

## 9. Public Enterprises and Privatization

### Overall Review

- 9.1 Public Enterprises (PE) are established with objectives of delivering goods and services to the public at reasonable prices by making the public services more efficient. The objectives of the public enterprises are to enhance national economy, mobilize public savings, create employment opportunities, help control private sector's monopoly, eliminate the discriminatory practice in the society, utilize, and safeguard national resources and heritages. Overall, public enterprises are established to assist in achieving economic, social and political objectives of the country. Private enterprises need to be competitive and run professionally in order to achieve these objectives. Performance review of 36 fully government owned enterprises, 39 partially owned enterprises is done on the basis of their physical and financial progresses in the fiscal year 2008/09.
- 9.2 The net fixed assets of 36 enterprises was Rs. 124,890 million in the fiscal year 2007/08, which reached to Rs. 133,740 million by end of the fiscal year 2008/09 with increase of Rs. 8,850 million in such assets. During this period, fixed assets of Nepal Drugs Ltd. and Nepal Orind Magnesite, Herb Production and Processing Center Ltd., Hetauda Cement Industry Ltd. and Udayapur Cement Industry Ltd. have decreased whereas Nepal Electricity Authority and Nepal Telecom have increased their assets by Rs. 6,940 million and Rs 1,860 million respectively causing the overall growth in the assets of public enterprises.
- 9.3 The shareholders' Fund of 36 public enterprises with full and majority share holding of the Government at the end of the fiscal year 2007/08 was close to Rs. 48,110 million which grew to Rs. 61,100 million by the end of the fiscal year 2008/09. These enterprises saw the sign of improvement due to the overall growth in their reserve funds through this growth. Based on the information from the Financial Comptroller General's Office (FCGO), the value of the Government's share investment that was Rs. 81,920 million in 36 PEs in FY 2007/08 has depleted by 30 percent by the end of FY2008/09 with its share value of Rs. 86.13 billion which seems to be in progressive trend. Likewise, the Government's loan investment on PEs, which stood at Rs. 83.52 billion in FY2006/07, fell to Rs. 79.04 billion at the end of FY2008/09. This loan amount includes Nepal Government's loan, borrowings from

international donor communities, short-term and long-term loans received from bank and financial institutions.

- 9.4 A glance to the overall financial situation of 36 PEs reveals that 17 PEs have earned net profit, whereas 19 PEs were at loss in the fiscal year 2007/08. These numbers were 18 for both the profit and loss-making PEs in the fiscal year 2008/09. Similarly, analysing the entire profit and loss, these 36 PEs earned net profit of Rs. 4,940 million in the fiscal year 2007/08, which grew to Rs. 10,550 million in the fiscal year 2008/09. Among the PEs registering notable profit, Nepal Telecom Ltd. made a net profit of Rs. 10,180 million, Rastriya Banijya Bank Rs. 2,060 billion, Nepal Oil Corporation Rs. 3,310 million and Agricultural Development Bank Rs. 1,050 million. In overall, fiscal year 2008/09 saw significant level of improvement due to the growth in PE's net profit as compared to the previous fiscal year.
- 9.5 Nepal Government received dividend worth Rs. 3,470 million which was 4.03 percent of the net share investment from 4 PEs including Industry sector Management Ltd., Nepal Telecom. Ltd, Nepal Stock Exchange Ltd. and Rastriya Bima Sansthan in the fiscal yer 2008/09 while the dividend collected from four PEs by the Government of Nepal in preceding fiscal year 2007/08 was Rs. 1,510 million.

## **Sector-wise Analysis**

### **Industry sector**

- 9.6 In the fiscal year 2008/09, seven PEs in the industry sector made production and sales transactions worth Rs. 4,980 million which is 3.34 percent more than that of 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. 2,190 million, Rs. 77.070 million, Rs. 89,340 million and Rs. 55,280 million respectively providing major contribution to the sales in this sector. In comparison to the previous fiscal year, total sales of Hetaunda Cement Industry Ltd, decreased by 22.13 percent while Udayapur Cemet Industry Ltd registered a moderate growth in their total sales during the same period. There was encouraging growth of 21.80 percent in the sales of Dairy Development Corporation during this period. The sales transaction of Nepal Orind and Magnesite was nil during this period.

