

9. Public Enterprises

Overall Review

- 9.01 Among the 36 enterprises fully or partially owned by the GON (both direct share investment of the government and inter-public enterprises share investment), there are 7 in industrial sector, 6 in business sector, 7 in service sector, 5 in social sector, 3 in public utility sector and 8 in financial sector. Based on available statistics of these public enterprises (PEs), the overall picture along with brief sectoral account during FY 2006/07 and expected financial status for FY 2007/08 have been presented. Also, a short review of the auditing status, human resource status and brief information of divested enterprises including the prevailing challenges has been made.
- 9.02 Looking at the overall financial status of the 36 PEs, 22 earned profit and 14 recorded loss in FY 2006/07. The number of loss-making PEs has come down in FY 2006/07 compared to such number of 19 in FY 2005/06. Similarly, in FY 2006/07, the operating profit of PEs increased to Rs.7.96 billion from Rs. 2.54 billion in 2005/06. This overall increase in profit is mainly attributed to Nepal Telecom and Agriculture Development Bank Ltd. (ADBL) which earned profits of Rs. 5.98 billion and Rs. 1.05 billion profits respectively in FY 2006/07. Similarly, decrease in the loss incurred by the NOC to Rs. 1.92 billion in FY 2006/07 from Rs. 3.67 billion in FY 2005/06 also contributed to this position. However, the loss incurred by the NOC is estimated to rise again to Rs. 7.18 billion in FY 2007/08 due to price rise in the petroleum products in the international market. Similarly, in FY 2007/08, the overall profit of all the PEs is estimated to be limited to Rs. 3.51 billion. The total shareholders' funds stood at Rs. 39 billion in FY 2006/07, almost same as in the last year. According to information received from the Financial Comptroller General Office (FCGO), out of the government's share investment of Rs. 75.80 billion in these 36 PEs, 49 percent of the capital has been eroded by FY 2006/07.
- 9.03 The GON collected from 7 PEs dividends amounting to Rs.1.49 billion in FY 2006/07, which is 1.96 percent of the total share investment. By the end of FY 2006/07, the net assets (including under construction) of these 36 PEs reached Rs. 110.61 billion from Rs. 99.47 billion in FY 2005/06. This increase of fixed assets of PEs was

due to the fixed asset of Rs 6.50 billion and Rs. 5.50 billion increased by Nepal Electricity Authority (NEA) and Nepal Telecom respectively.

Sector-wise Analysis

Industrial Sector

9.04 In FY 2006/07, 7 PEs under industrial sector made sales transactions worth Rs. 4.17 billion, 5 percent higher than that in the last year. The increase in sales was contributed mainly by Dairy Development Corporation (DDC), Janakpur Cigarette Factory (JCF), Udayapur Cement Industry and Hetauda Cement Industry while their sales was Rs. 1.68 billion, Rs. 970 million, Rs. 830 million and Rs. 700 million respectively. In comparison to last year, Udayapur Cement Industry has achieved a 32 percent of encouraging increment in its sales. However, the sales of JCF decreased by 12 percent. There is nominal increase in the sales of DDC and Hetauda Cement Industry.

Profit and Loss

9.05 Compared to total net loss of Rs. 278.8 million in FY 2005/06, the net loss incurred by 7 PEs under industrial sector in FY 2006/07 stood at Rs. 178.1 million of which the loss of Rs. 134.2 million by Udayapur Cement Industry and the loss of Rs. 90 million by JCF have been the major ones. Compared to Rs. 9.1 million profit earned by JCF, it incurred big loss in FY 2006/07. This was mainly due to decrease in total sales, increase in distribution cost by Rs. 10 million, increase in insurance premium by Rs. 30 million and rise in other expenditures that incurred the loss of Rs. 90 million for JCF. Compared to the last year, Udayapur Cement Industry and Nepal Orind Magnesite Pvt. Ltd. reduced their loss by Rs. 70 million and Rs. 50 million respectively. Regarding Udayapur Cement Industry, the decrease in loss was mainly due to increase in its sales and not having any expenses to be written off. Similarly, regarding Nepal Orind Magnesite Pvt. Ltd., even the miscellaneous expenditure and incomes were same as of previous year. The loss is reduced due to decrease in cost of foreign loan and interest due to devaluation in foreign exchange rate. In comparison to the net loss of Rs. 25.5 million in FY 2005/06, the DDC earned Rs. 11 million net profit in FY 2006/07.

