



Role of Private Enterprises Speculation in Economic Development of Nepal

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ABSTRACT

This paper is examined the brunt of private enterprises expenditures in economic growth in Nepal which is well understood and recognized. However, most of theoretical and empirical research on determining this role has focused on the impact of public investments, implicitly pretentious that recurrent expenditure of the government is more or less irrelevant from the standpoint of economic growth. Using Nepali data, this study not only reiterates the positive impact of public expenditure on economic activity, but also highlights that primary recurrent expenditure is about as much important as public investment in enhancing economic activity. This is perhaps because in Nepal government's development expenditure has more inherent inefficiencies than recurrent expenditures, as prolonged fiscal adversity has stripped that latter to "bare bones" to contain large inefficiencies. However, this also implies that simply creating structures and infrastructure is not enough to accelerate economic growth. Each structure has to be adequately financed for its operation and maintenance to give optimum results, which is done from recurrent spending. As such, this study points to a rethink on the role of private expenditure and its impact on growth, especially the composition of expenditure also.

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Introduction

The economic is the attainment of goals by the enterprise. In the private enterprises (PE) economic, 'performance' refers to the extent to which a PE achieves the objectives which have been set for it. More specifically, performance is interpreted in terms of success in achieving the avowed objectives (Abbott, A. and P. Jones 2015.) Performance is, thus, essentially correlated with the objectives which is far and wide believed that, in most developing countries, the recital of the PE sector has been disappointing. Originally established to generate public savings for investment and growth, and to achieve social redistributive goals, the PE is now perceived to have performed poorly in fulfilling these various objectives. Cook and Kirkpatrick further note that the performance of a PE is thorny to measure (Ahmed, I. and A. Qayyum 2007.) economic status. In principle, the process of performance evaluation ought to flow a sequential procedure of identifying the objectives set for the PE, constructing indicators to measure the degree of attainment, and then measuring performance. In practice, there are considerable difficulties in following this procedure- objectives are seldom specified in a clear and unambiguous way. Objective may be mutually inconsistent with respect to economic development especially Nepal. There are problems in devising satisfactory single and multiple-goal performance measures and the necessary data are often not interpreted. The existing information on PE performance must be interpreted therefore with caution, and few firm generalizations can be drawn from it. United Nations (1973) has observed that a climate of controversy has continued to surround performance measurement in PE sectors with an air of inconclusiveness.

There are always the votaries and the critics of PE. In an atmosphere of controversy any measurement of its performance that would invite ready comparison with private enterprise is likely to be questioned by the votaries and endorsed by the critics. Measuring PE performance is therefore a difficult task (Aschauer, D. A. (1989).)

Nepal's economic situation is characterized by its location as a landlocked country between India and China, as well as by its challenging geographical conditions. Nepal's GDP is mainly dependent on agriculture, as well as revenue generated by tourism and remittances sent by migrants (Ministry of Finance (2007). The low skill levels of its workforce, an underdeveloped productive industry, resource dearth and a barely developed infrastructure are detrimental to economic growth and trade. Nepal's balance of trade is increasingly in deficit, with high imports of consumption goods and oil on the one side, and very low export levels of high value products on the other side. The Nepalese financial sector continues to be dominated by government intervention and a lack of private initiatives, an inadequate regulatory framework as well as poor capacities, a lack of expertise and insufficient internal processes in the country's financial institutions. As a result, there is poor access to financial services, particularly in rural areas and in the small business sector. In particular, medium-sized businesses, seeking to finance their investments, find few financial products available to them.. To enhance Nepal's economic potential, progress in other sectors, such as transport and energy infrastructure, as well as the rule of law and transparency, are required.

Political instability, ongoing social discrimination and the uncertain aftermath of the conflict period have, until now, prevented socially balanced economic development. The structural deficits make economic progress even more unobtainable for socially or economically underprivileged population groups (women, disadvantaged castes and conflict-affected or ethnic groups), especially in rural regions of the country economic depend on the performance as follows:

Performance Measurement

A positive and scientific performance approach to PE is by now acknowledged to be very important for the PE management, the government and the vast majority of citizens. The management of a PE is not always aware of the weakness of the organization. If by comparison with past performance or with the performance of other similar firms, private or public, national or foreign, some weaknesses can be pinpointed, the chairman or managing director will have some explanation to do. The most valuable outcome of performance studies is to explore the scope for private enterprises.