## **Profit and Loss situation**

9.7 During the fiscal year 2007/08, the total net loss of 7 PEs under the industry sector was Rs. 435.9 million, which grew to Rs. 701.1 million in 2008/09. Among the industries making marginal recovery from losses are Udayapur Cement Industry Ltd (from Rs. 266.0 million to 234.5 million); Janakpur Cigarette Factory (from Rs. 154.5 to 150.4 million) Nepal Orind Magnesite Private Ltd. (from Rs. 86.1 million to 85.2 million) in the fiscal year 2008/09 as compared to the previous year. The Dairy Development Corporation, which had loss of Rs. 89.8 million in the fiscal year 2007/08, has now reduced to Rs. 8.6million in the fiscal year 2008/09. Nepal Drugs Ltd. is the only company making a net loss of 162.1 million in the fiscal year 2008/09, which had recorded a profit of Rs. 66.1 million in 2007/08. All the 7 PEs under industry sector are in loss.

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

9.8 There seem to have no notable change occurred in the fiscal year 2008/09 in the total outstanding debt of Rs. 3,628.3 million in debt of the entire industry sector in the fiscal year 2007/08. The total outstanding debt of the entire industry sector was Rs. 3,689.4 million by the end of the fiscal year 2008/09. Similarly, the net fixed assets of Rs. 4670.1 million reached to Rs. 4,656.7 billion with the decrease of Rs. 13.4 million during this period. By the end of fiscal year 2007/08, the shareholders' fund of all 7 PEs had shown negative (-Rs. 1,077.3 million) balance saw negative (-Rs. 1,417.8 million) balance at the end of the fiscal year 2008/09 as well. Though the shareholder's fund of Dairy Development Corporation had increased by Rs. 11.07 million as compared to the previous fiscal year, the net shareholders' fund of the industry sector was negative in this fiscal year as well. Overall, progress report of the Industry sector for the fiscal year 2008/09 was not satisfactory.

## **Business Sector**

9.9 In the fiscal year 2008/09, total sales transactions of all 6 PEs under the business sector category has reached Rs. 50,652.9 million from Rs. 41,066.4 million in the previous year registering an increase of 23.34 percent over the period. Among all enterprises under the business sector, Nepal Oil Corporation is the highest contributor with 96.05 percent of total sales value. Review of the fiscal years 2007/08 and 2008/09 shows increase of Rs. 9,820.2 million in Nepal Oil Corporation's sales transaction. However, there has been a heavy decline on the sales of Agriculture Inputs Company limiting to Rs.

132.1million in the fiscal year 2008/09 against its sale of Rs. 161.5 million in the previous year. The question of sustainability of the Corporation remains the same as that of last year.

### **Profit and Loss Situation**

9.10 All PEs under the business sector incurred a net loss of Rs. 5,691.3 million in the fiscal year 2007/08 while 2008/09 witnessed a net profit of Rs. 3,225.6 million. Similarly, Nepal Oil Corporation incurred a net loss of Rs. 5,574.5 billion in the fiscal year 2007/08, but the Corporation was successful in making a profit of Rs. 3,314.1 million in the fiscal year 2008/09. The growth in the net profit of Nepal Oil Corporation has led to the growth in the net profit of entire business sector. Among the Corporations of this sector, National Seeds Company Ltd., the Timber Corporation of Nepal Ltd. and Nepal Food Corporation have registered net profit of Rs. 0.8 million, Rs. 53.1 million and Rs. 5.1 million respectively in the fiscal year 2008/09 whereas, Agriculture Inputs Ltd. incurred the net loss of Rs. 113.0 million during the same period.

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

9.11 By mid-July 2009, the total debt of PEs of business sector reached Rs. 12,272.7 million as against their debt of Rs. 14,130.3 million in the fiscal year 2007/08. Though the total outstanding debt of Nepal Oil Corporation was on increasing trend in fiscal year 2007/08, this amount had decreased by 1,913.3 million; the overall debt of the business sector was decreasing. Besides, the debt amount of National Trading Ltd. in the fiscal year came down to Rs. 416.4 million with a decrease of Rs. 355.6 million by the end of the fiscal year 2008/09. The net worth of fixed assets of the business sector stood at Rs. 1,837.4 million in the fiscal year 2008/09 from the previous year's Rs. 1,828.2 million with the addition of Rs. 9.2 million in one year period. Thus the fiscal year 2008/09 did not see significant growth in the fixed assets of business sector's enterprises. Likewise, though the overall shareholders' fund was negative, such funds of Agriculture Inputs Company Ltd., National Seed Company Ltd., and the Timber Corporation of Nepal Ltd remained positive. Overall, the shareholders' fund of business sector's enterprises remained negative with Rs. 7,148.7 million at the end of the fiscal year 2008/09.

