

## 9. Public Enterprises

- 9.1 A trend of rapid expansion of Government financed public enterprises began in Nepal since the decade of 1960s with primary objective of building basic infrastructure, production and distribution of manufactured goods and assisting in the overall development of the country. Among the existing 36 enterprises fully or partially owned by the Government, there are 7 enterprises in industrial sector, 6 in business sector, 7 in service sector, 3 in public utility sector and 8 are in the financial sector. Since the production and service delivery of these enterprises with Government's heavy investment, are directly concerned with general public, regular monitoring and follow-up is necessary to enhance their efficiency. So, the analyses of regular annual progress reports of these enterprises get incorporated in Economic Survey of every year. The present analysis includes, target and progress carried out by the public enterprises and the brief financial details of FY2007/08 as well as objectives and revised cost-estimation, and information about the proposed objectives of such enterprises charted out for the coming years. In addition, the capital structure of each enterprise, profit and loss, and situations of Shareholders' fund, liabilities to be paid, details of investment and assets, auditing status, status of human resources, and, current programs as well as future investment programs have been included. The information are collected from the concerned enterprises, Financial Controller General Office and Ministry for Finance, to avail reliable and factual data.
- 9.2 The total fixed asset of the above said 36 enterprises has reached to Rs.123.85 billion by the end of FY2007/08 from Rs. 110.61billion in FY 2006/07. During this period, fixed asset of Nepal Electricity Authority, Udaypur Cement Industry Ltd., and Nepal Telecommunications Company grew by Rs.8.41 billion, Rs.2.86 billion, and Rs.1.37 billion respectively. During the same period however, following the decision made on 29 September 2007, a Kathmandu Valley Drinking Water Management Board was by breaking down Nepal Water Supply Corporation into two separate entities. Since the fixed asset of the company was also transferred with the split, the net fixed asset of Nepal Water Supply Corporation also fell by Rs.2.48billion. The Shareholders' Fund composed of all public enterprises with full and majority share holding of the Government at the end of FY 2007/08 stood at Rs.46.62 billion. Based on the information from the Financial Comptroller General's Office, the value of the Government's share investment of Rs.81.92billion in 36 PEs has already depleted by 43 percent by the end of FY2007/08, but the Government's loan investment on PEs,

which stood at Rs.71.74 billion in FY2006/07, grew to Rs.83.31 billion during the same period.

- 9.3 A glance to the overall financial situation of 6 PEs reveals that 17 Corporations have earned net profit, whereas 19 Corporations made losses during FY2007/08. There were only 14 loss-making PEs in FY2006/07 as compared to the present 19, which indicates their deteriorating financial situation. Similarly, the net profit of PEs has decreased to Rs.4.94billion in FY2007/08 against the net profit of Rs.7.74 billion during the same period of FY2006/07. Among the profit- making PEs, Nepal Telecom Company Ltd. has made a net profit of Rs.7.94 billion and Rastriya Banijya Bank Rs.1.77 billion, contributing to net profit of the PEs. On the contrary, the total loss of Nepal Oil Corporation reached to Rs.5.57billion in FY 007/08 from Rs.1.92billion during the previous fiscal year. Hence, the overall net profit PEs has decreased. With the price-reduction in petroleum products in the international market during FY 2007/08, and the adjustments in the price yet to be made, it is expected that Nepal Oil Corporation's net profit will reach Rs.5.3 billion, resulting in estimated total profit of Rs.18.42billion of these PEs. Nepal Government received dividend amounting to Rs. 1.513 billion from four PEs in FY2007/08, equivalent to 1.8 percent of the total share investment.

## **Sector-wise Analysis**

### **Industry Sector**

- 9.4 In FY 2007/08, seven PEs in the industry sector have made sales transaction worth Rs.4.35billion, an increment of 4.2 percent as compared to the transactions in its immediate preceding fiscal year. Mainly the Dairy Development Corporation, Hetaunda Cement Industry Ltd, Janakpur Cigarette Factory Ltd and Udayapur Cement Industry Ltd have made sales transactions worth Rs.1.80 billion, Rs. .0.99 billion, Rs.0.96 billion and Rs.0.51 billion respectively during FY2007/08. In comparison to the previous year, Hetaunda Cement Industry Ltd, has achieved an encouraging 41.4 percent growth in total sales whereas the total sale of Udayapur Cemet Industry Ltd decreased by 39.1 percent during the same period. There is a moderate growth in the sales of Dairy Development Corporation during this period. Since Nepal Orind and Magnesite has written-off and deducted the sales amount of Rs. 20 million from capital investment while preparing financial report.

### **Profit and Loss situation**

- 9.5 During FY2006/07, the total net loss of 7 PEs under the industry sector was Rs. 272.7 million, which reached to Rs. 435.9 million in 2007/08, almost

doubling the loss. Among the prime losers, Udayapur Cement Industry Ltd made a loss of Rs. 266.0 million while Janakpur Cigarette Factory saw a loss of Rs.154.5 million. Udayapur Cement Industry Ltd is losing for reasons like, decline in production, and net sales amidst the high cost of production. The total loss of Nepal Orind Magnesite Private Ltd. has touched Rs.3.58billion with an addition of Rs.86.1 million in the current year alone. The Dairy Development Corporation, which had made a profit of Rs.14.7 million in FY2006/07 incurred a net loss of Rs.89.8 million in FY2007/08 owing to the allocation in gratuity and increase in other administrative expenses.