Economic Review: Occasional paper

Improvement in the operations and management of PEs and thus to provide both government and managers with an instrument of improvement. They can help public authorities to improve control of the managers to whom they delegate powers, who act in the name and for the good of the government and the public. Moreover, in the debate over whether to privatize or to deregulate certain activities, such studies, by showing the relative weaknesses and strengths of public versus private production, should be an essential requirement (Parris et.al., 1986:134). Performance measurement provides valuable information. Ray Rees (1984:11) argues that a more appropriate (and sympathetic) concept of performance will be the extent to which a PE achieves the objectives which have been set for it. Ideally, to every objective that can conceivably be assigned to an enterprise one would like to see correspond a specific performance measure, i.e., an indicator of the extent to which the objective is actually achieved (Merchand et.al., 1984:26). It implies that performance of a PE is closely related with the objectives of the enterprise. There is a growing view that PE performance need to be based on the realm of operational activities. Indeed, the assessment of the performance should amount to appraising the extent to which they do, in fact, achieve the goals which are attributed to them. Killick (argues that the success of an enterprise should be assessed by its ability to do the job it was created to do, and this requires us to ask about the reasons for creating PE in the first place. Furthermore, the circumstances under which an enterprise is created often affect the performance. In this respect, the performance evaluation requires proceedings through several successive stages which include :

- a. specifying explicitly the objectives attributed to the PE;
- b. providing a convincing justification for the selected objectives;
- c. translating each one of these objectives in terms of indicators that are observable and, preferably, measurable;
- d. devising methods whereby the comparison can be established between the observed values of the said indicators and those values that correspond to a complete fulfillment of the corresponding objectives.

Performance evaluation provides a valuable guideline for the control mechanism to the management. Enabling government to identify major weaknesses, it assists in the policy formulation as well as reform. PEs can truly be assessed in terms of the benefits extended and also the ability to protect the public interest. Performance is concerned with the efficiency, particularly the Pareto efficiency, which has at least three facets, i.e., technical efficiency, financial efficiency or cost minimization and overall efficiency of the enterprise. In this regard, it is noted that one sided approach is, of course, bound to induce a severe bias in most judgments' on PEs (Merchand et.al., 1984:26). Performance can be measured either through direct statistical analysis of time series or cross-sectional data of the enterprises themselves or comparisons with the private sector enterprises which are alike in nature. In this paper we hypothesize that public expenditure has a positive impact on economic growth. If true, this also implies that higher level of economic activity is likely to have a positive impact of government's revenue, which can enhance public expenditure –thus creating a multiplier effect on economic activity (Dhakal, A. and Subedi, J. 2006). However, the debt sustainability literature tells us that the above indicated virtuous cycle is not automatically guaranteed, it requires certain conditions and depends critically on the mode, and therefore the cost, of financing this additional government spending, and the magnitudes of impact the spending has on economic activity and a goal of this paper is performance of private enterprises investment and effect of development of Nepal also.

Methodology

The basic objective of this study is to review and analyze the overall performance of PEs in Nepal. It also aims at identifying the main causes of poor performance of PEs and suggesting suitable measures for improving their performance of PEs. In order to achieve the objectives, the relevant data and information have been collected from both the primary as well as secondary sources. The primary data has been collected mainly through questionnaire and personal interview with policy makers, academicians and others. The secondary sources include the publication of Ministry of Finance (MoF), National Planning Commission (NPC), Central Bureau of Statistics (CBS), Research and Survey Reports of various national and international institutions, books and journals, thesis and dissertation reports, etc. The information so collected has been suitably organized, tabulated and analyzed with the help of relevant statistical tools, i.e., percentage analysis, ratio analysis, index number analysis, mean value, ranking method, etc.

Results and Discussions

Despite the fact that the PEs in Nepal have greatly assisted in industrial and corporate sector development and in developing required infrastructure and institutional base, these enterprises are not functioning in an efficient manner. Consequently, these enterprises have not been able to develop a sound financial capability on the one hand and demonstrate expected work efficiency on the other, thereby all depending on government grants and subsidies. Their performances has continuously been lagging behind the expectations. It is also obvious that, in spite of huge capital investment, PEs in Nepal have not been able to provide satisfactory financial returns on the capital employed. During 1980-81 through 2001-02, the overall investment witnessed a rise of almost 34 times, from Rs. 3.3 billion to Rs. 112.6 billion. However, the level of profitability remained either negative or very low.

