

The Aftermath: Lessons learnt from Birgunj Sugar Mills

Current state of BSM and PEs of Industry
Sector and Understanding the problems
associated with Privatization



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Abstract

The report contains an overview of the current state of Birgunj Sugar Mills (abbreviated to BSM from here onward), Birgunj, Parsa and through it looks at the overall state of Public Enterprises (abbreviated to PEs from here onward) under under Nepal Government's Ministry of Industry (abbreviated to MOI from here onward), focusing on the problems and capacity gaps of why so few PEs are success stories in Nepal. Among the 37 operating PEs as of 2014/15, seven fall under MOI's supervision. The operational income or even gross profit yielded by some of these PEs is annulled as huge amount of loan payments to Nepal Government. Udayapur Cement Factory and Janakpur Cigarette Factory for instance have over Rs. 2.15 billion worth of loan payment to Nepal Government. Analysing and reviewing available literature, this report identifies key reasons, challenges and problems that hampers the operations of BSM and generalizes the same as they are in general applicable to other PEs. By using the case study of BSM, this study uses qualitative methodology tools like in-depth and semi-structured interviews, and key consultations to explore the capacity gaps and challenges to provide conclusions and submit key recommendations for future operational prospect of BSM. Of the recommendations, the prospect of privatization and whether it is a key solution is further explored.

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Acronyms

PEs	Public Enterprises
MOI	Ministry of Industry
BSM	Birgunj Sugar Mills

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1. Executive Summary

1.1 Background

PEs are government-owned ventures and enterprises, or state-owned businesses which are wholly or partly owned by the government. With the advent of democracy in the 1950s, Nepal Government's orientation towards establishing Public Enterprises (PEs) flourished as PEs were seen as vehicles of welfare state that provided economic growth and social prosperity. With this strategic plan, Nepal Government for the first time introduced the Industrial Policy Act in 1956 which intended to establish and maintain state-run monopolies in "promoting, assisting and regulating" industrial development of Nepal. PEs were thus established "to achieve national, economic, social, and political goals." (Minsitry of Finance, 2011) Large number of PEs were introduced with the assistance of foreign aid and many of them primarily focused on manufacturing of agricultural products. PEs' main objective was to largely capitalize on the non-existence of private sector at the time, and utilize existing national resources and foreign aid support to create employment and infrastructure. They provided goods to people in fair amount and in abundant quantity. This also meant that Nepal was less dependent on imports which saved foreign exchange. The implementation of the First, Second, Third periodic plans from 1956-1970 led to emergence of a total of 34 PEs. The number of PEs went as up as 63 by the end of the Seventh Plan (1975-1980). These were state-owned companies that spear-headed economic growth, employment, and often as a means of providing easy access and cheap price to daily-use products.

However, with increased competition from private sector, inadequate and inefficient human and technical resources, infrastructural impediments, among many a host of other challenges, these PEs started becoming burdensome to the government as they were operating under huge losses and management problems. With the objective of reducing the financial and administrative burden on the government, as well as to ensure efficiency and profitability along with the general shift in ideology that encouraged private sector to proliferate and increase their stake, 'Privatization Act 2050 (1994)' was formulated and enacted. Privatization Act 2050 (1994) states in its preamble, "to increase the productivity through enhancement of efficiency" of PEs and to "mitigate the financial administrative burden to the Government, and to usher in

all round economic development by expanding the participation of private sector”. It also states that privatizing PEs is “expedient in the national interest”. Subsequently, many PEs were wholly or partially privatized under various modalities – sale of shares, selling assets, sale-cum-lease, formation of cooperatives, private-partner as management, among others. Following Privatization Act 2050 (1994), three PEs of manufacturing sector were privatized followed subsequently by 13 others which adopted different modalities of handover. By the end of fiscal year 2014, 30 PEs have been privatized, of which only 11 are currently in operation.

