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# Non-Performing Loans and Stock Prices:
## A Case of Nepali Commercial Banks

**Niyam Raj Shrestha**

**Abstract:** *The article attempts to ascertain the determinants of non-performing loans (NPL) in the Nepalese commercial banking sector using a descriptive statistics, trend and one factor econometric model. The study has selected 18 Nepal commercial banks by using stratified sampling method, and found the aggregate values of ratio that measures the banks' health. The results show that aggregate NPL of commercial banks is in decreasing trend and the model is consistent with priori of the NPL to its stock price. This indicates that every rupee appreciation in the NPL brings about stock price decrease by 0.528 rupee. The study has shown an increasing trend of the total performing loan to total deposit ratio in the industry, while NPL is on the decline. It has given positive indication that the banks are able to mobilize their deposit in productive sectors.*

## I. INTRODUCTION

Investors are intending to majority of investment in the stock of the commercial banks (Dangol, 2009). The commercial banks' shares dominate the stock market of Nepal. However there is need to analyse commercial banks' performance before investment in their stocks. The evidence in Nepalese banking sector shows that when Nepal Development Bank crashed, depositors had almost lost their hard earned savings. A number of Financial Institutions including NSM and United Development Bank got into trouble within one month. Heavy chunk of investment on the real estate has been cited as the major cause of the downfall of the bank. There are lessons to learn from the biggest recession of 2007-08 that was mainly caused by realty crash following the heavy investment in this unproductive sector (Sthapit, 2009). It all showed the need to check Nepali banks' health in terms of whether their loans are truly performing or not. The structure of financial assets/ liabilities shows that the commercial bank alone holds more than 80 percent of the total assets and liabilities of the financial system (NRB, 2010).

Mr. Shrestha is Programme Director, Bachelor of Travel and Tourism Management (BTTM) as well as Faculty Member of Public Youth Campus, Tribhuvan University.
Email: nrshrestha@pyc.edu.np

Hence there is an increased need for the banks to become very cautious in extending loans so as to keep their Non-performing loans (NPLs) at the minimum.

NPLs reflect the health of the financial system affecting the profitability. A non-performing loan is any obligation or loan in which interest and the principal payments are more than 90 days overdue, more than 90 days worth of interest has been refinanced, capitalized or delayed by agreement or if payments are less than 90 days overdue but payments are no longer anticipated (IMF, 2009). Non-performing loan refers to those unproductive assets of any firm that cannot be converted into cash within specified time limit. It is the loans made by a bank or financial company on which interest payments and principal repayments are not being made on time.

If the credit allowed by banks and financial institutions turns bad, it creates NPL. NPL percentage in assets portfolio shows health of a bank. The performance of any financial institution is greatly measured with the coverage of NPL in that particular institution. Since the prime sources of income for the bank are generated through income from loan and advances, increase in non-performing assets may lead bank in the verge of collapse. The loan and advances which is overdue for 3 months or more should be treated as NPL (NRB Directives, 2011).

## II. STATEMENT OF PROBLEM

NPLs not only stop the banks from generating income but also require them to allocate funds as a provision that only reduces the profit. Overdue ageing more than 3 months, 6 months and one year requires provisioning of 25percent, 50percent and 100percent respectively as per the NRB directives. Similarly, borrowing cost of resources locked in NPL and opportunity loss due in none recycling of funds are other effects. It also increases the administrative and recovery cost and legal cost as well. Effect on employee morale and decision-making, lower image and rating of bank and reduce investors confidence are some of the main effects. The evaluation of the banks' performance is essential to understand their health. In this connection, this study deals with following issues:

- What is the trend of NPLs in Nepali commercial banks?
- What is the specific effect of NPL on the commercial banks' net profit?
- Is there any impact of NPL on the banks' share price in the market?

## III. OBJECTIVE OF THE STUDY

The main objective of this study is to find out the industry trend of the non performing loans in Nepalese commercial banks. The specific objectives of this study are as under.

- To examine the effect of nonperforming loan on commercial banks' profitability, and
- To assess the effect of the NPL on market price of share.

## IV. LITERATURE REVIEW

Shajahan (1998) found that the proportion of total NPAs to total advances declined from 24.2 per cent in March 1993 to 17.3 per cent in March 1996 in India. During this period, the proportion of doubtful assets declined from 13.3 per cent to 10.8 per cent in 1996, substandard assets, from 8.3 per cent to 4.1 per cent and loss assets from 2.6 per cent to 1.9 per cent. The decline was most remarkable for outstanding loans of less than Rs 25,000.