### **Debt, Assets and Share Holders' Fund**

- 9.6 There seem to have no particular change occurred in the total outstanding Rs.3.63 billion debt of the industry sector in 2007/08 from that of FY2006/07. Similarly, the net fixed asset of Rs.1.82 billion has grown to Rs. 4.67 billion during the period. Capitalization of Rs. 3.0 billion of Udayapur Cement Industry Ltd, which was being shown as asset under construction for many years in the past, is the main reason for growth in the net fixed asset of the sector. Shareholders' fund includes their share capital, accumulated loss and profit, and reserved funds. By the end of fiscal year 2007/08, the share holders' fund of all 7 PE's has shown negative (-Rs. 1.777billion) balance. Overall, the progress report of the Industrial sector for FY2007/08 does not seem satisfactory. Nepal Orind Magnesite Ltd has made no progress at all, and is continuing to add to the Government's economic burden each year.

### **Business Sector**

- 9.7 In FY2007/08, the total sales transactions of all 6 PEs under the business sector category has reached Rs. 41.7 billion from Rs. 38.78 billion in FY2006/07, registering an increase of 5.9 percent over the previous year. Among all enterprises under the business sector, Nepal Oil Corporation is the highest contributor with 95 percent of total sales value. Review of FY 2006/07 and 2007/08 shows increase of Rs.2.42 billion in Nepal Oil Corporation's sales transaction. Nevertheless, growth is observed in sales transactions of some other PEs too. However, there has been a heavy decline on the sales of Agriculture Inputs Company limiting to Rs. 161.5 million in FY2007/08 against its sale of Rs. 449.1million in the previous year raising the question of sustainability of the Corporation.

### **Profit and Loss Situation**

- 9.8 All PEs under the business sector incurred a total net loss of Rs.5.69 billion in FY2007/08. This amount is much higher than the previous year's net loss

of Rs.1.96 billion caused to the business sector mainly due to sharp rise of 190 percent loss to Nepal Oil Corporation during the period. Among the Corporations of this sector, National Seeds Company and Nepal Food Corporation are in the situation of registering net profits owing to the grant assistance from the Government of Nepal to them worth Rs.5.0 million and 38.95 million respectively. National Trading Limited and The Timber Corporation of Nepal have also registered profits this year. The Agriculture Inputs Company registered the loss worth Rs.164.2 million in FY2007/08. Because of Nepal Oil Corporation's net loss worth Rs.5.57 billion, the overall financial situation of business sector has incurred the net loss.

### **Debt, Assets and Shareholders' Fund**

9.9 By mid-July 2007, the long-term and short-term debt of PEs have reached Rs.10.77 billion and Rs.3.36 billion respectively. Nepal Oil Corporation's long-term and short-term debt has reached Rs.10.71 billion and Rs.2.40 billion respectively, In addition, the Corporation owes Rs. 1.24 billion dues to Indian Oil Corporation. Because, the increasing trend of debt and dues Nepal Oil Corporation owes, the overall debt of the business sector is also on increase. In comparison to FY2006/07, the short-term debt of Agriculture Inputs Company in FY2007/08 declined by 22.0 percent to Rs.722.0 million. Besides, the debt obligation of Nepal Food Corporation also came down to Rs. 173.2 million from 408.9 million. The net fixed asset of the business sector is worth Rs. 1.83 billion, major shares of which Agriculture Inputs Company and Nepal Oil Corporation own worth Rs. 790.0 million and Rs. 490.0 million respectively. In the FY2007/08, no substantial change is noticed in the fixed asset in the PE's of the business sector. Although, the Shareholders' fund as a whole is negative, Shareholders' fund of four Corporations of this sector namely Agriculture Inputs Company, National Seeds Company Ltd, The Timber Corporation of Nepal and National Trading Limited has remained positive.

### **Service Sector**

9.10 The total operating income of 7 PE's under the service sector decreased by 22 percent to Rs.5.50 billion in FY2007/08 in comparison to previous year's income with contributions of net operating incomes of Rs. 3.31 billion and Rs. 1.50 billion of Nepal Airline Corporation and Civil Aviation Authority respectively. As compared to FY2006/07, Civil Aviation Authority and Industrial Estates Management Company have expanded their transactions. However, Nepal Airlines Corporation's total income fell to Rs.3.31 billion in contrast to the income of Rs.5.21 billion during the previous year. Among those PEs whose operating income has declined are Nepal Engineering Consultancy Services Centre Ltd, and National

Construction Company of Nepal, whereas National Productivity and Economic Development Centre and Nepal Transit and Warehousing Management Company's operating income have increased.

### **Profit and Loss Situation**

9.11 The net profit of all PEs under the service sector fell sharply by 55 percent in FY2007/08 to Rs.215.3 million from Rs.475.5 million in its immediate preceding year. Three Public Enterprises, that were able to make net profits were the Civil Aviation Authority, Industrial Estate Management Company, and Nepal Transit and Warehousing Management Ltd with the shares of Rs. 412.7 million, Rs. 19.5 million and 8.5 million respectively during the period. Nepal Airlines Corporation which earned a net profit of Rs. 342.1 million in FY2006/07 made a net loss of Rs. 197.1 million in FY2007/08 owed mainly to higher administrative expenses without any increase in service transactions. Likewise, National Construction Company Nepal Ltd, Nepal Engineering Consultancy Services Centre and National Productivity and Economic Development Centre have been operating at losses.

