

# Nepal's Drive Towards Privatization

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## INTRODUCTION

The transfer of economic activities of a country from the public sector to private sector is known as the privatization. Privatization can take several forms. Generally, privatization is used to mean lesser control and regulation by the state in economic activities. The main techniques of privatization are:

- (i) to transfer the management of state enterprises through contract and leases.
- (ii) To sale the share of public ownership enterprises to private sector.
- (iii) To enhance and promote private sector in various lines of production.
- (iv) To sell equity share of public companies to private sector.

Similarly, we can interpret privatization as denationalization, liberalization and deregulation. In the perspective of Nepalese context privatization comprises many of these forms. Since past few years the government of Nepal has been making efforts to transfer economic activities from the public to the private sector. Broadly defined privatization in Nepal is the denationalization of economic activities by promoting the national and multinational companies. In spite of these, economic privatization of Nepal aims to transfer some economic activities of the state to the private sector. Though the economic system as mentioned in the constitution of Nepal and practiced over the years operated through the mixed system. Given the nature of economic system and constitutional provision it may be hard to do so. The economic activities of Nepal, at present, directly or indirectly, are regulated and operated by the state. But from past few years, the government of Nepal has been making efforts to mobilize the private sector in economic and social activities. Privatization (the transfer of the public activities to private sector) has been the focus point of this paper. It also tries to examine the major consequences of privatization in UDC's especially in the Nepalese context.

## HISTORICAL BACKGROUND OF PRIVATIZATION

In the pre-World War II period, the world economy had been driven towards the private sector. Government control in the economic activities

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had not been effective. The laissez-fair doctrine of economic philosophy was operated and formulated by Adam Smith. Nationalization of any economic activities at that period was insignificant. Less control by the state in the economic activities had been regarded as the main thrust of economic goal. The great depression of 1930s, especially in the western world, challenged the system of laissez-fair doctrine and numerous economic activities stopped. Since then, the governments of the world have been forced to rethink over the free enterprises. After the great challenge of the failure of the free economic system, the world economies had to be revised and thought over the accepted classical economic doctrine. So the newly freed as well as the rest nations as a result of the Second World War with burning national feeling combined with the keynesian doctrine. The post World War II period witnessed an enormous expansion of government intervention in national economies, particularly in the 1960s and early 1970s when the public sector was seen as the major contributor to economic growth and socio-political stability.<sup>1</sup> Since the beginning of 1980s the world economic system has changed its gear to the direction of free enterprise system. As a result of this, the world switched its speed from public to private control of the economic activities. The capitalist as well as mixed economies of the world have placed their action on the privatization. Not only the capitalist and mixed economic system make practice of the privatization but also the socialist economic system is trying to exercise it. The fullest form of it is the so-called open policy of China and Perestroika in Russia. The denationalization and deregularization of economic activities of Britain also are burning examples of privatization.

#### CONSEQUENCES OF PUBLIC UNDERTAKINGS

The consequences of public ownership and operations of public enterprises may serve the group or national interest but it may not be able to serve the individual interest. Badly paid manager will not work to serve the interest of the economy as a whole. Exploitation may increase within the system. Politicians interfere with the operations of public enterprises. So these factors have combined to reduce the cost or production efficiency of public production which is often leading to heavy dependence in budgetary support. ... In pursuing their personal goals politicians, managers and workers water down from higher priority objectives of public enterprises.<sup>2</sup> From the above view point, the capitalist countries of the world exercised the free enterprises system to serve the common interest of the people. The socialist countries of the world with the planned development and state owned companies are trying to transfer the state owned activities in a slow speed gear of privatization. Similarly, the speeding up of the gear of privatization is not only in the capitalist and socialist countries of the world but also in the developing countries like India and Nepal which are having the mixed economic system. Most of the developing countries are experiencing the mixed economic system owned by more public industries with vast revenue earning capacities. Public companies in any country whether it is developed or underdeveloped create a natural monopoly due to the several reasons. The natural monopoly may exist in such enterprises due to the soft and hard restrictions for entry and protective measure taken by the government. If such enterprises are left

behind to the private sector, this type of monopoly will be limited if the government does not have any obligation to restrict the entry.