1.2 Methodology

I conducted field visit to BSM, Birgunj, Parsa where I toured the premises as well as inspected the condition of machinery and other assets. I also conducted in-depth and semi-structured interviews with Mr. Avadh Kishor Singh, Administrative Manager, BSM as well as other key administrative officials – Ratna Shamsheer Rana and Man Singh Thapa Magar. Apart from this, I researched and reviewed various literature and papers on BSM and PEs as well as gained many insights from official government policy papers (Nepal Industrial Act, Privatization Act 2050 (1994), Annual Performance Review of Public Enterprises 2070, 2071, 2072, State Owned Enterprises Information 2072: Yellow Book)

1.3 Key Findings

- BSM’s operations has been closed since 2003 and without direct involvement from Nepal Government in expediting the privatization process, it will not re-open.
- BSM’s almost 65 bigha of land and Rs.58.5 million of total worth (Land, Building, Machinery, Furniture, etc.) is not being utilized. The premises is used by Nepal Army and Armed Police Force for shelter and training.
- Nepal Government in accordance with Privatization Act 2050 (1994) started privatizing PEs. Today, there are 37 PEs under Nepal Government, seven under MOI of which three are in profit and none of them provided dividend returns in 2071/2072.

- Key problems for PEs are competition from private and international sphere, lack of trained human resource, political instability, infrastructural obstacles, lack of political leadership.

1.4 Key Recommendations

- Since Nepal Government has no interest in re-opening BSM, swift efforts have to be made in privatization by choosing the most applicable modality.
- If private sector shows no sign of investment, Nepal Government should opt for divestment of fixed assets and machinery of BSM by auction or sale.
- Prospects of Public Private Partnership (PPP) or Special Economic Zones (SEZ) models are to be studied in hand-overs of PEs to private firms in facilitating smooth and efficient process as well as lucrative incentive of privatization.

2 Introduction

2.1 Background

BSM is spread in 65 bighas of land in Birgunj, Parsa in the area which locals call Chini Mill Road. It was established in 2021 B.S. with the aid and support from Russia (formerly Soviet Union.) In its heyday, BSM had the capacity and of operating 1,500 tonnes of sugarcane which produced 4,500 litre/day of rectified spirit, or over 15 quintal of processed sugar production per day. It once employed up to 2200 workers.

BSM is an example of PEs that was put in the market for private sector to takeover. Citing problems of a) operational loss, b) need of efficiency and improvement, c) falling inside and hence violating Municipality/Sub-Metropolitan rules, Nepal Government in 2058 B.S. dissolved the running enterprise to further the privatization process. Due to lack of interest from any private sector stakeholder, BSM was officially closed in 2059 B.S. (2002 A.D.) However, till date no private sector is willing to partly or wholly take-over BSM.

Land	Rs. 3,777,744.44
Building	Rs. 19,299,392.14
Plant/Machinery	Rs.31,282,587.48
Office Supplies	Rs. 982,405.63
Furniture Fixtures	Rs. 376,889.66
Other	Rs. 2,785,775.08
Total	Rs. 58,504,497.43

Table 1: Total assets of BSM as of Chaitra 7, 2059 B.S.

When BSM was closed in 2059 B.S., around 600 employees were given compulsory retirement. 193 employees however declined to resign nor accept their share of salary and other benefits and even went to the Supreme Court filing a law suit. They have been demanding payment of salary and other benefits in line with what they used to get when BSM was in operation, citing the remuneration given by Nepal Government is too low. Nepal Government in its part has tried many times to come to an agreement and even calculated a tentative amount of Rs. 80 million that is to be paid-off to the agitating employees for their demands to be met.