### **Debt, Assets and Shareholders' Fund**

9.12 Among PEs in the service sector, only Nepal Airlines Corporation and Civil Aviation Authority are using loans. Overall, the service sector owed Rs.1.80 billion long-term and Rs. 369.3 million short-term debts by FY2007/08. Similarly, the sector's Shareholders' Fund and net fixed assets in this period stood at Rs.9.74 billion and Rs.10.31 billion respectively. The Civil Aviation Authority of Nepal has added Rs. 4.0 billion to its assets through capitalization.

### **Social Sector**

9.13 The total operating income of 5 PEs in the social sector amounted to Rs. 1.16 billion in FY2007/08, which is more by Rs. 153.3 million than that of its preceding year. During the period, Janak Education Materials Centre made the most sales transactions worth Rs. 680 million, Nepal Television worth Rs.230 million, and Gorkhapatra Corporation worth Rs.220 million. Social sector PEs recorded increase in their overall transactions in FY2007/08 as compared to FY2006/07.

### **Profit and Loss Situation**

9.14 There has been a slight improvement in the situation of net loss in the social sector from Rs.128.5 million in FY2006/07 to Rs.124.9 million in FY2007/08. Gorkhapatra Corporation and Janak Educational Materials Centre Ltd, that were making profit in FY2006/07, incurred losses in FY2007/08. During the

review period, Nepal Television, Janak Educational Materials Centre, Gorkhapatra Corporation, Grameen Aawas Company Ltd., and the Cultural Corporation all incurred losses worth Rs. 75.1 million, Rs. 31 million, Rs. 11.8 million, Rs. 6.6 million and Rs. 0.4 million respectively. The magnitude of loss of Nepal Television and Grameen Aawas Company Ltd, however has decreased to some extent in FY2007/08 than in the previous fiscal year. In considerations with the progress made during FY2007/08, the net loss of the sector in FY2008/09 is estimated at Rs. 88.4 million.

### **Debt, Assets and Shareholders' Fund**

9.15 Among the PEs in the social Sector, only two Corporations, i.e. the Cultural Corporation and Gorkhapatra Corporation have long term debt obligations worth Rs. 184.3 million and 24.6 million respectively. The long-term debt obligation of the Cultural Corporation was Rs. 102 million in 2004/05, Rs. 127.3 million in FY2005/06; Rs. 162.3 million in 2006/07, and Rs.184.3 million in 2007/08 showing the gradually increasing trend. The Gorkhapatra Corporation, which had a debt obligation of Rs.25.1 million in FY2006/07, has been able to bring it down slightly. The net fixed asset of the social sector Corporations, which amounted to Rs. 1.6 billion in FY2006/07 stood at Rs. 1.4 billion by the end of FY2007/08. In the current fiscal year, the Cultural Corporation has notably increased its fixed asset. The Shareholders' fund of this sector amounted to Rs. 1.49 billion by the end of the current fiscal year, which stood at Rs.1.68 billion in FY2006/07. None of Corporation in this sector has the Shareholders' fund negative. To sum up, despite satisfactory sales situation of PEs in this sector, there has been no improvement in their loss-making positions.

### **Public Utility Sector**

9.16 The total operating income of three PEs under the Public Utility Sector has stood at Rs.32.21 billion in FY2007/08. This is an increase 12.35 percent when compared with the operating income in FY2006/07. Because a separate Kathmandu Valley Drinking Water Management Board has been formed for managing water supply in Kathmandu Valley, the scope of Nepal Water Supply Corporation has shrunk to the areas outside the Valley resulting in the decline of total operating income worth Rs. 241.7 million in FY2007/08. To the contrary, the operating income of the Nepal Electricity Authority grew by 4 percent reaching Rs.15.18 billion. Similarly, the operating net income of Nepal Telecom Company Ltd increased by 24.8 percent to Rs.16.79 billion from Rs.13.45 billion in FY2006/07.

### **Profit and Loss Situation**

9.17 During FY2006/07 the profit of PEs in this sector was Rs.5.57 billion, which increased to Rs.7.2 billion in 64/65 with a growth of 26 percent. During FY2007/08 Nepal Telecom Ltd singly made a net profit of Rs.7.94 billion, largely contributing to lead the whole profit-making utility sector. Nepal Electricity Authority and Nepal Water Supply Corporation have borne a loss of Rs.909.3 million and Rs.16.7 million respectively. The net profit of Nepal Telecom Company is expected to reach Rs. 10.14 billion by the end of FY2008/09.

### **Debt, Assets and Shareholders' Fund**

9.18 By the end of the FY2007/08, the long-term debt liabilities of Nepal Water Supply Corporation and Nepal Electricity Authority reached Rs. 449.6 million and Rs.51.63 billion respectively. The major investment of this sector is on fixed assets. By adding the construction in process, net fixed assets of these PEs totalled Rs.105.56 billion in FY2007/08 from worth Rs.98.25 billion in FY2006/07.