### **Service Sector**

9.12 The total operating income of 7 PE's under the service sector decreased by 13.38 percent to Rs. 4,761.2 million in the fiscal year 2008/09 in comparison to

previous year's income. As compared to 2007/08, Civil Aviation Authority and Industrial Estates Management Company have expanded their transactions. However, Nepal Airlines Corporation's total income fell to Rs. 2,271.9 million from income of Rs. 3,312.8 million. Likewise, the income of Nepal Engineering Consultancy Services Centre Ltd., has decreased whereas Nepal Transit and Warehousing Management Company's transaction has increased.

### **Profit and Loss Situation**

9.13 Public Enterprises in the service sector successful in earning the net profit of Rs. 215.3 million in the fiscal year 2007/08 incurred a net loss of Rs. 593.4 million in the fiscal year 2008/09 with the steep fall of 375.1 percent in their profits. Though Civil Aviation Authority, Industrial Estate Management Company, and Nepal Transit and Warehousing Management Ltd were able to earn net profit of Rs. 412.7 million, Rs. 19.5 million and 8.9 million respectively during the fiscal year 2007/08, the Civil Aviation Authority incurred the net loss of Rs. 599.0 million in this fiscal year. The net loss of the Nepal Airlines Corporation in the fiscal year 2007/08 was Rs. 197.1 million, while it has been able to make profit of Rs. 300 million in this fiscal year. National Construction Company Nepal Ltd, Nepal Engineering Consultancy Services Centre and National Productivity and Economic Development Centre have been operating at losses in fiscal year 2008/09.

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

9.14 Among PEs in the service sector, only Nepal Airlines Corporation and Civil Aviation Authority are using loans. The service sector owed Rs. 3,093.6 million in total including debts of Rs. 1,640.0 million of Nepal Airlines Corporation and Rs. 2,087.2 million of Civil Aviation Authority by the end of FY 2008/09. The net worth of fixed assets of service sector's enterprises has been Rs. 1,287.0 million which is quite close to that of the previous year. Among seven PEs in the service sector, the stakeholders' fund of Nepal Airlines Corporation remained negative with Rs. 1,287.0 million while this fund of the rest 6 enterprises remained positive. Overall, the shareholders' fund of service sector's enterprises has remained positive by Rs. 8,017.9 billion.

### **Social Sector**

9.15 The total operating income of 5 PEs in the social sector totalled Rs. 1,491.2 million in the fiscal year 2008/09, which is more by Rs. 373.1 million than

that of its preceding year. During the period, Janak Education Materials Centre made the most sales transactions worth Rs. 864.5 million, Nepal Television worth Rs. 199.4 million, and Gorkhapatra Corporation worth Rs. 361.2 million. Social sector PEs recorded growth in their overall transactions by 33.37 percent in the fiscal year 2008/09 as compared to the previous year.

### **Profit and Loss Situation**

9.16 The net loss of PEs in social sector was Rs. 124.9 million in the fiscal year 2007/08, which grew by Rs. 158.3 million within a year totalling Rs. 283.2 million. Though Gorkhapatra Corporation and Rural Housing Company Ltd. earned profit in the fiscal year 2007/08, the remaining three companies remained in loss. During the review period, Nepal Television, Janak Educational Materials Centre Ltd. and Sanskritik Sansthan incurred losses of Rs. 80.3 million, Rs. 214.8 million, and Rs. 5.4 million, respectively. Rural Housing Company Ltd, was in loss during the fiscal year 2007/08. However, the company was able to make profit of Rs. 5.3 million in the fiscal year 2008/09. In considerations with the progress made during fiscal year 2008/09, the net loss of the sector in the current fiscal year 2009/10 is estimated at Rs. 23.6million.

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

9.17 Among the PEs in the social Sector, only two enterprises, i.e. the Sanskritik Sansthan and Gorkhapatra Sansthan have debt obligations worth Rs. 206.7 million and 20.7 million respectively. The long-term debt obligation of Sanskritik Sansthan was Rs. 102 million in the fiscal year 2004/05, which increased to Rs. 127.3 million in 2005/06; Rs. 162.3 million in 2006/07, 184.3 million in 2007/08 and Rs. 206.7 million in 2008/09. The Gorkhapatra Sansthan, which had a debt obligation of Rs. 24.6 million in the fiscal year 2007/08 while its debt obligation for 2008/09 was Rs. 20.7 million. The net fixed asset of the social sector Corporations, which amounted to Rs. 1,044.5 million in the fiscal year 2007/08 stood at Rs. 1,066.5 million by the end of 2008/09. The fixed asset of Sanskritik Sansthan did not increase significantly in FY 2008/09. The Shareholders' fund of this sector amounted to Rs. 1,492.1 million by the end of the fiscal year 2007/08, which came down to Rs. 1,181.2 million in 2008/09. Though none of the PEs in this sector had negative Shareholders' fund in FY 2007/08, it turned out so in case of Sanskritik Sansthan in 2008/09. 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**