Debt, Assets and Shareholders' Fund

- 9.06 By the end of FY 2006/07, the total outstanding long-term debt owed by the industrial sector has come down to Rs. 3.48 billion from Rs. 3.81 billion in FY 2005/06. Similarly, the net fixed asset has slightly decreased to Rs. 1.82 billion. Under this sector, around Rs. 3 billion worth of under construction property of Udayapur Cement Industry has been shown for last many years and it was not adjusted to fixed assets even after the operation of the factory. By the end of FY 2006/07, the total shareholders' funds of all 7 PEs under this sector has remained negative at Rs. 534.4 million.
- 9.07 The overall progress of industrial sector in FY 2006/07 does not seem satisfactory. Despite its success to reduce loss by increasing sales, Udayapur Cement Industry has not been able to earn net profit. But, the progress estimate shows that this industry may earn a nominal profit in FY 2007/08. Due to loss of Rs. 90 million in FY 2006/07, the accumulated profit of the JCF has been almost zero. The increase in distribution cost as well as other expenses even after decrease in sales shows the inefficient financial management of the factory. No significant change has been seen in the situation of Nepal Orind Magnesite Pvt. Ltd. and it has increased the financial burden each year.

Business Sector

- 9.08 In FY 2006/07, the total sales transactions of all 6 PEs under the business sector category reached Rs. 38.78 billion from Rs. 33.92 billion in FY 2005/06, registering an increase of 14 percent over the previous year. Among all the PEs under the business sector, the NOC holds 94 percent share in total sales amount. The total sales transaction of NOC has increased by Rs. 4 billion, whereas other companies' sales transaction also showed progress. The total sales transactions of Agriculture Inputs Company Ltd. (AIC) have increased by 60 percent. But its transaction is estimated to come to the lowest point in FY 2007/08 indicating an unsustainable expansion in FY 2006/07. The NFC has increased its sales by 143 percent.

Profit and Loss Situation

- 9.09 The PEs in the business sector have incurred a net loss of Rs. 1.93 billion in FY 2006/07. The decline in net loss of PEs under business sector was due to 50 percent decrease in NOC's loss while the loss of all PEs of this sector was Rs. 3.82 billion in FY 2005/06. Among the

PEs in this sector, National Seeds Company Limited and NFC showed net profit as these entities had received grants of Rs. 5 million and Rs. 356 million respectively from the government in FY 2006/07. However, all other PEs under this sector incurred losses.

Debt, Assets and Shareholders' Fund

- 9.10 By mid-July 2007, the total outstanding long-term loan and the short-term loan of all PEs under the business sector remained Rs. 3.35 billion and Rs. 3.85 billion respectively. The long-term and the short-term loan of NOC remained Rs. 3.24 billion and Rs. 2.50 billion respectively. In addition to this, the NOC has not paid Rs. 2.70 billion to Indian Oil Corporation. Due to continuous increasing trend in NOC's loans and outstanding payments to be made, the total debt of the PEs under this sector is continuously increasing. By the end of FY 2007/08, the loan of only NOC is estimated to reach Rs. 15.24 billion. In addition, the short-term loan of NTL has increased by 140 percent to Rs. 928.9 million from that of FY 2005/06. Similarly, the loan of NFC has increased to Rs. 408.9 million from Rs. 324.1 million. The net fixed assets of business sector PEs has remained Rs.1.48 billion, of which, Rs. 800 million of AIC and Rs. 410 million of NOC are the main. In FY 2006/07, the fixed assets of business sector PEs have not changed substantively. Although the overall shareholders' fund is negative, the shareholders' fund of 3 PEs under this sector, namely; AIC, National Seeds Company Ltd. and NTL is positive.

Service Sector

- 9.11 The total operating income of 7 PEs under service sector increased by 18 percent to Rs. 7.08 billion in FY 2006/07 as compared to FY 2005/06. The operating income at Rs. 5.21 billion of the NAC has mainly attributed to this. Compared to FY 2005/06, the NAC, CAAN and Industrial Estate Management Company have increased their transactions. In FY 2006/07, the total operating income of National Productivity and Economic Development Centre is just Rs. 200 thousand. Similarly, the income of Engineering Consultancy has been limited to Rs. 1.81 million. In the same way, as compared to FY 2005/06, the gross income of National Construction Company Nepal Ltd. has reduced by 39 percent in FY 2006/07.