Talks and background homework is still being done in trying to re-open this once proud Nepali asset. We often hear of a certain Industry or Finance secretary or a minister declaring their desire to re-open BSM through private sector partnership. All this time though, the machines and equipment are rotting away as it has been 12 years since its closure. Despite being officially closed since 2003, Nepal Government till today pays the salary for 17 people who look after BSM – 1 Administration, 1 Electrician, 15 Security Guards. Despite of the availability of:

- i. Fixed assets - Land and machine equipment),
- ii. Human resource - Farmers who bring sugarcane,
- iii. Support from local Parsa district farmers – who produce 50,000 metric tonnes of sugarcane who otherwise have to take sugarcane to private factories in Bara district for crushing increasing their costs

BSM is not being able to utilize any of its resource due to lack of concerted recent efforts by the Government who has no plan of efficiently using the available resources in income generation, as well as expedite the process of privatization of BSM. There were a few stories where two conglomerate business houses – Khetan Group and Patanjali Yogpeeth – were interested BSM. Patanjali Yogpeeth in May 2014 had forwarded a proposal which “offered to facilitate sugarcane farmers by providing them tractors and sugarcane seeds” and that it had “offered to make all the investment required to operate the factory”. However this proposal could not proceed ahead and the plan fell through.

Former Minister of Industry Karna Bahadur Thapa in his visit to BSM in 2014 stated that the machines inside BSM were still operational. My field visit to BSM and consequent interview

with the Administrative Manager also guaranteed the fact that there were many machinery that after a good cleaning could be re-used, although it is evident that Nepal Government needs to upgrade many parts and invest a considerable amount for BSM to meet current standards. Therefore, this project aims to bring light to concerned stakeholders – Government of Nepal and Private sector stakeholders regarding the current situation of BSM in hopes of expediting the process of privatization through its various modalities of BSM which seems to be the only answer for its re-opening.

2.2 Objectives

The objectives of this paper are:

- i. To study in detail about BSM and its current state.
- ii. Through the case study of BSM, present in brief about the state of seven PEs under the supervision of MOI
- iii. Find the causes that inhibit performance and survival of PEs, as well as find the areas that foster growth of PEs.
- iv. To find conclusive areas of improvement and prospects of privatization of BSM

3 Methodology

3.1 Research Questions

1. What is the physical condition of BSM’s building, area-premise, machinery and tools and to what extent do they require renovation or re-building?
2. How was BSM’s condition (production output, employment and public perception) when it was in its prime (up to mid-1990s) vs. in early 2000s when it was up for privatization and ultimately closed?
3. What are the reasons for the closure of BSM?
4. What are the reasons for poor performance of PEs?
5. What are the steps in improving PEs?
6. What is the current situation of a) PEs of Nepal under MOI b) and overall?
7. What are the legal provisions for privatization of PEs?
8. Are there any private sector companies are interested in taking over BSM.
9. What are the impacts and implications of this study and to whom?

3.2 Research Design

Research Question	Method Used to Answer Question
Question 1	On-location field visit to BSM
Question 2, 3	Key in-depth interview with BSM Administrative Manager
Question 4, 5	Key interviews with BSM Administrative Manager
Question 6	- Key in-depth interview with MOI Under-secretaries Roshani Shree Shrestha and MOI Secretary Jaya Mukund Khanal - Research and literature review
Question 7	- Key in-depth interview with BSM Administrative Manager and MOI Under-secretaries Roshani Shree Shrestha and Dr. Bashudev Sharma - Research and literature review

Question 8	- Key in-depth interview with BSM Administrative Manager and MOI Under-secretaries Roshani Shree Shrestha and Dr. Bashudev Sharma
Question 9	-Key in-depth interview with MOI Under-secretaries Roshani Shree Shrestha -On-location field visit to Khetan Group and Patanjali Yogpeeth

Table 2. Methods used to answer research questions

3.3 Limitations

Firstly, this paper does not cover the full extent of the 37 existing PEs all over Nepal. Similarly, the research work of published literature has been largely limited to the subject matter of those PEs who are directly under the functioning of Nepal Government’s MOI. Secondly, BSM has been used as a representative case study to highlight the possible problems of the 37 PEs face in order to submit conclusion and recommendations. This report’s assumes that the problems and operating difficulties PEs of all sectors have faced – competition, decreased operations, untrained human resource, infrastructural problems, out-dated technologies, among others are applicable in general to all the PEs of Nepal. Hence, this assumption many not be fully comprehensive and the norm of all PEs. Thirdly, all the key interviews representing the governmental and non-governmental bodies conducted in the paper are not independent figures.