### **Financial Sector**

9.19 The total operating income of 8 PEs under the financial sector has increased by 8 percent to Rs.10.93 billion in FY2007/08, while compared to the income of FY2006/07. During this period, Nepal Industrial Development Corporation substantially increased its income by selling Nepal Arab Bank's 265,570 units of shares it owned raising its operating income to Rs.1.13 billion. Similarly, Rastriya Banijya Bank has increased its operating income to Rs.3.30 billion from Rs.2.83 billion in FY2006/07. However, there has been a decline in the total operating incomes of Agriculture Development Bank and Credit and Investment Guarantee Corporation Ltd. The remaining PEs have slightly increased their operating incomes. Since there has been an overall increase of Rs.81.26 million in the total operating income, the financial situation of the PEs of this sector is positive. Meanwhile, Agriculture Development Bank has been permitted to operate its services as of Category A (ka) bank from Nepal Rastra Bank since FY 2005/06, it has expanded its various banking activities accordingly.

### **Profit and Loss Situation**

9.20 The net profit of the financial sector has decreased by 2.4 percent to Rs.3.96 billion in FY2007/08 against Rs. 4.6 billion that of FY2006/07. The net profit of Rastriya Banijya Bank, Nepal Industrial Development Corporation and Nepal Stock Exchange in FY2007/08 increased to be 1.76 billion, 8.8 million, 742.4 million, and 79.1 million Rupees respectively. On the contrary, the profit of Agricultural Development Bank and Rastriya Beema Sansthan has

decreased. Savings and Credit Guarantee Corporation Ltd., which earned profit of Rs.100.1 million in 2006/07 is now at a loss worth Rs. 28.5 million in the current fiscal year. There is no worth-mentioning improvement in the profit of Citizen Investment Trust and Nepal Housing Development and Finance Company.

### **Debt, Deposit Investment and Share Holders' Fund**

9.21 The long-term debt of PEs in this sector amounted to Rs.8.33 billion by the end of FY2007/08. Nepal Industrial Development Corporation has debt liability of Rs.232.0 million, Rastriya Banijya Bank Rs.2.517 billion, and Agriculture Development Bank Rs.257.4 million. The Life Insurance Fund liability of Rastriya Beema Sansthan amounting to Rs.7.15 billion has also been included in the debt obligations. Among the 3 PEs under the financial sector, Agricultural Development Bank, Rastriya Banijya Bank and Nepal Housing Development and Finance Company have conducting their business by accepting deposits from the general public. Similarly, Nepal Industrial Development Corporation also has received approval to operate general banking services. The accumulated deposits of such PEs in FY2007/08 totalled to Rs.93.94 billion, which is much higher than the previous fiscal year's Rs.83.55 billion registering an increase of 12.43 percent. On credit expansion, there has been a marginal increase of Rs.53.83 billion by the end of FY2007/08 against Rs.52.38 billion in the previous fiscal year. Likewise, the net credit flow of these PEs marginally increased from Rs.52.38 billion in FY2006/07 to Rs. 53.83 billion by the end of FY2007/08. Overall, financial institutions' aggregate Shareholder' fund remained negative by Rs.7.95 billion. It is due to that fact that although, Shareholders' Fund of PEs other than that of Rastriya Banijya Bank has been positive, this particular Bank's Rs.15.46 billion fund in negative has affected by turning the whole PEs' Shareholders' fund negative in aggregate. The negative asset of Rastriya Banijya Bank has been gradually coming down after the Bank was brought in operation on the Management Contract under the Banking Sector Reform Program with the World Bank Assistance in 2003. The negative asset of the Bank that stood at Rs.22.39 billion in FY2001/02 has come down to Rs.15.46 billion by the end of FY 2007/08.

### **Status of Auditing**

9.22 Despite the legal provision to conduct annual audit of all PEs, in practice however, some PEs are still found to ignore their responsibility of getting their accounts audited within the stipulated time-frame. To state more precisely, only 19 PEs have completed audit of accounts up to FY2007/08, whereas 9 PEs have made it up to FY2006/07. and 3 PEs have completed

their audit only up to FY2005/06. Though some improvements is observed among the PEs to comply with auditing and accounting requirements of the law, the task of auditing could not get completed as expected neither in terms of time nor in the manner, proving their incapability and lack of accountability. The following table presents the poor performances of some of the PEs failing towards fulfilling their legal responsibilities for annual auditing:

<b>Box 9 (a) : Public Enterprises with Weak Audit Status</b>		
S.N.	Name of the Public Enterprise	Latest Audit year
1.	Nepal Orind Magnesite Pvt. Ltd.	2000/01
2.	Rastriya Beema Sansthan	2001/02
3.	Udayapur Cement Industry Lid.	2004/05
4.	Gorkhapatra Corporation	2004/05
5.	Nepal Industrial Development Corporation Ltd.	2004/05

### **Reform in Corporations' Board of Directors**

**9.23** The Government has endorsed a policy of appointing competent, enterprising and professional individuals to represent the Board of the PEs limiting their size to 5 members. So far, these policy provisions have been actualized in almost all PEs. However, the number of Board of Directors of some PEs are specified by the concerned Acts and Regulations and limiting their size to 5 members in such PEs through reframing those Acts and Regulations is yet to be made. Names of such PEs are mentioned below:

