The experiences of privatization in the last one and half decade have identified the following key problems:

- 1. Adjustment:** The privatization process was disrupted in case of few PEs because of disputes between the government and the buyers due to difference in the statement provided in the Information Memorandum before the privatization and the stock of current assets verified after the privatization. This problem appeared in the privatization process of Balaju Textiles, Raghupati Jute Mills, Nepal Tea Development Corporation and Bhaktapur Brick Factory.
- 2. Liquidation:** The appointed liquidators for the liquidation of Bansbari Leather and Shoe Factory, Harisidhi Brick and Tiles Factory and Bhrikuti Paper Factory, have approached the Company Registrar's Office for the cancellation of registration of these companies for the purpose of liquidation. Liquidation process in the case of Cottage Handicraft Emporium is completed. The annual general meeting of Nepal Coal Limited could not complete settlement of accounts. Time has been extended to liquidator to submit report on liquidation of Bhaktapur Brick Factory. Liquidator working on Agriculture Lime Industry has also requested for time extension. The time for liquidator working on Hetauda Textiles has been extended until mid-September 2007.
- 3. Case under Courts' consideration:** Buyers of Harisidhi Brick and Tiles Factory, Nepal Tea Development Corporation, Bhaktapur Brick Factory and Butwal Paper Factory have disagreed to pay the due amount to the government and gone to the Court. Because of this, no payments are made by the buyers.

9.27 Government has paid huge amount in the process of privatization of PEs. Additional amount of money is required to be incurred in case of those PEs which are yet to be liquidated and privatized. Following table depicts the statement of expenditure made by the government during the process of privatization:

Table 9 (c): Government's Financial Liability during the Privatization Process
(Rs. in '000)

S.N.	Particulars	Liability	Purpose
1.	Himal Cement Company	37,00,00	Debt and Staff 's benefit
2.	Bhaktapur Brick Factory	20,61,71	" "
3.	Birjung Sugar Factory (Liquidation)	70,48,36	" "
4.	Agriculture Tool Factory (Liquidation)	51,414	" "
5.	Nepal Rosin & Turpentine Ltd. (Liquidation)	15,44,46	" "
6.	Lumbini Sugar Factory	50,89,67	" "
7.	Agriculture Lime Ind. Ltd (in Liquidation)	81,595	" "
8.	Nepal Coal Ltd.	83,91	loan Investment
9.	Nepal Transport Corporation	22,73,09	" "
10.	Hetaunda Textile Ind. Ltd.	53,60,35	" "
11.	Cottage Handicraft Sales Emporium Ltd.	81,033	" "
12.	Nepal Tea Dev. Corporation	10,27,90	" "
13.	Biratnagar Jute Mills	10,03,00	" "

Source: Ministry of Finance, Privatization cell

Challenges

- 9.28 Most of the PEs are running at loss and have negative net worth. PEs have not provisioned fund to meet liability for staff and unfunded contingent liabilities are growing which will ultimately put heavy financial burden on the part of government.
- 9.29 There is no uniformity in work performance, job specialty and working environment in PEs. Profit making corporations are providing financial facility in different forms, by one way or other. Even the PEs operating above the break-even point are providing gratuity, pension, provident fund and other facilities as per the Act, rules and regulations without establishing reserve and future liability funds. This situation creates indirect and unlimited liability on the part of the government. This is one of the challenges of the government.
- 9.30 In view of the important role that the PEs play in the economic development of the country, it has been realized that the PEs need to adjust, harmonize and align with the system prevalent in the present context of open, liberal and competitive regime. However, the satisfactory performance against the goals is yet to seen.
- 9.31 PEs often do not prepare annual statement of account on time and audits are delayed. This situation leads to loose people's confidence and thereby making reforms difficult.
- 9.32 Loss making PEs continued to add financial liability to the government, whereas the profit making PEs are enjoying all sort of facilities. Even loss making PEs have a tendency of not revealing actual employees' position available in the PEs. As a result of this, PEs are ignoring the government's policy on right sizing of staff, and furthermore heading towards recruiting

new employees. Due to this problem the overhead cost of PEs is gradually increasing. In this connection, there is a need to institutionalize the practice of taking responsibility and accountability for the implementation of commitment made both by the concerned Ministries and Corporations.

- 9.33 Records at the concerned corporations and Financial Comptroller General Office on government's share and loan do not tally. It is imperative to make necessary arrangements for reconciling and updating data on government's share and loan investment.
- 9.34 As stated in budget speech of FY 2005/06, a high level Committee on Public Enterprises Reform Recommendation has been constituted. This Committee is preparing its final report. After receiving Committee's report, government will review the status of PEs that have to be privatized, or liquidated or to be kept in operation. Taking appropriate decisions on time shall be a great challenge for the government.