Sectoral rate of return shows that the performance of trade and manufacturing PEs has been relatively better than that of the other sectors. In particular, service sector's performance has been highly unsatisfactory or has remained the poorest one. The capacity utilization level remained low, in some cases much below 50 percent mark. The capital-output ratio also remained unsatisfactory. The labour productivity ratio showed unfavorable trend with a few exceptions. In fact, all the capital output ratio, labour productivity ratio and value added employee ratio have not been up to the mark. Less than a half per cent (0.44%) of the active population is employed in the PEs (in absolute terms, 46,900 people are employed in these enterprises). Mention may be made that the employment opportunity has been generated at the cost of profit and productivity. As a result of poor financial performance, the PEs in Nepal have been increasingly perceived as a millstone instead of an asset to the nation. Though these enterprises have helped to a greater extent in creating employment opportunities, in increasing production and providing basic services, these have failed to perform in an efficient manner. In spite of the long-term protection given to these enterprises, these have not been able to achieve satisfactory financial capability and work efficiency. Finally, it may be said that these enterprises have become the *white elephants*. It may thus be concluded that the PEs in the country have been successful neither in achieving the pre-determined objectives nor in providing social returns to the poorer segments of the population. Excessive political interference, lack of adequate autonomy and accountability, absence of professionalism, rampant financial indiscipline and existence of conflicting goals are some fundamental reasons attributable to this deteriorating recital of the PEs in Nepal. Owing to these reasons, these enterprises could not develop sound and effective business culture and acumen as well. It seems that the objectives behind the establishment of the PEs look quite sound and highly significant for expediting the socio-economic development of the country. However, the actual implementation strategies, organizational/management modalities, operational systems and work processes are not sound enough to meet the stated objectives. Thus, the PEs looked nice in words and papers but failed miserably in the actual practice. This is what is called the problem of "*nice words and bitter deeds*" or "*distributing hollow dreams to the deprived multitudes*"

Role of Private enterprises in Post-conflict Nepal

Can the Nepalese private sector play a similar role like that of SLF? With everything being a priority at this juncture, it indeed is a challenging task to decide where to start first and who is to take the lead. I believe that the private sector can take up this difficult yet responsible challenge. Private sector actors throughout the developing countries, particularly in unstable economies, are viewed in a negative way. It is widely perceived in those countries that they are there with only one thing foremost in their minds – profit. There is a widespread mistrust between the average man and the business circles. Even in Nepal, the Maoists have always defined their movement as a class-based struggle, and have shown the tendency of viewing the business community as its class enemy. Now this business community must come forward and work towards removing this 'negative identity' attached with them and show that they are there not just for profit but for the betterment of the society at large.