Profit and Loss Situation

- 9.12 In FY 2006/07, the net profit earned by PEs under services sector remained Rs. 568.04 million which is 80.5 percent higher than Rs.

314.9 million in FY 2005/06. In this sector, Industrial Estate Management Company, NAC and CAAN are in operating profit. The NAC's net profit highly increased to Rs. 342.1 million in FY 2006/07 compared to Rs. 11.7 million in FY 2005/06. Increase in tourist arrival due to the better situation in the country and well operation of two aircrafts (Boeings) of the NAC are mentioned for such result. In FY 2006/07, Nepal Transit and Warehouse Ltd. has also earned profit worth of Rs. 5.6 million. National Construction Company Nepal Ltd., Nepal Engineering Consultancy and National Productivity and Economic Development Centre are still incurring loss.

Debt, Assets and Shareholders' Fund

- 9.13 Among the PEs in the service sector, only the NAC and CAAN are using borrowed fund. In aggregate, by the end of FY 2006/07, the long-term loan has remained Rs. 1.71 billion and the short-term loan amounts Rs. 510 million. Likewise, PEs under services sector hold Rs. 9.45 billion in the shareholders' fund and Rs. 6.43 billion of net fixed assets.

Social Sector

- 9.14 In FY 2006/07, all five PEs under social sector earned a total operating income of Rs. 1.55 billion, which is lower by Rs. 100 million compared to FY 2005/06. In this sector, Janak Educational Materials Centre has the highest turnover of Rs. 600 million, while Nepal Television and the Gorkhapatra Corporation each have turnover of Rs. 190 million. As compared to FY 2005/06, the total sales of these PEs have declined, leading to an overall decline in the turnover of social sector PEs.
- 9.15 The total operating income of Rural Housing Company Ltd. has substantially decreased to Rs. 7.2 million in FY 2006/07 from Rs. 26.3 million in FY 2005/06 showing high volatility in its transactions. Similarly, the total income of Nepal Television has remarkably declined while it was Rs. 240 million in FY 2005/06. The progress estimation of FY 2007/08 also does not seem satisfactory.

Profit and Loss Situation

- 9.16 As compared to the net loss of Rs. 66.5 million of all PEs under the service sector in FY 2005/06, the loss in FY 2006/07 has increased by 90 percent to Rs. 124.2 million. This huge increase in loss was mainly due to the decrease in the transaction of Nepal Television and

Rural Housing Company Ltd. as well as a notable decline in the profit of Janak Educational Materials Centre. Gorkhapatra Corporation has successfully earned Rs. 10.2 million as profit in FY 2006/07 while it was in break-even point in FY 2005/06. Despite decline in transaction, it was able to earn profit by reducing administrative expenses and increasing other incomes. According to progress estimation, the total net loss of the PEs under social sector seems to have remained Rs. 110 million. So there will be no substantive change in its profit and loss situation.

Debt, Assets and Shareholders' Fund

- 9.17 Among PEs under social sector, the Cultural Corporation and the Gorkhapatra Corporation have long-term debt liability amounting to Rs. 162.3 million and Rs. 25.1 million respectively. The Cultural Corporation's long-term debt liability was Rs. 102 million in FY 2004/05, which increased to Rs. 127.3 million in FY 2005/06 and further increased and reached Rs. 162.3 million in FY 2006/07. The Gorkhapatra Corporation has almost settled its outstanding short-term debt Rs. 47.6 million by FY 2005/06 along with some decline in its long-term debt as well.
- 9.18 In FY 2006/07, the total fixed assets of all PEs under social sector has reached Rs. 1.06 billion from Rs. 990 million in FY 2005/06. In FY 2006/07, the Cultural Corporation has substantially increased its fixed asset. The shareholders' fund of all PEs under social sector has remained Rs. 1.68 billion, similar to that of FY 2005/06. None of the PEs of this sector has negative shareholders' fund. To sum up, though the sale of all PEs under this sector is satisfactory, the loss of Nepal Television, the major PE under this category, has been increasing each year.