Rajaraman and Vasishta (2002) conducted study on the Non-performing Loans of 27 public sector banks of India by performing a panel of regression on the data over a five year period ending in 1999-2000. The study identified a number of factors that served to raise the general level of NPL's in India such as the legal and procedural obstacles that remain to liquidation of loss-making enterprises and the financial suppression since the mid-1980s. The study found that the foreign banks originating in Europe and the US and also the domestic privately owned banks had significantly lower NPLs. Domestic public sector banks were the only category with higher NPLs.

Rajan et al. (2003) prepared a country seminar paper and found that restructuring debt and danamodal was established to raise funds to recapitulates the ailing banking sector, which injected RM 7.1 billion into 10 institutions since its inception. During the restructuring the study found its operation rill August 2002, it resolved 48 cases involving debts of RM 52.6 billion. In addition, a merger program for domestic banking industry was undertaken in 1995 to rationalize and consolidate fragmented banking industry. As a consequence, institutional arrangements have yielded net NPL ratio 7.0 percent in May 2003 from 9.0 percent in 1998.

Santos et al. (2003) found the rise in NPLs was basically, due to the weakening of the peso and increased interest rates. Increasing the minimum required capitalization of banks, granting of incentives for mergers and consolidation, upgrading prudential regulation and supervision, strengthening corporate governance disclosure were regulatory measures taken to resolve the banking crisis, with regard to legislative reform, the New General Banking Act 2000, the Securities and Regulation Code, the Anti Money Laundering Law 2001, Special Purpose Vehicle Act 2002 had been enforced. The Philippines unlike its counterparts in the region did not form an Asset Management Company (AMC). Instead, the central Bank endorsed the passage of law that would encourage the private sector to setup an AMC. However, the total NPLs as of end June 2003 accounted 15.0 percent of the system's total loans compared to 5.4 percent in 1997.

Dahal (2004) found that inferior mortgages against the loans, lack of ample financial information of loaners, extension of bank branches in the least feasible geographical areas, over staffing in the bank are the reason behind the increment of NPL in Nepal. In this article the writer had concluded that a weak financial system and the rising inferior assets, to' some extent, could be considered simultaneously.

Pradhan (2006) attempted to made at determining the extend of financial distress in Nepalese enterprises, indicating how financial ratios deteriorate as the firms move in financial distress, poi nting out concessions to be made by various stockholders in the restructuring process, and analyzing legal framework concerning financial distress in Nepal. The study found that as net profit ratio increased from 33 percent in portfolio 1 to 30.3 percent in portfolio 4, return on capital employed and return on equity also improved significantly. The study also found that how improvement in net profit also improved operating ratio as on movers from portfolios 1 to 4. Increase in net profit ratio led to increase in liquidity ratio, and turnover ratios. The study concluded that as the enterprises moved into financial distress, labour productivity and debt coverage ratios also deteriorated. The study result showed that net profit ratios are negatively related to operating expenses and are positively related to liquidity, turnover, labour productivity, and interest coverage.

Taron and Pasha (2009) found that the real effective exchange rate has a significant positive impact on non-performing loans. This indicates that whenever there is an appreciation in the local currency the non-performing loan portfolios of commercial banks are likely to be higher. The empirical results show that GDP growth is inversely related to non-performing loans, suggesting that an improvement in the real economy translates into lower non-performing loans. The study also found that banks which charge relatively higher interest rates and lend excessively are likely to incur higher levels of non-performing loans. However, contrary to previous studies, the evidence does not support the view that large banks are more effective in screening loan customers when compared to their smaller counterparts.

Able (2008) designed the LAMM MODEL. The purpose of the model is for the appraisal of loan assets integrated in portfolio package showing incompatible variables for the purposes of determining an estimate through a linear process. This model is applicable to determine the portfolios' value consisting of consumption loan groups, other loans of other type supported by the mortgage securities and other loans of any type not supported by any securities and at the same time such assets may be rated as matured portfolio loans or portfolio loans in force, and have been submitted to an administrative recovery process or a legal recover proceeding. This model provides estimation for the expected recovery and their distribution of probability.

Jayshree and Radhika (2011) studied the trends in non-performing assets of Indian banks and makes a comparison of public sector banks, old Private sector banks, new private sector banks and foreign banks. This study showed there was overall decline in the NPA's. The article further attempted to establish relationship between net-profit and NPA's and total advances. The study observed positive correlation between NPA's and total advances. This shows that with increase in total advances NPA's will increase. The impact analyses proved that NPA's had negative impact on net-profit whereas for NPA's and total advances there was positive impact. The study finally observed that banks were performing well in managing there NPA's. The main reasons could be attributed to prudential norms and RBI guidelines, securitizations and changes in law.