<b>Box 9 (b) : Number of Board Directors in some Public Corporations</b>		
S.N.	Name of the Public Enterprise	No. of Directors
1.	Nepal Oil Corporation Ltd.	8
2.	Civil Aviation Authority	8
3.	Nepal Housing Development Finance Company Ltd.	8
4.	Nepal Water Supply Corporation	7
5.	Nepal Electricity Authority	7
6.	Nepal Airlines Corporatopm	7
7.	Rastirya Beema Sansthan	7
8.	Udyayapur Cement Indistry Ltd.	6
9.	Nepal Food Corporation	6
10.	Savings and Credit Guarantee Corporation Ltd.	6
11.	Nepal Stock Exchange Ltd.	6
12.	Gorkhapatra Corporation	6
13.	Grameen Aawas Co, Ltd.	6

## The Government of Nepal's Share and Loan Investments

9.24 According to the Financial Comptroller General's Office (FCGO), the Government's share investment in 36 PEs totals to Rs. 81.92 billion, from which the Government has earned a net dividend of Rs.1.51 billion by the end of FY2007/08. Likewise, the loan investments owed to the Government amounts to Rs.73.819 billion by the end of FY2007/08. Of this, domestic and external loans comprise of Rs. 13.001 billion and Rs. 60.69 billion respectively. Despite discrepancies in accounts as submitted by the concerned PEs and that was prepared by the FCGO in the progress report of FY2006/07, no progress was made towards addressing the issue even in FY2007/08. The progress reports and details about the share and investment of a number of PEs still need to tally and get audited accordingly. Failing to do this for a long period will certainly have a negative impact, not only the auditing will become more and more complex, but also the real picture of the financial conditions of the PEs can be known. Therefore, initiations to finalize auditing is unavoidably essential. The differences in details noticed on Government's loan investment are presented below:

**Table 9 (a): Discrepancies in Accounting of Government Lending to Public Enterprises**

(In Million Rs.)				
S.N. (1)	Name of the Public Enterprise (2)	As shown by the PE (3)	As shown by FCGO (4)	Difference (5)=(3)-(4)
1.	Nepal Drugs Ltd.	122.0	108.5	13.5
2.	Udayapur Cement Industry Ltd.	1,740.0	2,225.0	-485.0
3.	Nepal Orind Magnesite Pvt. Ltd.	349.3	357.0	-7.7
4.	Nepal Food Corporation	-	4.2	-4.2
5.	The Timber Corporation of Nepal	54.8	57.8	-3.0
6.	National Construction Co. Nepal Ltd.	-	1.0	-1.0
7.	Civil Aviation Authority	1,022.0	2,327.8	-1,305.8
8.	Nepal Water Supply Corporation	449.6	3,748.5	-3,298.9
9.	Nepal Electricity Authority	51,635.7	54,615.9	-2,980.2
10.	Nepal Telecom Ltd.	-	104.3	-104.3
11.	Agricultural Development Bank Ltd.	-	401.8	-401.8
12.	Nepal Industrial Development Corporation Ltd.	-	6.5	-6.5
	Total	55,373.4	63,958.3	-8,584.9

**Table 9 (b) : Discrepancies in Government Accounting of Share Investments in Public Enterprises**

(In Million Rs.)

S.N. (1)	Name of the Public Enterprise (2)	As shown by the PE (3)	As shown by FCGO (4)	Difference (5)=(3)-(4)
1.	Nepal Herbs Production and Processing Co. Ltd.	27.5	39.7	-12.2
2.	Agricultural Inputs Co. Ltd.	415.9	413.6	2.3
3.	National Seeds Co. Ltd.	118.5	110.1	8.4
4.	Nepal Food Corporation	990.5	999.3	-8.8
5.	Nepal Oil Corporation Ltd.	95.1	290.8	-199.7
6.	Civil Aviation Authority of Nepal	10,921.3	14,716.6	-3,795.3
7.	Grameen Aawas Co. Ltd.	23.3	27.3	-4.0
8.	Nepal Water Water Supply Corporation	470.1	1,407.7	-937.6
9.	Nepal Electricity Authority	28,610.0	29,086.6	-476.6
10	Nepal Telecom Ltd..	13,72,00	14,99,50	-1,27,50
11.	Agricultural Development Bank Ltd.	10,325.0	10,361.8	-36.8
12.	Nepal Industrial Development Corporation Ltd.	412.7	349.2	63.5
13.	Citizens Investment Trust	6.0	4.0	2.0
	<b>Total</b>	<b>66,135.9</b>	<b>72,801.7</b>	<b>-6,665.8</b>

### **Status of Employees/ Workers**

**9.25** The number of employees in 36 PEs with Government's full/ majority ownership was 34,170 by the end of FY2007/08, which is estimated to reach 36,457 in FY2008/09 and 37,450 by FY2009/10. In general, Corporations have a common pressure of over-staffing, but the production and delivery of goods and services of these Corporations have not improved in comparison to the number of staff, workers, and productivity of their counterparts with similar nature in the private sector. With this situation, the overhead cost and financial burden has continued to increase whereas productivity of workers has decreased - ultimately leading to the decreased productivity of the entire sector. Enjoying the privilege of Government protection, most employees/workers lack motivation to become competitive, instead, they are getting more and more facility seekers. These PEs are undergoing the problem of decision-making in absence of

any improvement on professional autonomy. Despite these shortcomings, some PEs are effectively carrying out their duties of production and delivery of goods and services.