Public Utility Sector

- 9.19 In FY 2006/07, total operating income of three PEs under the public utility sector remained Rs. 28.67 billion. This is 17.3 percent higher than in the FY 2005/06. The total income of Nepal Water Supply Corporation has remained Rs. Rs. 680 million, similar to that of FY 2005/06, whereas in case of NEA the total operating income has increased by 9 percent to Rs. 14.53 billion. Likewise, the total operating income of Nepal Telecom Company Ltd. increased by 28.7 to Rs. 13.45 billion in FY 2006/07 compared to Rs. 10.45 billion in FY 2005/06.

Profit and Loss Situation

- 9.20 In FY 2006/07, the net profit of PEs under this sector increased by 51.4 percent to Rs. 5.57 billion from Rs.3.68 billion in FY 2005/06. In FY 2006/07, Nepal Telecom and NEA are the only profit making PEs in this sector. The aggregate profit of public sector PEs seems continuously increasing due to the contribution of Nepal Telecom. According to progress estimate for FY 2007/08, the aggregate profit of this sector seems to be declined as there will be no remarkable increase in profit of Nepal Telecom and the loss of NEA will reach Rs. 1.48 billion. As compared to the profit of Rs. 5.98 billion in FY 2006/07, it is estimated to increase to Rs. 6.27 billion in FY 2007/08.

Debt, Assets and Shareholders' Fund

- 9.21 By mid-July 2007, the long-term debt liability of Nepal Water Supply Corporation, NEA and Nepal Telecom Company Ltd. amounted to Rs. 1.83 billion, Rs. 51.76 billion and Rs. 1.19 billion respectively. PEs of this sector have made huge investment in fixed assets. The total networth, including construction asset has remained Rs. 98.25 billion by the end of FY 2006/07 from Rs.99.04 billion in FY 2005/06.

Financial Sector

- 9.22 In FY 2006/07, the total operating income of eight PEs under the financial sector reached Rs. 11.90 billion, which is 33 percent higher than that of FY 2005/06. An increase of Rs. 2.46 billion in operating income of Agricultural Development Bank Ltd. has positively contributed to the operating income of total PEs of this sector.

Profit and Loss Situation

- 9.23 Compared to Rs. 2.72 billion in FY 2005/06, the net profit of PEs under financial sector has increased by 49.3 percent and reached Rs. 4.06 billion. The net profit of total financial sector PEs increased in this year mainly due to high increase in the net profit of ADBL. All PEs under financial sector are operating in profit in FY 2006/07. Even the Nepal Industrial Development Corporation, which had incurred loss of Rs. 270 million in FY 2005/06, earned a profit of Rs. 101.3 million in FY 2006/07.

Debt, Deposit, Investment and Shareholders' Fund

- 9.24 By mid-July 2007, the debt liability of PEs of this sector has remained Rs. 3.47 billion. Of which, Nepal Industrial Development Corporation NIDC, RBB and ADBL have Rs. 882.1 million, Rs. 2.22 billion and Rs. 374 million respectively. Last year, the total debt of this sector was Rs. 5.96 billion. As a result of loan repayment of Rs. 2.13 billion made by RBB to other banks, the total debt of this sector reduced in FY 2006/07. This is expected to decline further in the FY 2007/08. Among financial sector PEs, the ADBL, RBB and Nepal Housing and Development Finance Company have been accepting deposits from the public, and conducting financial transactions. The deposits collected by these entities increased by 9.1 percent and reached Rs. 83.55 billion by the end of FY 2006/07 from Rs. 76.56 billion in FY 2005/06. NIDC has also got approval to launch banking transactions.
- 9.25 By the end of FY 2006/07, these institutions extended Rs 52.38 billion credit, which is more than 5.1 percent than that of Rs. 49.84 billion by the end of FY 2005/06. The total shareholders' fund has remained negative by Rs 14.62 billion. The aggregate shareholders' fund of this sector remained negative mainly due to the negative shareholders' fund of Rs. 17.21 billion of RBB. Except the RBB and the NIDC, the shareholders' fund of other PEs is positive. After the management of RBB was given in contract in 2003 under the Financial Sector Reform Program launched with the assistance of the World Bank, there has been a gradual progress in the networth of the Bank. By the end of FY 2006/07, the networth of this bank has remained negative Rs. 17.21 billion compared to negative Rs 22.39 billion in FY 2002/03. Likewise, in FY 2006/07, Agricultural Development Bank Ltd. has been able to make its shareholders' fund positive by Rs.1.66 billion from the negative shareholders' fund in FY 2005/06. The shareholders' fund of NIDC is projected to become positive in FY 2007/08.