9.18 The total operating income of three PEs under the Public Utility Sector that stood at Rs. 32,210.0 million in FY2007/08 increased by 9.65 percent totalling Rs. 35,316.0 million in 2008/09. 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 while this amount had increased by little reaching Rs. 247.9 million. To the contrary, the operating income of the Nepal Electricity Authority was Rs. 15,180.0 million in the previous fiscal year, but this amount decreased by 4.98 percent to Rs. 14,421.5 million in this year. Similarly, the operating net income of Nepal Telecom Company Ltd grew to Rs. 20,646.6 million in the fiscal year 2008/09 from the previous year's Rs. 16,788.4 with a growth of 22.98 percent of the period.

## **Profit and Loss Situation**

9.19 In the fiscal year 2007/08, profit of PEs in this sector was Rs. 7,016.9 million, which decreased by 34.82 percent to Rs. 4,573.7 million in 2008/09. Nepal Telecom Ltd. is the only company registering net profit of Rs. 10,178.0 million, largely contributing to the profit in the entire utility sector. Under this sector, Nepal Electricity Authority and Nepal Water Supply Corporation registered losses of Rs. 5,537.7 million and Rs. 66.7 million respectively. The net profit of Nepal Telecom Company is expected to reach Rs. 12,028.6 million by the end of the current fiscal year.

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

9.20 By the end of the FY2008/09, the long-term debt liabilities of Nepal Water Supply Corporation, and Nepal Electricity Authority reached Rs. 659.5 million and Rs. 54951.7 million respectively. The major investment of this sector is on fixed assets. Net fixed assets of these PEs including the assets under construction increased to Rs. 114406.5 million in fiscal year 2008/09 from worth Rs. 105557.1 million in 2007/08.

## **Financial Sector**

9.21 The total operating income of 8 PEs in the financial sector has increased by 5.95 percent to Rs. 11578.1 million in the fiscal year 2008/09 as compared to the income of 2007/08. During the fiscal year 2007/08, 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 while the its income declined by Rs. 975.5 million to Rs. 149.5 million in FY 2008/09. Similarly, Rastriya Banijya Bank has increased its operating income to Rs. 4,243.7 million in FY 2008/09 from Rs. 3,296.5 million in 2007/08. Likewise, there has been growth of Rs. 312.5 million and Rs. 97.4 million in the total operating incomes of Agriculture Development Bank and Credit and Investment Guarantee Corporation Ltd. with their growth percentages of 7.08 and 122.67 respectively. The remaining PEs have slightly increased their operating incomes in this period. With the growth of Rs. 650.5 million in operating income of PEs reaching Rs. 11578.1 million in FY 2008/09, there has been an overall increase in the total operating income during this period with positive contribution to the financial situation of the PEs of this sector. The 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**

9.22 The net profit of the financial sector that was Rs. 3,963.1 million in the fiscal year 2007/08 increased by 9.11percent to Rs. 4,328.7 million in 2008/09. Net profits of Rastriya Banijya Bank, Nepal Industrial Development Corporation, Agricultural Development Bank, Nepal Stock Exchange Ltd. and Ratriya Beema Sansthan were Rs. 2,061.1 million, Rs. 158.9 million, Rs. 84.8 million, Rs. 1,057.6 million and Rs. 808.5 million respectively. Likewise, Credit and Investment Guarantee Corporation Ltd that had incurred loss worth Rs. 28.50 million in FY 2007/08 earned a profit of Rs. 88.7 million in 2008/09. Citizens Investment Trust with the profit of Rs. 26.6 million in FY 2007/08 raised its profit level by 78.20 percent to Rs. 47.4 million.

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

9.23 The long-term debt of PEs in this sector amounted to Rs. 3,955.4 million by the end of FY 2008/09, of which the outstanding debt of Nepal Industrial Development Corporation is Rs. 77.30 million, and Rs. 3,873.6 million that of Rastriya Banijya Bank and Rs. 257.4 million of Agriculture Development Bank. Among the 3 PEs under the financial sector, Agricultural Development Bank, Rastriya Banijya Bank and Nepal Housing Development and Finance Company are 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 the fiscal year 2008/09 totalled Rs. 104,794.1 million, which is much higher than that of previous fiscal year's Rs 93,943.1 million registering an increase of 11.55 percent. Likewise, on credit expansion, the net credit flow and income of these PEs is Rs. 97,4744 million by the end of FY 2008/09 which is higher by 211.0 percent than that of previous fiscal year's Rs. 31,339.4 million. Overall financial institutions' aggregate Shareholder' fund, which remained negative by Rs. 7,956.9 million in FY 2007/08 still remained negative by Rs. 804.6 million in 2008/09. It is due to that fact that although, Shareholders' Fund of PEs has been positive, Rastriya Banijya Bank's Rs. 13,471.7 million fund has affected the whole PEs' Shareholders' fund negative in aggregate. There has been gradual improvement in the net asset of Rastriya Banijya Bank after the Bank was brought in operation on the Management Contract under the Banking Sector Reform Program with the World Bank Assistance in 2003.