#### PRIVATIZATION IN NEPAL

Privatization is essentially an industrial country phenomenon. Public ownership of enterprises is the characteristics of developing countries. But since last few decades Nepal has followed the mixed economic system. It has been controlling and regulating the economic activities:

- (1) From the past economic history, it is known that privatization of economic activities in Nepal is not new. Before 1950, the economic activities were run and operated by private sector, either it was individual effort or community level efforts. The economy of Nepal was confined to the private sector in which people produced goods and services for themselves. At that time they sold their surplus products in local markets. Besides this, people contributed some part of their production as the tax to meet the government administrative expenditure.<sup>3</sup> The world has changed its momentum from private to public undertakings of economic activities when the great depression of 1930s has occurred. As a result of this the then Rana Regime of Nepal also introduced the Public Enterprises Act of 1936. Since then the public ownership of economic activities took place slowly.
- (2) After the marked change in 1951, constitutional provision as mixed economy of Nepal was confining to both the public and private sector. As a result of the constitutional provision, the main thrust was given to public sector. Since then the economic system of Nepal has changed its momentum from private sector to public sector. So, it can be said that the change of Nepalese politics has brought the alarming reform in economic structure of the country. Besides the government of Nepal made many efforts to develop the public undertakings.
- (3) Prior to the implementation of first five year plan (1956-61 A.D.) the public enterprises were limited. With the initiation of planned development of Nepal, the economic activities has increased tremendously. During the first five year plan seven public enterprises came in operation. During the second three year plan (1962-65 A.D.) 11 public enterprises were established in consonance with the policy of the government to transfer government enterprises into autonomous public undertakings. Additional 12 and 27 public enterprises were established in the period of third and fourth plans respectively. So, by July 1975, these were already 61 public enterprises in operation in the country. However, the large number of such undertakings meant duplication of activities and some of them were of little importance. Therefore, from 1975 onwards policies were taken to merge, consolidate, privatize and even to dissolve some of the enterprises. Accordingly, six enterprises were dissolved during the fifth five year plan. But four new enterprises came into operation during the period. The number of total public enterprises remained 59 in 1979/80. This process continued during the sixth five year plan (1980-85). During this

period, six enterprises were dissolved where as one new enterprise was established. Similarly, the public enterprises were established with the 80 percent share of government in the current seventh plan period.<sup>4</sup> From these data the conclusion may be drawn that the economy is based on the public sector. From the past four decades it is seen that the private sector's role in economic activities is insignificant.

#### NEPAL'S EXPERIENCES WITH PRIVATIZATION

Nepal is predominantly based on agriculture. Nepal has recently started to handover economic and social activities to the private sector. The following are the sectors which are driven to privatization:

- (a) Before the implementation of New Education Plan in 1972, the educational institutions were run by private sector, but after the introduction of New Education Plan in the same year, all the institutions (school and colleges) were brought into government-control with autonomous body regarding higher education system.

The New Education Plan had certainly the quantitative aspect but without any qualitative improvement. So, the New Education Plan failed without gathering any experiences and the education system was geared back to the old. Privatizing schools and colleges have two aspects. The first is the mobilization of local resources with local participation. People can establish schools and colleges by mobilizing their own resources for their own benefit. Secondly, the government can transfer its economic responsibility of developing and expanding the education system to the private sector. This process of privatizing the educational system has started from early 1980s. Since then, many private schools and colleges are opened and run by mobilizing the resources of private sector. But 80 percent of these schools and colleges became bankrupt. So, the policy of government to privatize the schools and colleges does not seem effective.

- (b) The forest sector has been an important sector under the private ownership from the very beginning. Some forest area of the country was controlled by the government. At that time the forest area was governed and controlled by both the government as well as the private sector. But since past few decades, the government has controlled all the forest land. As the consequence, the private sector has become inactive due to the government control. The misuse of forest under the government control has increased alarmingly. So the forest depletion of the country increased in the past (one decade or more). Since few past years, the government of Nepal has taken policies to develop the forest by transferring the ownership to the private sector. Now-a-days the forest depletion of the country exceeds its limitation. So, the government of Nepal categories the forest area into three main parts. These three parts of forest area comprise of government owned, panchayat owned and private owned respectively.