Status of Audit

- 9.26 Despite a mandatory legal provision to conduct annual audit of all PEs, there is a practice of not adhering to this provision. Out of the total PEs, 21 PEs accounts have been audited up to FY 2006/07, 7 PEs accounts up to FY 2005/06 and 4 PEs accounts up to FY 2004/05. Despite the requirement for the PEs to complete the audit of

their account on annual basis, a very weak status regarding the audit of some PEs is shown below:

Table 9 (a) : Latest Year of the Audit Conducted

S.N	Name of PEs	Fiscal Year
1.	Nepal Orind Magnesite Pvt. Ltd.	2001/02
2.	National Insurance Corporation	2001/02
3.	The Timber Corporation of Nepal Ltd	2003/04
4.	Gorakhaphatra Corporation	2003/04

9.27 Though the existing legal provision has clearly mandated to conduct the task of audit within the specified time frame, some PEs have not obliged to this. This clearly shows the managerial inefficiency and negligence in some of the PEs

Reform in the Board of Directors

9.28 The government has adopted a policy of appointing competent, enterprising and professional person in the Board of PEs. The size of Board members was also set to 5 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 member number to 5 in such PEs through amendment of such Act/Rules is yet to be done.

GON's Share and Loan Investment

9.29 The GON's share investment in the aforementioned 36 PEs is Rs. 75.80 billion. Government received Rs. 1.49 billion as dividend from these PEs. Likewise, by the end of FY 2006/07, outstanding loan of these reached Rs. 65.14 billion. Of which, Rs. 6.31 billion is internal loan and Rs. 58.83 billion is external one.

9.30 The differences in record about governments share and loan investment held by FCGO and the information submitted by 16 PEs were mentioned in some reports such as economic survey and report on PEs' work performance of last year. As a result, some PEs have made some progress in reconciling these information, but still the account maintained by many of the PEs and FCGO does not match. Since the reconciliation process becomes more complex as it becomes overdue and it becomes difficult to know even the financial status of PEs, it is urgently needed to correct in a timely manner. Presented below are some cases of such differences:

Table 9(b) : Loan Invested by the GON

Rs. million

S.N	Name of PEs	Amount shown by PE	Amount shown by FCGO
1.	Agricultural Development Bank Ltd.	0	417.3
2.	Civil Aviation Authority of Nepal	1479.7	2592.6
3.	Udayapur Cement Industry Ltd.	1750.0	2235.0
4.	Nepal Electricity Authority	51766.0	51518.5

Table 9(c) : Share Investment by the GON

Rs. million

S.N	Name of PEs	Amount shown by PE	Amount shown by FCGO
1.	Civil Aviation Authority of Nepal	10773.3	14568.6
2.	Agriculture Inputs Company Ltd.	417.6	413.6
3.	Herbs Production and Processing Company Ltd	24.1	39.7
4.	Nepal Electricity Authority	26576.6	26194.5
5.	Nepal Water Supply Corporation	1870.5	1407.6

Status of Employees/ Workers

9.31 In all these 36 PEs, the total number of staff and workers working in the current FY 2007/08 is 35,053 whereas the number was 36,349 by the end of FY 2006/07. The number of staff and workers is expected to increase to 35,976 by the coming FY 2008/09. Overstaffing is still common in PEs. The production of goods and services is minimum compared to the number of staff employed in these PEs. 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 the government's protection inhibits motivation toward 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.

Divestment and Liquidation of Public Enterprises

9.32 The government adopted the principles of economic liberalization and open market policy since one and half decade ago. In line with these principles, the government took policy of divesting the function of goods and services being provided by the PEs to the private sector

and started privatization process since FY 1992/93. Since then till mid-April 2008, the following 30 PEs have undergone different modalities of privatization, such as sale of business and assets, sale of shares, management contract, sale of assets and lease, and liquidation. The details of divesting modality, percentage of shares and amount recovered are shown in the following table.