4 Results and Discussion

Research Question	Method Used to Answer Question
4.1 Question 1	On-location field visit to BSM

BSM’s premises of 63 bighas in being used by Nepal Army and Armed Police Force as shelter and training ground. There are two main buildings -first is a three storied building which used to be the administrative building used for offices. This building currently houses offices and living quarters for 150 members of Nepal Army. Second building is the production/factory house containing the heavy machinery and tools which were used to produce sugar. This building is divided into three core parts i) assembling and crushing sugar cane, ii) chemical treatments and crystallization processes, iii) packaging and distributing processed sugar. As merely an observer’s feedback, the first building requires only basic upgrades like re-painting and minimal restoration. The second building required structural renovation where it is necessary to re-build the internal and external walls, and make robust repairs by retro-fitting. Inside, I was told that majority of the big machinery still operates. There are many rotten iron pipes which need to be replaced. Similarly, the wooden floors need to be changed as they have been damaged by water and wood-eating termites.

Research Question	Method Used to Answer Question
4.2 Question 2, 3	Key in-depth interview with BSM Administrative Manager

BSM operating capacity was of 1,500 tonnes of sugarcane, 4,500 litre/day of rectified spirit, 15 quintal of processed sugar production per day. It employed up to 2200 workers. When BSM was dissolved for privatization, it had 1200 employees, 600 were given compulsory retirement, 193 of which till today have not willingly received salary and other benefits.

4.2.1 Reasons for the closure of BSM:

Privatization Act 2050 (1994) states that privatizing PEs is “expedient in the national interest” as a result of which handing over PEs to private sector was a means of lowering the

administrative and financial burden towards Nepal Government. This was aligned with the rising discourse that valued private sector to lead the economic growth and the government was no longer obligatory for the production of goods that were also domain of private sector companies. This acted as encouragement for private sector to grow even further. This discourse was further aided by the poor performance of many PEs including BSM up until the 1990s, many of them suffered from continued losses and administrative challenges. Hence, after the enactment of the Act in 1994, many PEs were wholly or partially privatized under various modalities.¹ BSM too was dissolved in 2002 for furthering its privatization prospects, citing falling profits and rising amount of loan BSM had amounted to Nepal Government. But after a year or more of no stakeholders being interested in taking over, BSM was closed in Falgun 2059 (2003).

Research Question	Method Used to Answer Question
4.3 Question 4, 5	Key interviews with BSM Administrative Manager

4.3.1 Challenges to performance of PEs:

My interview with Avadh Kumar Singh revealed the causes for closure of BSM which are not limited to BSM but is applicable to all PEs in general. In his paper, “Performance of Public Enterprises in Nepal” Dr. Fatta Bahadur K.C (2003). conducted an opinion survey to detect the five main causes of poor performance of the PEs in Nepal. The results are summarized below:

Causes of Poor Performance	Mean	Rank
Excessive Political Interference	1.72	1
Lack of adequate autonomy & accountability	2.42	2
Absence of professional management	2.84	3
Financial indiscipline	3.52	4
Establishment of conflicting objectives	3.96	5

¹ Ministry of Finance (MoF), Government of Nepal, *Privatization Act, 2050 (1994)*

Table 3. Causes of Poor Performance

The analysis of this result reveals that excessive political interference is the main cause for the poor performance of PEs. It is seen PEs failed to adopt a business culture, instead relying too much on bureaucratic culture where. “Over the years, PEs have been a story of failure due to the lack of accountability, nepotism, favouritism, large-scale corruption and over-staffing, among others.”² Similarly, Lack of adequate autonomy & accountability is seen as another major cause. In many cases, PEs evolved from already existing government departments or operations which were turned into statutory entrepreneurial corporations. As a result of this, many PEs in Nepal run under the direct guidance of the government’s ministry. Operations of Nepal’s PEs are divided under 10 different ministries and are governed by a number total of 11 different Acts.³ MOI for example is in control of 14 PEs, although only 6 of them are in operation. This makes proper administration and control of PEs difficult for ministries. There also is a severe lack in implementing uniform values and standards among the PEs which are scattered all over Nepal and are governed by different ministries and under various acts and laws. This also affects the accountability towards the ministries just as it makes monitoring or quality control activities for Nepal Government difficult. These factors severely restrict the functioning of the PEs in having a commercial pursuit in its operations.