- (c) The banking sector is yet another area in which privatization is being proposed with the announcement of the budget for fiscal year 1984/85 for the first time stressed on creating active participation of the people in the process of economic development.<sup>5</sup> The trade and banking sector both are being privatized since past few years. But these are not fully transferred to the private sector because the government has not withdrawn its share. The fully state owned trading company is National Trading Limited which limits its activities to import and export of goods. Because of liberalization of licence system, private companies have increased their speed to export and import of goods. These are the some major steps which are being taken by the government of Nepal to transfer the state economic activities to the private sector. The banking sector of Nepal now gets some momentum and few of them are already established with the collaboration of foreigners. These multinational companies are selling their share to the private individual also. Apart from these, many other state owned companies which are incurring losses are being transferred but not those industries which yield high revenue to the government. In fact the government witnessed to transfer the companies which possess losses and expected high amount from the government to run. So, it is the dualistic system of privatization in Nepal.

#### NEPAL'S PRIVATIZATION: A DILEMMA

Successful privatization in any country requires the bold decisions and other prerequisites that encourage private sector. Privatization depends on the fair sound and consistent policy of the government. (The policy to be taken by the government is an integral part of the privatization). So, privatization should be viewed not as an end in itself by as one of many means to help government interested in fostering a new decision of economic and social activities between the public and private sector.<sup>6</sup> By encouraging private sector, the aims of the economic goals, stated in the periodic plans can be achieved through mobilizing the scattered resources of the individuals. But to mobilize the resources in underdeveloped countries like ours is difficult due to the fact that the government of Nepal has adopted a trial and error method in formulating the policy decision. As a consequence, the policy and legal environments have not been conducive to foster entrepreneurial behaviour. So, business confidence may be lacking, compliance with the law may be low and small market size severely limits domestic competition.<sup>7</sup> As mentioned above the capital formation is low on the one hand and entrepreneurial capacity of the people is inadequate on the other. In this regard, masses of people have little knowledge of their potential resources. They have little know how about their development possibilities and little excess to the outside world. Therefore, they are away from the main stream of national development.<sup>8</sup> Privatization in a country like Nepal hinders the nationals because they do not have adequate capital and sufficient knowledge to run the business. Nepal is looking for the entrepreneurial capacity and people who have such type of capacity do not want to bear the risk and uncertainty. In such a situation they would prefer to have their capital either on the form of bank deposits

or invest in trading business. Nepal's present position has been characterised by the profit earning business because people who have share in the companies are not active due to the fact that the management of such companies remains with the government. The private communities or individuals are not directly involved in managing the organization. As a result of this, they are only concerned with the dividend. Hence privatization in Nepal is fully depended upon foreign capital and foreigners and foreigner's entrepreneurial capacity. The foreigners will operate such companies which yield maximum benefit to them. They will not be interested in any productive line of production which fulfills the basic needs of the people if it has a less profit prospects. So, the government should formulate a conducive policy to promote the national joint venture enterprises by giving technical assistance and necessary capital support.

#### CONCLUSION

Nepal's initiation in privatizing the economic activities has bitter experiences. Though trade, education and forestry are the resulting main sectors and are sought to be privatized fully or partially, they have not been privatized satisfactorily. People are not well prepared to take up the proposed economic burden by mobilizing their own resources, when previously it was undertaken by the government.

In case of companies, share, it is difficult to find adequate capital because almost all the developing countries of the world are characterised by the dearth of capital formation. Hence, it is beyond the reach of the people to buy such share. In such a situation the foreigners can be encouraged to invest in the share of the companies. But this will involve an outflow of capital from the country in the form of dividend, profit and services. It is necessary that the policy of privatization must be thought and right strategy should be adopted.

#### FOOTNOTES

1. Hemming, Richard and Monsoor Ali M., "Is Privatization the Answer"? Finance and Development, A Quarterly Publication of IMF and World Bank, September 1988, p. 31.
2. Ibid., p. 31.
3. Timilsina, P.P., "Planned Development in Nepal and Private Sector (Nepali)", Mirmire, Nepal Rastra Bank, Bankers Club 2045 B.S.
4. Khatiwada, Yuba Raj, "The Dive to Privatization in Nepal", Strategies Study Series, Number 8-10, Center for Nepal and Asian Studies, 1986, p. 74.
5. HMG, Ministry of Finance, Budget Speech 1984-85.

6. Shirley Mary, "The Experience with Privatization", Finance and Development; A Quarterly Publication of the IMF and World Bank, September 1988, p. 34.
7. Ibid. p. 34.
8. Shrestha, B.P., Jain, S.C., Regional Development in Nepal: An Exercise in Reality, Development Publishers, Delhi, 1978, p. 114.