Table 9 (d): Divested and Liquidated Public Enterprises

<i>S.N.</i>	<i>Name of PEs</i>	<i>The Year Of Divestment/ Liquidation</i>	<i>Privatization Mode</i>	<i>Lump-sum Share Sold (%)</i>	<i>Proceeds form Divestment (in' 000)</i>
1.	Bhrikuti Paper Factory Ltd.	1992	Assets and Business sale	-	229,800
2.	Harisiddhi Bricks and Tile Factory Ltd.	1992	Assets and Business sale	-	214,830
3.	Bansbari Leather & Shoes Factory Ltd.	1992	Assets and Business sale (except land)		29,854
4.	Nepal Film Industry Ltd.	1993	Share Sale	51.0	64,662
5.	Balazu Textile Industry	1993	Share Sale	70.0	17,716
6.	Raw Hide Collection & Processing Co Ltd.	1993	Share Sale	100.0	3,990
7.	Nepal Bitumen & Barrel Industry Ltd.	1994	Share Sale	65.0	13,127
8.	Nepal Lube Oil Ltd.	1994	Share Sale	40.0	31,057
9.	Nepal Jute Dev. Co. Ltd.	1993	Liquidation		
10.	Tobacco Dev. Co.	1994	Liquidation	- -	
11.	Nepal Foundry factory Ltd.	1996	Share Sale	51.0	14,473
12.	Raghupati Jute Mills Co. Ltd.	1996	Share Sale	65.0	82,204
13.	Nepal Bank Ltd.	1997	Share Sale	10.0	125,140
14.	Agriculture Project Service Centre Ltd.	2001	Liquidation	-	-
15.	Nepal Tea Dev. Corporation	2000	Share Sale	65.0	267,105
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.	Hetauda Textile Ind. Ltd.	2002	Liquidation	-	-
21.	Nepal Transport Corporation	2002	Liquidation	-	-
22.	Butwal Power Co.	2003	Share Sale	75.0	874,200+USD 1 million
23.	Birgunj Sugar Factory	2003	Liquidation	-	-
24.	Agriculture Tool Factory	2003	Liquidation	-	-
25.	Bhaktapur Brick Factory	2004	Assets sale and Rent	-	14,500 (Assets sell 31,900) 10 Yrs. 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	-	110,100(Assets sell 3,012) rent per year
28.	Agriculture Lime Industry Ltd.	2006	Liquidation	-	
29.	Nepal Drilling Company	2006	Liquidation	-	
30.	Nepal Telecom Company Ltd.	2008	Share sale	8.53	4,264,139

* It was given on management contract in the past but the government is operating it now due to not working as per contract.

** It is still under liquidation process after the dismissal decision of the Court.

9.33 With an objective of involving the staff/workers and private sector participation in PEs and to enhance the productivity of goods and services, the GON had decided to distribute Nepal Telecom's Rs. 100 value 7.5 million numbers of shares to employees and 15.0 million shares to general public in the FY 2007/08. As per government's decision, 7.5 million shares or 5 percent of total shares of government ownership are issued to employee and Rs 675 million is received from this sales. Similarly, as per the decision of 17.5 million number shares to be distributed to general public, at the first phase, a notice was published for the sale of 7.5 million number shares. In this regard, Rs. 3.6 billion is received from the sales of 5,299,070 number or 3.53 percent of shares. The experiences of privatization in the last one and half decade have identified the following key problems:

Challenges Experienced in the Implementation of Privatization Program

9.34 **Adjustment:** In some of the already privatized PEs, there has been a problem to finalize the privatization process due to the disputes between government and buyers regarding high price difference of the property specified in the Information Memorandum prepared before the privatization. The dispute is in the valuation amount of stock and assets valued by valuer appointed by the government and the valuer appointed by the buyer. Such problem appeared in the privatization process of Nepal Tea Development Corporation where buyer had filed the case in in the Court. This issue has now been settled through mutual understanding. Such problems are still in case of Balaju Textile Industry, Raghupati Zute Mills, Bhaktpur Brick Factory, etc.