Another key reason as provided by analysis is the absence of proper human resource especially for technical positions. This limits the ability of workers in higher-posts as their limited technical knowledge prohibits them from further engagement. Similarly, majority of PEs have been ineffective in formulating clear and concise implementation plan and business plan in accordance with their organizational vision, strategy, missions and policies. Financial indiscipline is another key cause which is an aftermath of the above three causes. Financial irregularities is a result of bureaucratic nature of PEs functioning where PEs are seen as a sub-department rather than as an autonomous financial and business-centric enterprise. Lastly, establishment of conflicting objectives is also frequently seen as a cause that adds to indecisive decisions. Also, throughout the years, concerned ministers of Industry and/or secretaries of

² Xinhua News (2014) ‘*Feature: Nepal to privatize ailing public enterprises*’

³ Ministry of Finance (MoF), Government of Nepal (2015). ‘*Annual Review of Public Enterprises*’

Minsitry of Industry as well as few private sector have come forward with different plans of either re-establishing or privatizing BSM without a clear business plan and modality of privatization.⁴ Their plans and proposals have not been able to be successfully implemented because of the lack of a common vision as each individual comes with his/her own set of plans which often times contradict. Political instability and years of unstable government in Nepal too act as impediments for the lack of a decisive decision on BSM and other PEs.⁵

4.3.2 Steps in improving performance of PEs:

Improving performance of PEs	Mean	Rank
Allowing greater autonomy and accountability	2.33	1
Reward and punishment linked with performance	2.79	2
Appointment of CEO by merit	2.92	3
Performance contract	3.09	4
Privatization	3.54	5

Table 4. Improving performance of PEs

Using the same opinion survey “Performance of Public Enterprises in Nepal” by Dr. Fatta Bahadur K.C., we can see that majority of his respondents viewed greater autonomy and accountability would lead to improved performance of PEs. Weak and unaccountable governance has resulted in several instances over the years of the misuse of resources which directly hinders the sustainability of PEs. Therefore it is high-time of an enactment of a bill or act that specifically rendered criteria and effective management policies of the PEs. Similarly, reward and punishment system also act as a beneficial incentive for good performance by employees. The problem associated as one of the key challenges of Nepal’s PEs – the excessive politicization in PEs matters – is the third method of performance improvement where K.C.’s respondents view the appointment of CEO should be done on merit and not on political and unjust interferences. Performance contract of the employees in similar vein also point towards the requirement of a structural change in the functioning of PEs where there is effective human resources management and proper implementation of contractual and system-based performance appraisals, benefits, punishments, etc. Privatization is also seen as a key measure

⁴ Republica, (May 13, 2014). ‘Patanjali Yogpeeth interested to revive Birgunj Sugar Factory’.

⁵ The Kathmandu Post, (Feb 15, 2015). ‘Sugarcane farmers warn of protest if issues unresolved’.

of improving the performance of PEs. This point will be discussed in detail under Research Question 7

Research Question	Method Used to Answer Question
4.4 Question 6	<ul style="list-style-type: none"> - Key in-depth interview with MOI Under-secretaries Roshani Shree Shrestha and MOI Secretary Jaya Mukund Khanal - Research and literature review