### Unfunded Liabilities

9.26 Most PEs have not covered various payment liabilities such as gratuity, payments against accrued leave, etc. in their fund which gets more burdensome for unanticipated potential obligations. By the end of FY2007/08, such unfunded liability totalled to Rs.4.96 billion, whereas the potential liability has reached Rs.16.36 billion. The unfunded liabilities of PEs and existing potential liabilities are as follows:

**Table 9(c) : Unfunded Potential Liabilities of Public Enterprises**

(In Million Rs.)

S.N.	Name of the Public Enterprise	Unfunded	Potential Liability	Total
1.	Dairy development Corporation	281.4	0	281.4
2.	Herbal Production and Processing Center Ltd.	120.8	1.5	122.3
3.	Hetauda Cement Industry Ltd.	0	0	0
4.	Janakpur Cigarette Factory Ltd.	649.9		649.9
5.	Nepal Drugs Ltd.	88.1		88.1
6.	Udaypur Cement Industry Ltd.	7,00		7,00
7.	Nepal Orind Magnesite Pvt. Ltd.	32,00	0	32,00
8.	Agricultural Inputs Co. Ltd.	164.7	1.5	166.2
9.	National Seeds Company Ltd.			0
10.	National Trading Ltd.	103.8	370.3	474.1
11.	Nepal Food Corporation	296.0		296.0
12.	Nepal Oil Corporation Ltd.	0	0	0
13.	The Timber Corporation of Nepal Ltd.	73.435	0	73.435
14.	Industrial Estates Management Ltd.	13.2		13.2
15.	Nepal Construction Company Nepal Ltd.	20.0		20.0
16.	Nepal Transit & Warehousing Co. Ltd.	12.8		12.8
17.	Nepal Engineering Consultancy Services P. Ltd.	0	0	0
18.	Nepal Airlines Corporation	34,712.0	0	34,712.0
19.	National Productivity and Economic	0	0	0

<i>S.N.</i>	<i>Name of the Public Enterprise</i>	<i>Unfunded</i>	<i>Potential Liability</i>	<i>Total</i>
	Development Centre Ltd.			
20.	Civil Aviation Authority		949.62	949.62
21.	Cultural Corporation	7.7	0	7.7
22.	Gorkhapatra Corporation	0	0	0
23.	Janak Educational Materials Ltd.	107.0	9.5	116.5
24.	Nepal Television	84.2		84.2
25.	Grameen Aawas Company Ltd.	901.6		901.6
26.	Nepal Water Supply Corporation	234.5	0	234.5
27.	Nepal Electricity Authority	31,512.7	10,210.4	10,525.5
28.	Nepal Telecom Ltd.	1,637.0	3.2	1,640.2
29.	Agricultural Development Ltd.	0	2,198.1	2,198.1
30.	Rastriya Beema Sansthan	0	0	0
31.	Nepal Industrial Development Corporation	0	0	0
32.	Rastriya Banijya Bank Ltd.		2,619.7	2,619.7
33.	Savings and Credit Guarantee Corporation Ltd			0
34.	Nepal Housing Development & Finance Co.			0
35.	Nepal Stock Exchange Ltd.	0	0	0
36.	Citizens Investment Trust	0	0	0
	<b>Total</b>	<b>4,955.8</b>	<b>16,363.8</b>	<b>21,319.6</b>

### **Privatization, Liquidation and Termination of PEs**

9.27 The Government initiated the process of privatization, liquidation and termination of PEs in 1993 with the objectives of raising the private sector's productivity through their skills enhancements, ease the Government's financial and administrative burden, increase the private sector participation, and ensure effective and efficient delivery of goods and services. Since then and between 2008/09, the Government has divested 60 PEs through adoption of various modalities including the sale of businesses assets, partial disinvestment of shares, sale of current assets, leasing of buildings and land, management contract, liquidation, and termination, etc. The details of such disinvestments are presented below:

**Table 9(d) : Disinvested and Liquidated Public Enterprises**

S.No	Name of Enterprise	Year of disinvestment or liquidation (A.D.)	Privatization Process	Shares Disposed (Percent)	Amount received through Disinvestment (Million Rs.)
1.	Bhrikuti Paper Factory	1992	Business and Assets \ sale	-	229.80
2.	Harisiddhi Brick & Tile Factory	1992	Business and Assets \ sale	-	214.83
3.	Bansbari Leather Shoes Factory	1992	Business and Assets \ sale (except Land)	-	29.85
4.	Motion Picture Development Company	1993	Shares Disinvestment	51.0	64.66
5.	Balaju Textile Industry	1993	Shares Disinvestment	70.0	17.72
6.	Raw Hide Collectin and Sales Center	1993	Shares Disinvestment	100.0	4.00
7.	Nepal Bitumument & Barrle Industry	1994	Shares Disinvestment	65.0	13.13
8.	Nepal Lube Oil	1994	Shares Disinvestment	40.0	31.06
9.	Nepal Jute Development and Trading Co.	1993	Liquidation	-	-
11.	Tobacco Development Co.	1994	Liquidation	-	-
12.	Nepal Metal Co.	1996	Shares Disinvestment	51.0	14.47
13.	Raghupati Jute Mills	1996	Shares Disinvestment	65.0	82.20
14.	Nepal Bank Ltd.	1997	Shares Disinvestment	10.0	125.14
15.	Agriculture Project Services Center	2001	Liquidation	-	-
15.	Nepal Tea Development Corporation	2000	Shares Disinvestment	65.0	267.11
16.	Biratnagar Jute Mills*	2002	Management Contract	-	-
18.	Himal Cement Industry Ltd.**	2002	Liquidation	-	-
18.	Cottage Handicraft Sales Emporium	2002	Liquidation	-	-
20.	Nepal Coal Ltd.	2002	Liquidation	-	-
20.	Hetauda Textile Industry	2002	Liquidation	-	-
21.	Nepal Transport Corporation	2002	Dissolve	-	-
22.	Butwal Power Company	2003	Shares Disinvestment	75.0	Rs. 874.2 million and US\$ 1.0 million
24.	Birganj Sugar Factory Ltd.	2003	Liquidation	-	-
24.	Agricultural Tools Factory	2003	Liquidation	-	-