- 9.35 **Land acquirement:** In some cases the problem has been raised due to acquirement of lease land. In such case, the buyer has not been able to utilize such land resulting obstacle to complete the privatization process. Raghupati Jute Mill and Nepal Tea Development Corporation are facing such problems.
- 9.36 **Case under Courts' consideration:** Buyers of some PEs have disagreed to pay the due amount to the government and gone to the Court. This has created problem in receiving payments by the government and the privatization process has not been completed. Harisiddhi Brick and Tiles Factory, Bhrikuti Paper Factory and Bhaktapur Brick Factory are facing such problems.
- 9.37 **Difficulty as to sale of assets:** The assets of some liquidated PEs are not sold. Even after the six years of liquidation, the assets of Hetauda Textile Industry have not been sold. This is also due to obsolete machineries. Likewise, same problem exists in Nepal Drilling Company, Birgunj Sugar Factory and Agriculture Inputs Factory.
- 9.38 **Problem related to liquidation:** After getting long-awaited final report from the appointed liquidators of PEs initially privatized, such as the Bansbari Leather and Shoe Factory, Harisiddhi Brick & Tile Factory and Bhrikuti Paper Factory, so as to complete the liquidation works through accounts settlement, the process of deregistration of these companies is in the final stage. Deregistration of Cottage Handicraft Emporium and Nepal Coal Limited from the Company Registrar's Office has been already completed. The deregistration of Bhaktapur Brick Factory and Agriculture Lime Industry will be completed by the end of FY 2007/08. The liquidation process of Hetauda Textiles, after bringing the unsold building, land and plant in government's ownership, has been started.
- 9.39 **Liabilities borne by government:** The GON has paid huge amount in the process of privatization of PEs. In the latter phase, the GON has borne the following amounts to clear the liability of divested/liquidated PEs. There is still a situation to bear larger financial burden by the government for the non-liquidated/divested PEs.

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

S.N	Name of the PEs	Amount	Purpose
1.	Himal Cement Company	370,000	To pay different liabilities
2.	Bhaktapur Brick Factory	206,231	" "
3.	Birjung Sugar Factory	706,724	" "
4.	Agriculture Tool Factory	52,976	" "

5.	Nepal Rosin & Turpentine Ltd.	180,812	" "
6.	Lumbini Sugar Factory	508,967	" "
7.	Agriculture Lime Ind. Ltd	81,595	" "
8.	Nepal Coal Ltd.	8,391	" "
9.	Nepal Transport Corporation	361,685	" "
10.	Hetaunda Textile Ind. Ltd.	536,035	" "
11.	Cottage Handicraft Sales Emporium Ltd.	81,033	" "
12.	Nepal Tea Dev. Corporation	118,671	" "
13.	Biratnagar Jute Mills	451,409	" "

Source: Ministry of Finance, Privatization cell

9.40 Generally, the liability of any PE should be paid through its own assets, but it is not being happened. Due to several reasons on accounts of which the assets of PEs are either not sold or they are used for public purpose with the practice of the liabilities being borne by the GON, resulting in a huge financial burden for the GON. Such practice needs change.

Challenges

9.41 Some PEs are running at loss and some have negative networth. These PEs have not provisioned fund to meet liability like gratuity, pension, provident fund, etc. for staff and thus unfunded contingent liabilities are growing which will ultimately put heavy financial burden on the part of government.

9.42 Loss making PEs continued to add financial liability to the government while the profit-making PEs are enjoying all sorts of facilities, exceeding their need.

9.43 Even the 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 the staff. Instead they have a tendency of 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 by both the concerned PEs and Ministries. In PEs, generally, there is a dearth of high-skilled manpower whereas the number of unskilled staff is more than needed.

- 9.44 Some PEs do not prepare the annual accounts for long time and do not get them audited for several years. This may cause loss in people's confidence, adversely affecting the reform process of the PEs.
- 9.45 Many PEs lack appropriate and latest technologies. In addition to this, the lack of capital has remained as a big challenge.
- 9.46 Some PEs do not have authority to adjust the price according to the market fundamentals. This has even challenged the existence of the concerned PEs. The NOC is the right example of this paradox.
- 9.47 Lack of clear and coherent policy regarding the recruitment and the facilities in connection with the Board of Directors, Chief Executive and staff has posed additional challenge.
- 9.48 There is lack of clear policy and mechanism regarding monitoring and evaluation of PEs. The concerned Ministry should make the monitoring and evaluation work of the PEs under them effective.
- 9.49 In the current situation wherein the important role of the PEs in the emerging environment of liberal, open and competitive economic system needs to be realigned, the overall progress in attaining the objectives of the PEs does not seem to be satisfactory.
- 9.50 As stated in budget speech of FY 2006/07, a high-level committee on Public Enterprises Reform Recommendation has submitted a report on the status of PEs, recommending the list of PEs that need to be privatized or liquidated or continued to be kept in operation. Necessary actions on the recommendation of the report could help improving the allocation of resources in the economy, leading to a dynamic economic development environment.