4.4.1 PEs of Nepal:

In 2070/71, out of 37 PEs across Nepal, 32 are in operation, only 22 made Net Profits while 15 incurred Net Losses and four provided dividend returns in 2070/71. Accumulated loss and liabilities are increasing yearly. In fiscal year 2014/15 alone, the 37 PEs' accumulative loss rose to Rs 26.92 billion from the previous year's Rs 20.61 billion.⁶ According to the Annual Performance Review of the Public Enterprises 2015, PEs of Nepal account to 13.29% of the Gross Domestic Product (GDP), amounting a total operating income of Rs 258 billion. The same report shows the yearly rise in the cumulative loss of two PEs - Nepal Oil Corporation and Nepal Electricity Authority resulted in the overall loss of PEs. These two PEs' cumulative loss stood at Rs 50.78 billion. Seven PEs faced operating losses of more than Rs 1 billion. These PEs are are Rastriya Banijya Bank, Nepal Orient Magnesite, Udayapur Cement, Nepal Airlines Corporation and Nepal Food Corporation, besides Nepal Oil Corporation and Nepal Electricity Authority.⁷ Most of the PEs were established under the Second, Third, Fourth Periodic plans in the 1960s to 70s. They operate under several sectors of economy, namely financial, industrial, service, public utilities, trading, social services, and banking. The following table shows the establishment and increase of PEs with the implementation of various Periodic Plans.

⁶ Ministry of Finance (MoF), Government of Nepal (2015). *Annual Review of Public Enterprises, 2072*

⁷ The Kathmandu Post, (July 13, 2015). '*PEs cumulative losses jump*'.

Periodic Plan	Total Number	Change
Before 1956	1	-
First Plan (1956-61)	8	7
No Plan Period (1961-62)	11	3
Second Plan (1962-65)	22	11
Third Plan (1965-70)	34	12
Fourth Plan (1970-75)	61	27
Fifth Plan (1975-80)	59	-2
Sixth Plan (1980-85)	54	-5
Seventh Plan (1985-90)	63	9
No Plan Period (1990-92)	62	-1
Eighth Plan (1992-7)	46	-16
Ninth Plan (1997- 2002)	43	-3
Tenth Plan (2002-07)	36	-7

Table 5. Establishment and increase of PEs with the implementation of various Periodic Plans.

There are seven operating PEs under MOI as of 2014 of which three PEs were able to increase their Operating Income earned of Rs. 6.1492 billion. But this is offset in re-payment of operating loss Rs. 77.46 million and accumulated loan Rs. 9.92 billion.

4.4.2 PEs under MOI

There are the PEs that are under the supervision of MOI :

1. Nepal Metal Company
2. Dairy Development Corporation (DDC)
3. Herbs Production and Processing Company Ltd.
4. Hetauda Cement Industry Ltd.
5. Nepal Drug Ltd.
6. Udayapur Cement Industry Ltd.
7. Nepal Orind Magnesite Pvt. Ltd.
8. Janakpur Cigarette Factory
9. Birgunj Sugar Mill Ltd.
10. Butwal Yarn Company Ltd.
11. Biratnagar Jute Mill

Out of these, only the first six are in operation as on 2014/2015. Nepal Drug Ltd. has only been able to produce limited amount of production, whereas Nepal Orind Magnesite Pvt. Ltd. Has not been able to be in operation. Janakpur Cigarette Factory operated in 2014 but has been tentatively shut in 2015. Of the six in operations, three increased their Operational Income in 2070/71. These are Herbs Production and Processing Company Ltd. (45.11%), Dairy Development Corporation (DDC) (9.67%), Udayapur Cement Industry Ltd. (5.10%).

Research Question	Method Used to Answer Question
4.5 Question 7	<ul style="list-style-type: none"> - Key in-depth interview with BSM Administrative Manager - Key in-depth interview with MOI Under-secretaries Roshani Shree Shrestha and Dr. Bashudev Sharma - Research and literature review

4.5.1 Privatization of PEs

Privatization is the means of transfer of mainly business activities which is economic in nature and largely operated by the government to the private sector. Privatization of PEs in Nepal has very much been the priority of Nepal Government since the 1990s as a means of economic liberalisation and transition to a welfare state. Many PEs were experiencing huge losses in operation, lacked administrative and technical expertise, suffered from bureaucratic and political pressures, and other challenges that made it difficult for them to operate. Private sector was perceived to be the logical remedy as they were more profit oriented, and were seen better in profitability, financial and administrative efficiency. It also meant to lessen the room for political and bureaucratic intervention in their operations. With the objectives of increasing productivity and efficiency, decreasing burden on government, and increasing private sector participation, privatization process was introduced by Nepal Government in 1993. Nepal Government enacted the Privatization Act 2050 (1994) under which a state-owned enterprise could be privatized under various modalities: sale of assets and business, sale of shares, sale-cum-lease, formation of cooperatives, involving private sector in the management of the enterprise, among others.