S.No	Name of Enterprise	Year of disinvestment or liquidation (A.D.)	Privatization Process	Shares Disposed (Percent)	Amount received through Disinvestment (Million Rs.)
	Ltd.				
25.	Bhaktapur Brick Factory Ltd.	2004	Asset Sale and Leasing	-	Rs.14.50 million from asset sale, and Rs. 31.9 million as rent for 10 years
26.	Lumbini Sugar Factory	2006	Asset Sale and Leasing	-	Rs. 78.6 million from asset sale and Rs. 4.2 million annual rent.
27.	Nepal Rosin & Turpentine Ltd.	2006	Asset Sale and Leasing	-	Rs. 110.1 million from asset sale and Rs. 3.01 million annual rent
28.	Agriculture Lime Industry Ltd.	2006	Liquidation		
29.	Nepal Drilling Co.	2006	Liquidation		
30.	Nepal Telecommunication Company Ltd.	2008	Shares Disinvestment	8.53	Rs.4,264.14 million

\* Though given in management contract, the Government is currently operating upon failure to run as per the contract .

\*\* Liquidation void through the Court decree, due process restarted for re-liquidation.

9.28 Monitoring has not been carried out since privatization of PEs. Some PEs are closed after privatization, and employment opportunities have been curtailed due to failure on enhancing investments, production, and productivity of even those in operation. Meanwhile, the Task Force formed to explore the exact situation and key problems of the privatized PEs has submitted its report with issues and recommendations. No process for privatization has moved ahead in FY2008/09. Among the privatized PEs, the liquidation process of Bhaktapur Brick Factory is completed and the company has been dissolved by the Company Registrar's Office. Liquidation process of Agricultural Lime Industry has reached its final phase. Experiences gained through privatization initiated 15 years ago have revealed a number of challenges in the implementation of privatization process.

### **Key Problems Concerned with the Implementation of Privatization**

9.29 The process has faced obstacles on arriving at the conclusion of privatization resulting from disputes between the Government and the buyers due to difference in valuations carried out separately by the Government appointed evaluators and that appointed by the potential buyer. One of the main reasons behind this is the difference of opinion

during the physical verification upon conclusion of agreement on the amount, quality and the condition of assets as mentioned in the Information Memorandum prepared during the process of privatization. Such problems appeared in the privatization processes of Balaju Textiles, Raghupati Jute Mill, Bhaktapur Brick Factory and Nepal Rosin and Turpentine etc. with the dispute not resolved yet. Likewise, in some cases, privatization could not be concluded due to failure of the buyer to make use of the leased land because of encroachment. Raghupati Jute Mill and Nepal Tea Development Corporation are the examples of such issues. Even some buyers have preferred to go in litigation showing disagreement on the amount due to the Government. This has created the problem in realising the Government dues and, also in closing the privatization process of such PEs for once and all. Examples of such problems are Harishiddhi Brick and Tile Factory, Bhrikuti Paper Industry, and Agricultural Tools Factory.

- 9.30 Assets of liquidated and terminated PEs could not be disposed off. The assets of Hetauda Textile Industry could not be sold even after its liquidation six years ago with its machines being very old and obsolete. Similar situation exist in cases of Nepal Drilling Company, Birganj Sugar Factory, and Agricultural Tools Factory. In addition, failure in monitoring whether the objective of privatization have been achieved has created a situation whereby actual status of such (privatized) PEs could be known. It has necessitated creation of a mechanism for carrying regular monitoring and evaluation of the privatized PEs. The Government has borne huge financial liability in the process of privatizing the PEs. There is situation whereby the Government would have to bear further financial burden for the PEs with liquidation, termination or disinvestment process still incomplete. It is very much necessary to get rid of the situation where the Government has to continuously invest whether it is a minority shareholding companies like the Biratnagar Jute Mills, or a public entity or a limited company. For instance the Government is taking responsibilities against the common business principles of liabilities of public entities to be borne out of their assets; and liabilities to limited companies to be limited within the amount invested as shares in that particular company. The Government has borne the liabilities as presented in the following table in the process clearing liabilities of the PEs the Government lately liquidated or divested its shares.