### Status of Auditing

9.24 Despite the legal provision to conduct annual audit of PEs, however, in practice some PEs still ignore their responsibility of getting their accounts audited within the stipulated time-frame. To state more precisely, among the 36 PEs, 14 PEs have completed audit of accounts of FY2008/09, whereas 15 PEs have made it up to 2007/08 , 2 PEs have completed their audit only up to 2006/07 and 2 others have carried out their audits up to 2005/06. The following table presents the poor performances of some of the PEs failing towards fulfilling their legal responsibilities for annual auditing:

**Table 9(a): PEs failed to complete annual auditing**

| <i>S.N.</i> | <i>Name of the Puvlic Enterprrie</i> | <i>The last year audit conducted</i> |
|-------------|--------------------------------------|--------------------------------------|
| <b>1.</b>   | Nepal Orind & Magnesite              | 2000/01                              |
| <b>2.</b>   | Rastriya Beema Sanstthan             | 2002/03                              |
| <b>3.</b>   | Udayapur Cement Factory              | 2005/06                              |

Source: Ministry of Finance, Corporation Coordination Division

Despite the existing legal provision to conduct annual audit within the stipulated time, failure of some PEs to comply with such provision can be construed as their management inefficiency, lack of accountability and carelessness.

## Reform in Corporations' Board of Directors

9.25 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, such policy provision is enforced in almost all PEs. However, the number of Board of Directors of some PEs as specified in the policy could not be actualized as Acts and Regulations of some PEs have specific provision on the number of Board members. Names of such PEs are given below:

**Table 9 (b): Number of Board Directors in some Public Enterprises**

| <i>S.N.</i> | <i>Name of the Public Enterprise</i>           | <i>No. of Directors</i> |
|-------------|--|-------------------------|
| 1.          | Nepal Oil Corporation Ltd.                     | 8                       |
| 2.          | Civil Aviation Authority                       | 8                       |
| 3.          | Nepal Housing Development Finance Company Ltd. | 8                       |
| 4.          | Nepal Electricity Authority                    | 8                       |
| 5.          | Nepal Food Corporation                         | 8                       |
| 6.          | Nepal Airlines Corporatopm                     | 7                       |
| 7.          | Rastirya Beema Sansthan                        | 7                       |
| 8.          | Grameen Aawas Co, Ltd.                         | 7                       |
| 9           | Nepal Water Supply Corporation                 | 7                       |
| 10.         | Nepal Stock Exchange Ltd.                      | 6                       |
| 11.         | Udayapur Cement Industry Ltd.                  | 6                       |

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

9.26 According to the FCGO, the Government's share investment in 36 PEs totals Rs. 86,134.8 million, from which the Government has earned a net dividend of Rs. 3,471.7 million by the end of FY2008/09. The percentage of dividend against the share investment ratio is only 4.03 percent. Likewise, the loan investments owed to the Government amounts to Rs. 74,602.6 million by the end of FY2008/09. Of this, domestic and external loans comprise of Rs. 12,293.5 million and Rs. 62,309.1 million respectively. Despite discrepancies in accounts as submitted by the concerned PEs and that prepared by the FCGO in the progress report of FY2007/08, no progress was made towards addressing the issue even in 2008/09. The progress reports and details about the share and investment of a number of PEs are yet to be tallied and get audited accordingly. The differences in details noticed on Government's loan investment are presented below:

**Table 9(c): Discrepancies in Government Accounting for Share Investments in Public Enterprises**

(Rs. in million)

| S.N. | Name of the Public Enterprise                  | As shown by the PE | As shown by FCGO | Difference |
|------|--|--------------------|------------------|------------|
| 1.   | Nepal Herbs Production and Processing Co. Ltd. | 27.5               | 39.7             | -12.2      |
| 2.   | Agricultural Inputs Co. Ltd.                   | 426.3              | 413.6            | 12.7       |
| 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.                     | 96.7               | 290.8            | -194.1     |
| 6.   | Civil Aviation Authority of Nepal              | 9,918.6            | 15,205.0         | -5,286.4   |
| 7.   | Grameen Aawas Co. Ltd.                         | 23.3               | 2.7              | -20.6      |
| 8.   | Nepal Water Supply Corporation                 | 347.6              | 1,407.7          | -1,060.1   |
| 9.   | Nepal Electricity Authority                    | 33,121.1           | 32,649.2         | 471.9      |
| 10.  | Nepal Telecom Ltd..                            | 15,000.0           | 14,995.0         | 5.0        |
| 11.  | Agricultural Development Bank Ltd.             | 10,777.5           | 10,362.8         | 414.7      |
| 12.  | Nepal Industrial Development Corporation Ltd.  | 415.8              | 349.2            | 66.6       |
| 13.  | Citizens Investment Trust                      | 80.0               | 4.0              | 76.0       |

Source: Ministry of Finance, Corporation Coordination Division

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

(In Rs. '000,000)

| S.N. | Name of the Public Enterprise                 | As shown by the PE | As shown by FCGO | Difference |
|------|---|--------------------|------------------|------------|
| 1.   | Nepal Drugs Ltd.                              | 126.4              | 108.5            | 17.9       |
| 2.   | Udayapur Cement Industry Ltd.                 | 1,740.0            | 2,225.0          | -485.0     |
| 3.   | Nepal Orind Magnesite Pvt. Ltd.               | 1,326.4            | 357.0            | 969.4      |
| 4.   | Nepal Food Corporation                        | 334.6              | 4.2              | 330.4      |
| 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                      | 2,242.9            | 1,859.3          | 383.6      |
| 8.   | Nepal Water Supply Corporation                | 659.6              | 3,958.5          | -3,298.9   |
| 9.   | Nepal Electricity Authority                   | 55,201.7           | 56,894.2         | -1,692.5   |
| 10.  | Nepal Telecom Ltd.                            | -                  | 104.3            | -104.3     |
| 11.  | Agricultural Development Bank Ltd.            | -                  | 397.7            | -397.7     |
| 12.  | Nepal Industrial Development Corporation Ltd. | -                  | 6.5              | -6.5       |

Source: Ministry of Finance, Corporation Coordination Division

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 not be known. Therefore, an initiation to finalize auditing is unavoidably essential.

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

9.27 The number of employees in 36 PEs with Government's full/ majority ownership was 36,524 by the end of FY2008/09, which reached 37,572 in 2009/10. It is estimated that this number will fall to 34,768 in upcoming fiscal year 2010/11. 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 growth in 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**

9.28 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. The unfunded liabilities of PEs and existing potential liabilities by the end of the fiscal year 2008/09, are as follows:

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

(Rs. In million)

| <i>S.N.</i> | <i>Name of the Public Enterprise</i>         | <i>Unfunded</i> | <i>Potential Liability</i> | <i>Total</i> |
|-------------|--|-----------------|----------------------------|--------------|
| 1.          | Dairy development Corporation                | 298.2           | 85.7                       | 383.9        |
| 2.          | Herbal Production and Processing Center Ltd. | 155.3           | 1.5                        | 156.8        |
| 3.          | Hetauda Cement Industry Ltd.                 | 132.1           | 0                          | 132.1        |
| 4.          | Janakpur Cigarette Factory Ltd.              | 761.9           | 0                          | 761.9        |