By 2009, 30 different PEs have been privatized through the use of different modalities: liquidation, leasing, full sale of assets and businesses, partial sale of shares, dissolving, sale of current assets, among other divestment processes.⁸

4.5.2 Impact of Privatization

The impact of privatization of various PEs are generally positive in terms of economic effect. Since private sector is perceived to have comparative advantage in operations and management of the enterprises, studies have shown that privatization has resulted in increased production, reduced losses, product diversification, increased quality, reduction in the financial burden to the government, lesser political hindrances, among others.⁹ However it has to be noted that when the effects of privatization is negative, the structural socio-political and infrastructural challenges – unstable government and the decade long armed conflict from 1996-2006 and the continued load-shedding problem has to be taken into account. These problems as well as the

⁸ Paudel, Hari (2006), *“The Implementation of Privatisation Policy: Case Studies from Nepal”*

⁹ Ministry of Finance (1999), *“Monitoring Privatized Enterprises”*

serious lack of Foreign Direct Investment into Nepal's enterprises are other limiting factors for privatized PEs.

Performance of Selected Privatized State Owned Enterprises

SOE	Investment	Production	Sales	Technology Improvement	Employment	Profit/Loss	Public's Share	Borrowings
1. Bhrikuti Paper	Increased	Increased	Increased	Yes	Increased	Loss	25	Increased
2. Harisiddhi Bricks	Increased	Increased	Increased	Yes	Increased	Loss	23	Increased
3. Leatherage Bansbari	Increased	Decreased	Decreased	No	Decreased	Profit	25	Increased
4. Nepal Film	Increased	Increased	Increased	Yes	Decreased	Profit	44	Increased
5. Nepal Lube Oil	Increased	No change	No change	Yes	Decreased	Profit	33	Increased
6. Nepal Bitumen	Increased	Increased	Increased	Yes	Increased	Profit	30	Increased
7. Nepal Foundry	Increased	Increased	Increased	Yes	Decreased	Profit	44	Increased
8. Raghupati Jute	Increased	Increased	Increased	Yes	Increased	Loss	30	Increased
9. Balaju Textile	Increased	Decreased	Decreased	Yes	Decreased	Loss	25	Increased
10. Bhaktapur Bricks	Decreased	Decreased	Increased	Yes	No change	Loss	Lease	Increased

Table 6. Compiled from MoF 1999, Monitoring Privatized Enterprises

After the ineffective management of PEs for years, privatization emerged as the best alternative approach to address the problems Nepal's PEs faced. At the initial stage of privatization process, the results were positive. However since 1997, the situation stagnated and the privatized PEs started slowing down in their profit margin, their employment fell, production and sales decreased. Many privatized enterprises showed mixed results on their economic performance.¹⁰ Privatization is by no means solution to all problems as is evidenced by the closure of many privatized PEs. Of the 30 privatized PEs, only 11 are in operation as of 2014. Of the 11, five made profit. These are, Butwal Power Company, Nepal Telecom, Nepal Lube Oil Ltd., Nepal Bitumin and Barrel Industry, Bhaktapur Bricks Factory.¹¹ The remaining six in operation but under operating loss in 2014 are: Nepal Tea Development Corporation, Lumbini Sugar Mill, Nepal Rojin and Terpentine, Nepal Bank Limited and Raghupati Jute Mill and Nepal Metal Company.

¹⁰ Raut, N. K. (2012). *Causes and Impact of Privatization in Nepal: A Theoretical Review*.

¹¹ The Kathmandu Post, (Aug 2, 2014) '5 of 30 privatised PEs making profits'.