They must take part proactively in national debates and campaigns, and come up with more inclusive strategies to incorporate the multi-ethnic peoples of the society. Business leaders must learn the way to responding positively to the peace process and show a sectoral display of support for policies and programmes that move the process forward. At this juncture of history, the dawn of a "New Nepal," the business community must take up the challenge of addressing issues previously thought risky, and strive towards creating trust between various segments of the society. As SLF has shown and learned, the importance of taking care, forgiving – not forgetting, and moving forward is immensely great. The Nepalese business community has to take lead on all this, thereby supporting the ongoing peace process (The World Bank, 1995~2008). There has been a promising beginning in this regard, which is worth mentioning here. In 2004 the business community in Nepal, with the support from GTZ, formed a National Business Initiative for Peace (NBI) comprising fourteen national business organizations, including the Federation of Nepalese Chambers of Commerce and Industries (FNCCI), the Nepal Chamber of Commerce and Industry (NCCI), and the Hotel Association of Nepal (HAN). The stated goal of the politically non-partisan NBI has been to contribute to 'sustainable peace in Nepal through improvement of the quality of life of all Nepalese through development of entrepreneurship, creation of opportunities and generation of wealth through just socio-economic growth' (NBI, 2005). It has committed itself to investing resources in areas such as infrastructure, social capital and the creation of safe spaces for meaningful peace-building efforts. This indeed is a positive beginning. With genuine efforts and sincere business ethics that has been so lacking until now, there is no reason why NBI cannot do what SLF has been able to accomplish so far. But NBI has to be sincere in its efforts. It is no easy task, and it must realize that the business community cannot act on its own. It needs to follow a participatory approach with coordinated partnership with other stakeholders in the peace-building process, and maintain transparency throughout. Some clear advantages of a body like NBI that give it a real chance of succeeding are, to mention a few, facts such as it is not a direct party to the conflict, it can mobilize resources in support of peace-building initiatives, and that it has a comprehensive networking capacity and presence throughout the country. It has the potential to play a vital role in this post-conflict period by creating employment opportunities to the victims of conflict and taking business to the conflict-affected and disadvantaged areas where feasible. It may be too early at this stage to meaningfully analyze the actual impacts of NBI's initiatives in the peace building process and its role in the post-conflict scenario, but its approach and willingness to become proactively involved in a strategic manner certainly is a positive step towards sustainable peace. Another positive move that has come out of the business community in the recent months is the reaching of an understanding between the Federation of Nepalese Chamber of Commerce and Industry (FNCCI) and Confederation of Nepalese Industries (CNI) to work together to advance the common agenda of the private sector. They have agreed to cooperate with each other on issues such as the Terai agitation, irregular electricity supply, industrial labor disputes and the government decision to cancel passports of several businessmen for defaulting bank loan repayment.

In a joint statement, they clarified the need for the two parties to unite by stating "the two institutions have decided to become united because unless major problems of industrial sector are not resolved, the economy will be affected and, ultimately, the private sector will collapse" (Nepalnews.com, March 1, 2007)

Table 1. Per Capita ODA and Total FDI in south Asia (2003).

Country	Per-capita ODA (US\$)	Foreign Investment (Million US\$)
Bangladesh	10	102
India	1	4,269
Nepal	19	15
Pakistan	7	534
Sri Lanka	35	229

Table 2. Profitability of PEs (1980-81 – 1997-98) (Rs.in million).

Year	Capital Employed	Gross profit	Gross profit as % OF Capital Employed
1988-89	17118.0	-38.8	-0.23
1989-90	18476.2	-244.6	-1.38
1990-91	35843.2	-1871.7	-5.22
1991-92	50530.3	-1145.5	-2.27
1992-93	43482.9	146.4	0.34
1993-94	63885.0	1073.7	1.68
1994-95	59244.8	1965.6	3.32
1995-96	62010.9	1377.6	2.22
1996-97	85757.9	475.9	0.55
1997-98	81270.8	1317.6	1.62
1998-99	83695.6	2903.6	3.47
1999-00	83420.6	2404.6	2.88
2000-01	82910.5	-1353.2	-1.63
2001-02*	112604.2	2378.3	2.11

*Estimate

Source: Ministry of Finance (2001-02). Table 9.9.p.60

Conclusions

From the above observation we reveals that exploring the possibility of improving the performance of PEs in Nepal would be a better option. This can be done by allowing greater autonomy and more accountability; by rewarding those who contribute greatly in achieving the pre-determined goals and by punishing those who are proving themselves as hurdles. In the absence of such measures, these enterprises need to be either privatized or liquidated. Thus, PEs in Nepal are, no doubt, at the crossroads. Despite this, some PEs that cater to the public utilities needs of the society would continue to remain in the operation because of the imperfections that govern the public utilities if handed over to the private sector without appropriately developing competitive economic climate and efficient regulatory environment. At the same time, it should also not be forgotten that monopolies in the private sector would be far more dangerous than that in the public sector. So, the logical conclusion would be to liquidate or privatize immediately PEs that cater to the needs that have already been catered by the private sector in a competitive, efficient basis. Similarly, PEs that work as natural monopolies could continue to work as PEs until more efficient/competitive private sector operators are in place. Till the PEs are either privatized or liquidated or continued to allow operate as PEs, the overall management improvement mechanism should be strongly institutionalized so that inefficiency in the use of resource is restricted and the public liability in such PEs does not invite crisis situation. Any delay in implementing such reforms would be detrimental to the overall health of the national economy.

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