| <b>S.N.</b> | <b>Name of the Public Enterprise</b>                       | <b>Unfunded</b> | <b>Potential Liability</b> | <b>Total</b> |
|-------------|--|-----------------|----------------------------|--------------|
| 5.          | Nepal Drugs Ltd.   | 124.9           | 0                          | 124.9        |
| 6.          | Udaypur Cement Industry Ltd.                               | 80.0            | 0                          | 80.0         |
| 7.          | Nepal Orind Magnesite Pvt. ltd.                            | 0               | 184.0                      | 184.0        |
| 8.          | Agricultural Inputs Co. Ltd.                               | 201.0           | 1.5                        | 202.5        |
| 9.          | National Seeds Company Ltd.                                | 5.7             | 0                          | 5.7          |
| 10.         | National Trading Ltd.                                      | 103.9           | 0                          | 103.9        |
| 11.         | Nepal Food Corporation                                     | 580.0           | 0                          | 580.0        |
| 12.         | Nepal Oil Corporation Ltd.                                 | 0               | 27.0                       | 27.0         |
| 13.         | The Timber Corporation of Nepal Ltd.                       | 73.4            | 0                          | 73.4         |
| 14.         | Industrial Estates Management Ltd.                         | 15.2            |                            | 15.2         |
| 15.         | National Construction Company Nepal Ltd.                   | 23.2            |                            | 23.2         |
| 16.         | Nepal Transit & Warehousing Co. Ltd.                       | 19.3            |                            | 19.3         |
| 17.         | Nepal Engineering Consultancy Services P. Ltd.             | 0               | 0                          | 0            |
| 18.         | Nepal Airlines Corporation                                 | 546.3           | 0                          | 546.3        |
| 19.         | National Productivity and Economic Development Centre Ltd. | 0               | 0                          | 0            |
| 20.         | Civil Aviation Authority                                   | 0               | 0                          | 0            |
| 21.         | Sanskritik Sansthan  | 9.4             | 0                          | 9.4          |
| 22.         | Gorakhatra Sansthan  | 0               | 0                          | 0            |
| 23.         | Jankak Educational Material Center. Ltd                    | 125.0           | 20.0                       | 145.0        |
| 24.         | Nepal Television   | 76.8            | 0                          | 76.8         |
| 25.         | Grameen Aawas Co. Ltd.                                     | 28.0            | 0                          | 28.0         |
| 26.         | Nepal Drinking Water Supply Corporation                    | 294.7           | 0                          | 294.7        |
| 27.         | Nepal Electricity Authority                                | 2,896.6         | 10,524.6                   | 13,421.2     |
| 28.         | Nepal Telecom. Ltd   | 2,449.3         | 0.2                        | 2,449.5      |
| 29.         | Agricultural Development Bank Ltd                          | 0               | 2,544.4                    | 2,544.4      |

| S.N. | Name of the Public Enterprise            | Unfunded | Potential Liability | Total   |
|------|--|----------|---------------------|---------|
| 30   | National Insurance Company Ltd           | 0        | 0                   | 0       |
| 31   | Nepal Industrial Development Corporation | 0        | 0                   | 0       |
| 32   | Rastriya Banijay Bank Ltd.               | 544.1    | 3,630.9             | 4,175.0 |

Source: Ministry of Finance, Corporation Coordination Division

### Privatization, Liquidation and Termination of PEs

9.29 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 enhancement, 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 the fiscal year 2009/10, the Government has divested 30 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(f): 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 (in million Rs.) |
|------|--|---|---|---------------------------|--|
| 1.   | Bhrikuti Paper Factory                 | 1992  | Business and Assets \sale               | -                         | 229.800  |
| 2.   | Harisiddhi Brick & Tile Factory        | 1992  | Business and Assets \sale               | -                         | 214.830  |
| 3.   | Bansbari Leather Shoes Factory         | 1992  | Business and Assets \sale (except Land) | -                         | 29.854   |
| 4.   | Motion Picture Development Company     | 1993  | Shares Disinvestment                    | 51.0                      | 64.662   |
| 5.   | Balaju Textile Industry                | 1993  | Shares Disinvestment                    | 70.0                      | 17.716   |
| 6.   | Raw Hide Collection and Sales Center   | 1993  | Shares Disinvestment                    | 100.0                     | 3.990  |
| 7.   | Nepal Bitument & Barrle Industry       | 1994  | Shares Disinvestment                    | 65.0                      | 13.127   |
| 8.   | Nepal Lube Oil                         | 1994  | Shares Disinvestment                    | 40.0                      | 31.057   |
| 9.   | Nepal Jute Development and Trading Co. | 1993  | Liquidation                             | -                         | -  |

| S.No | Name of Enterprise                    | Year of disinvestment or liquidation (A.D.) | Privatization Process       | Shares Disposed (Percent) | Amount received through Disinvestment (in million Rs.) |
|------|---------------------------------------|---|-----------------------------|---------------------------|--|
| 11.  | Tobacco Development Co.               | 1994  | Liquidation                 | -                         | -  |
| 12.  | Nepal Metal Co.                       | 1996  | Shares Disinvestment        | 51.0                      | 14.473   |
| 13.  | Raghupati Jute Mills                  | 1996  | Shares Disinvestment        | 65.0                      | 82.204   |
| 14.  | Nepal Bank Ltd.                       | 1997  | Shares Disinvestment        | 10.0                      | 125.140  |
| 15.  | Agriculture Project Services Center   | 2001  | Liquidation                 | -                         | -  |
| 15.  | Nepal Tea Development Corporation     | 2000  | Shares Disinvestment        | 65.0                      | 267.105  |
| 16.  | Biratnagar Jute Mills                 | 2002  | Management Contract         | -                         | -  |
| 17.  | Himal Cement Industry Ltd.            | 2002  | Liquidation                 | -                         | -  |
| 18   | Cottage Handicraft Sales Emporium     | 2002  | Liquidation                 | -                         | -  |
| 19.  | 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                      | 874.200 and USD 1.0 million                            |
| 23.  | Birganj Sugar Factory Ltd.            | 2003  | Liquidation                 | -                         | -  |
| 24.  | Agricultural Tools Factory Ltd.       | 2003  | Liquidation                 | -                         | -  |
| 25   | Bhaktapur Brick Factory Ltd.          | 2004  | Assets sale and renting out | -                         | 14.500 Asset Sales<br>31,900 (Rent for 10 yrs.)        |
| 26   | Lumbini Sugar Mill                    | 2006  | Assets sale and renting out | -                         | 78.600 Asset Sale<br>31.900 (Annual Rent)              |
| 27   | Nepal Rosin and Terpentine Ltd        | 2006  | Assets sale and renting out | -                         | 110.100 (Asset Sale)<br>3.012 (Annual Rent)            |
| 28   | Agriculture Lime Industry Ltd.*       | 2006  | Liquidated                  | -                         | -  |
| 29   | Nepal Drilling Company                | 2006  | Liquidated                  | -                         | -  |
| 30   | Nepal Tele-communication Company Ltd. | 2008  | Shares sale                 | 8.53                      | 4,264.139  |