**Table 9 (e) : Government Investment for Payment of Liabilities of Public Enterprises**

S.N.	Name of the Public Enterprise	Up to FY 2007/08	In 2008/09	Total
1	Himal Cement Company	37,00.00	6,02.00	43,02.00
2	Bhaktapur Brick Factory	20,62.31	-	20,62.31
3	Birganj Sugar Factory	70,67.24	27.16	70,94.40
4	Agricultural Tools Factory	5,29.76	15.00	5,44.76
5	Nepal Rosin & Turpentine Ltd.	18,08.12	-	18,08.12
6	Lumbini Sugar Factory	50,89.67	-	50,89.67
7	Agricultural Lime Industry Ltd.	8,15.95	9.91	8,25.86
8	Nepal Coal Ltd.	83.91	-	83.91
9	Nepal Transport Corporation	36,16.85	13,60.68	49,77.53
10	Hetauda Textile Industry	53,60.35	-	53,60.35
11	Cottage Handicraft Sales Emporium	8,10.33	-	8,10.33
12	Nepal Tea Development Corporation Ltd.	11,86.71	3.31	11,90.02
13	Biratnagar Jute Mill	45,14.09	-	45,14.09
	<b>Total</b>	<b>3,66,45.29</b>	<b>20,18.06</b>	<b>3,86,63.35</b>

Source: Ministry of Finance

**Box 9 (c) : A Review of Biratnagar Jute Mill**

**Biratnagar Jute Mill**, a Public-Private-Partnership venture registered under Company Act 1993 BS (1936 AD) has been operating since 1996 BS (1939 AD). It had played an important role in the country's industrialization, export-business and foreign exchange earning in those days, contributing largely to the nation's economy in the early days of industrialization. Based on the national raw-material jute, it had helped not only providing employment to many, but also raised the living-standard of the jute farmers of Morang, Sunsari and Jhapa districts. In fact, this industry performed well for nearly 5 decades of its operation. Initially, the Government's share on it was 16 percent against the private sector's 84 percent. However, the Government's control over the Mill started in about the year 2026/27 BS (1969/70 AD) by purchasing the private sector's share that raised the Government share in the Mill to 46.5 percent. Then the private sector slowly pulled its hand while the Government's control over management, appointments of staff and workers began to increase, making the Mill more dependent on Government eventually starting its downfall. Among the 15 Chairpersons/ Executive Officers appointed so far, 10 were appointed on political ground (Since 2052BS (1995 AD) onwards). The Government tried to operate this Mill adopting various modalities; such as, **Management Contract, Long-term Lease, Direct Operation, Handling through Political Appointment**, and so on. Despite these attempts and heavy capital investment the industry could not make profit. Presently, there are 1,535 working staff of which 1,002 are

permanent, 36 temporary staff, 112 managerial level personnel, and 385 exchange workers on monthly wage. The staff and other personnel have had rarely any opportunity for skill development, modernization of technology, diversification of products, and enhancing the productivity of the Mill. As there is no control over leakage, this mill bears 14 percent processing loss in sharp contrast to 3 percent such loss on average in similar industries of the private sector. The total annual production capacity of the Mill is 120,000 metric tons. Nevertheless, the Mill had produced up to 140,000 metric tons at times in the past but it has been reduced to 17,000 metric tons in the later years. Moreover, there has been no reduction in the salary and perks of the managerial and other staff, or workers whether the industry has been in a state of loss, shut down or sick. The Nepali saying of "Enjoy having butter even though you have to take loan" seems true to this industry. The Industry occupies a land of 67 Bighas (about 42 Ha) of land in the heart of Biratnagar City, merely utilizing the area of 564,000 sq.ft. for the factory and warehouses. Its 7.5 Kattha (about 0.4 Ha) land in Damak municipality of Jhapa district is left barren-uncultivated and unutilized. Based on the financial details of FY 2005/06, the Mill's net fixed asset is worth Rs. 4.3 million and investment worth Rs.200,000 whereas the net operating property is negative by Rs.807.4 million. The seemingly huge negative operating income is due to the short-term loan worth Rs.699.8 million has been included in the operating obligations. According to the Him Gona Consultant's Assessment Report, the fixed asset at present could be as much as 1.2 billion at the current prices. In viewing unaudited financial details of Biratnager Jute Mill Ltd has a net loss worth Rs. 1.35 billion negative, out of which share capital is Rs.10.7 million, reserved fund Rs. 3.7 million and reserve loss is Rs.13.74 million till 2006/07. By reassessing the fixed asset and managing staff liabilities worth Rs. 400 million, the net worth could be negative by Rs. 810 million. The loans of various banks and Government debts make a total of more than Rs. 1.43 billion by excluding interest, fees, fine etc. The liability worth Rs. 250 million or above is left to be paid for retired staff, Rs. 9 million against gratuity, provident funds, and provisions for sick leave. In this way, calculating other liabilities as well, the Mill has due obligation equal to Rs. 400 million. The monthly liabilities of workers and staff. has been increasing by Rs. 7.5 million per month resulting in the daily expense burden of Rs. 250 thousand for the nation. Presently the total liability of the industry is more than Rs. 1.56 billion. The industry lacks owners/workers/ staff with a strong feeling of belongingness and attachment (sense of My Industry/My Factory ). Thus the industry has remained no more an industry, but a platform/playing ground of politics. Finally, the Ministry for Industry has decided to close the factory by making pay -off to its staff /workers.