Looking at the figures, it is imperative to understand that privatizing a PEs is not the best and ultimate solution. Recent problems like load-shedding, labour problems, problems relating to raw material manufacturing are key problems which are severely impacting the efficiency and smooth operation of the privatized PEs.

Research Question	Method Used to Answer Question
4.6 Question 8	<ul style="list-style-type: none"> - Key in-depth interview with BSM Administrative Manager - Key in-depth interview with MOI Under-secretaries Roshani Shree Shrestha and Dr. Bashudev Sharma

My interview with MOI Under-Secretaries Shrestha and Sharma revealed that few companies, among them most significantly Patanjali Yogpeeth, founded by Yoga Guru Ramdev has in 2014 shown interest in taking over and investing in BSM in the form of lease. Their proposal was forwarded by MOI to Ministry of Finance. However, their proposal have not yet been accepted or resulted into any tangible outcome. Currently, there are no plans whatsoever of any take-over or leasing of BSM to Patanjali Yogpeeth.

The prospects of inviting national and international bidders for expediting the privatization process of BSM is an overbearing need. Providing lease to these private enterprise proposals will be a key step for future progress of BSM.

Research Question	Method Used to Answer Question
4.7 Question 9	<ul style="list-style-type: none"> - Key in-depth interview with MOI Under-secretaries Roshani Shree Shrestha - On-location field visit to Khetan Group and Patanjali Yogpeeth

This study aims to set a milestone for understanding the current situation of BSM and provide answers to MOI, Ministry of Fiance and other concerned authorities and stakeholders as well as prospective private enterprise investors to find tangible results in possible management and privatization prospects of BSM.

5 Recommendations

- i. Since the government has no interest in re-establishing BSM, efforts have to be made in privatization. Among the various modalities under the Privatization Act 2050 (1994), the modality which would best fit BSM is through lease of its assets and machinery for a certain time period to a private company. Since MOI itself has forwarded the idea of lease procurement of BSM in the past, this modality should be continued for further research. If not for lease, then MOI should consider the process of full or partial divestment of certain fixed assets like land and sellable machinery. The model of Private Public Partnerships (PPP) model too is a probable solution which BSM could adopt in garnering private companies to invest. With shared-partnership, Nepal Government will not have to spend too much budget as initial investment for repair and rebuild works, and other costs too will be lowered.
- ii. Similarly, Government should carry out feasible studies of possible creation of Special Economic Zone (SEZ) in the Birgunj Industrial Corridor possibly starting from Shreepur or Bhawanipur to Simara capturing two districts Parsa and Bara. Since Special Economic Zone model has been already established and implemented in Bhairahawa, similar effective model can be implemented in Birgunj. Establishment of new industries will not be an issue in the specified location, as well as the infrastructural hindrances. MOI should conduct proper field and feasibility study in facilitating smooth and efficient process of privatization.
- iii. If private sector shows no sign of investment in the coming 5-10 years, Nepal Government should opt for divestment of fixed assets and machinery of BSM by auction or sale.

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7 Annexes

List of People consulted for ‘The Aftermath: Lessons learnt from Birgunj Sugar Mills’.

Name	Position or Organization
Ms. Roshani Shree Shrestha	Under-Secretary, MOI, Government of Nepal
Mr. Jaya Mukund Khanal	Secretary, MOI, Government of Nepal
Mr. Bashudev Sharma	Under-Secretary, MOF, Government of Nepal
Mr. Avadh Kishor Singh	Administrative Manager, BSM
Mr. Ratna Shamsher Rana	Official, BSM
Mr. Man Singh Thapa Magar	Official, BSM
Mr. Arun Kumar Piya	CEO, Piya Plastics Industries (Nepal)
Ms. Ambika Rajbhandari	Official, Himal Cement Factory
Mr. Bikash Bidhari	Patanjali Yogpeeth Nepal
Ms. Usha Karki	Khetan Group



Field visit pictures of Birgunj Sugar Mill, Birgunj, dated July 16, 2015