\*No longer registered with the Company Registrar's Office

9.30 Monitoring of privatized PEs could not be carried out. 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. The Task Force, which was formed under the coordination of Prof. Dr. Sri Ram Poudel to explore the exact situation of government owned and privatized PEs has already submitted its report with its findings and recommendations. No process for privatization has moved ahead in FY2009/10. Among the privatized PEs, the liquidation process of Agriculture Lime Industry Ltd. is completed and removed from the record of the Company Registrar's Office.

- 9.31 Experiences gained through privatization initiated 15 years ago have revealed a number of challenges in the implementation of privatization process.

#### **Box 9 (a): Challenges on Implementation of Privatization**

##### **Adjustment of Accounts**

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.

##### **Land Encroachment:**

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.

##### **Cases in litigation**

Even some buyers have preferred to go on litigation showing disagreement on the amount to be paid to the Government. This has created a 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, Agricultural Tools Factory and Bhaktapur Brick Factory.

##### **Difficulties in Management of Assets:**

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. Decision has been made on the liquidation of Hetauda Textile Industry and works are underway subsequent to the selection of liquidator.

##### **Monitoring and Evaluation:**

Situation is such whereby actual status of (privatized) PEs cannot be referred or mentioned due to failure in monitoring whether the objectives of privatization have been achieved. It has necessitated developing mechanism for carrying out regular monitoring and evaluation of the privatized PEs. The Government has to bear 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.

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

(Rs. In million)

| S.N. | Name of the Public Enterprise          | Up to FY 2008/09 | In 2009/10     | Total           |
|------|--|------------------|----------------|-----------------|
| 1    | Himal Cement Company                   | 430.20           | 0              | 430.20          |
| 2    | Bhaktapur Brick Factory                | 206.23           | -              | 206.23          |
| 3    | Birganj Sugar Factory                  | 709.44           | 3.03           | 712.47          |
| 4    | Agricultural Tools Factory             | 54.47            | 1.64           | 56.11           |
| 5    | Nepal Rosin & Turpentine Ltd.          | 180.81           | -              | 180.81          |
| 6    | Lumbini Sugar Factory                  | 508.96           | -              | 508.96          |
| 7    | Agricultural Lime Industry Ltd.        | 8,258            | 0              | 8,258           |
| 8    | Nepal Coal Ltd.                        | 8.39             | -              | 8.39            |
| 9    | Nepal Transport Corporation            | 497.75           | 0              | 497.75          |
| 10   | Hetauda Textile Industry               | 536.04           | -              | 536.04          |
| 11   | Cottage Handicraft Sales Emporium      | 81.03            | -              | 81.03           |
| 12   | Nepal Tea Development Corporation Ltd. | 119.00           | 0.14           | 119.14          |
| 13   | Butwal Thread Factory Ltd              | 0                | 47,225         | 47,225          |
| 14   | Biratnagar Jute Mill                   | 45,141           | 587.22         | 45,728.22       |
|      | <b>Total</b>                           | <b>3,866.34</b>  | <b>1064.27</b> | <b>4,930.61</b> |

9.32 The Government has to make huge investment continuously whether it is a minority shareholding companies like the Biratnagar Jute Mills, or a public entity or a limited company. The investment of Rs. 472.2 million and Rs. 587.2 million that were made for the staffs' pay off of Butwal Spinning Mills and Biratnagar Jute Mills respectively has been its latest example.