In the conclusions from the above discussions, it may be stated that the NPLs have become challenges to the commercial banks. Many researches studied the implementation of the NRB directives issued to commercial banks in regard to the NPLs. Other studies also studied commercial banks' practices on non-performing loan and loan-loss provisioning. There is, however, no research on the impact of non-performing loan and loan loss provision on the performance of commercial banks, and capital adequacy of commercial banks as per NRB directives. No previous study examined the effect of NPLs on the banks' stock price. Therefore, this study assesses the status of the non-performing loans of the Nepali commercial banks.

## V. RESEARCH METHODOLOGY

The study is based on the secondary data collected from the NEPSE, SEBON (Board) and concern websites of the sample banks in the light of the NRB directives. By using stratified sampling method, 18 among the 30 commercial banks of Nepal were selected on the basis of size, year of operation, and capital.

The study has employed descriptive analysis of the data, which consists of mean, standard deviation, percentage analysis, median, and range to assess the fact-finding and searching adequate information about non performing loan of the banks. This study also employed the overall trend analysis of sampled banks to find the general condition of the ratios to analyze indicators of the bank health by covering data of 2003-2010, a period of 8 years. Relevant financial ratios were calculated and studied to find out trend of the ratio of commercial banks. To analyze the impact of the NPL on share price, the study applied an econometric one factor model assuming the market price of the stocks as a dependent variable and NPL an independent variable. The priori sign of the NPL in this model is negative. The model is

$$SP = \alpha + \beta NPL_i + e_t$$

Where,

SP = Share Pirce at the fiscal year closing

$\alpha$ = Constant,

$\beta$ = Coefficient

$NPL_i$ = Non performaing loan at period t,

$e_t$ = Error term

## VI. DATA ANALYSIS, PRESENTATION AND FINDINGS

To evaluate the health of commercial banks in Nepal, the study has calculated the descriptive statistics including mean, median, standard deviation, maximum and minimum values of the each ratio in exhibit 4.1. The total numbers of observations are 1152. The plots of trends of each ratio are also exhibited in figures (graph) in exhibit 4.2.

Exhibit 4.1. Overall Ratio of the Commercial Banks Measuring the Banks Health

*This overall mean value (industry average) of ratios were calculated by summing up individual ratios of 18 commercial banks in each year and then dividing by number of years to find overall average. And the each year's average ratio was added and divided by the number of observation period to find out the overall industry average ratio of each variable. CAR=the capital adequacy ratio, TCF=total capital fund, LLP=Loan loss provision, TDR=Total Deposit Ratio, TPL=Total Performing Loan, TD=total deposit, PL=Performing loan, TLA=Total loan and advances, NPL=Nonperforming loan, TNP=Total net profit, TGL=Total gross loan. The Total numbers of observations are 1152 and study periods are 8 years.*

| | Ratios | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **CAR** | **TCF to LLP** | **TCF to TDR** | **TPL to TD** | **PL to TLA** | **NPL to TD** | **NPL to TLA** | **NPL to TNP** | **NPL to TGL** |
| **Year** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** |
| 2003 | 10.49 | -16.66 | -0.107 | 0.414 | 0.713 | 0.167 | 0.287 | 184.02 | 12.8 |
| 2004 | 7.49 | -0.75 | -0.092 | 0.444 | 0.772 | 0.131 | 0.228 | 9.26 | 10.74 |
| 2005 | 6.53 | 17.38 | 0.234 | 0.505 | 0.812 | 0.117 | 0.188 | 5.37 | 10.56 |
| 2006 | 5.3 | -3.37 | -0.015 | 0.58 | 0.868 | 0.088 | 0.132 | 10.39 | 10.23 |
| 2007 | 1.75 | 9.82 | 0.086 | 0.608 | 0.893 | 0.073 | 0.107 | 2.74 | 9.51 |
| 2008 | 5.46 | 2.59 | 0.023 | 0.659 | 0.934 | 0.047 | 0.066 | 1.61 | 6.65 |
| 2009 | 7.96 | 16.71 | 0.057 | 0.652 | 0.963 | 0.028 | 0.041 | 1.84 | 4.13 |
| 2010 | 8.78 | 13 | 0.071 | 0.742 | 19.887 | 0.027 | 0.728 | 1.74 | 3.52 |
| Average | 6.72 | 4.84 | 0.032 | 0.576 | 3.23 | 0.085 | 0.222 | 27.12 | 8.518 |
| S. D | 2.64 | 11.68 | 0.102 | 0.113 | 6.731 | 0.051 | 0.22 | 63.49 | 3.361 |
| Median | 7.01 | 6.205 | 0.04 | 0.594 | 0.881 | 0.081 | 0.16 | 4.055 | 9.87 |
| Max | 10.49 | 17.38 | 0.234 | 0.742 | 19.887 | 0.167 | 0.728 | 184.02 | 12.8 |
| Min | 1.75 | -16.66 | -0.107 | 0.414 | 0.713 | 0.027 | 0.041 | 1.61 | 3.52 |

***Source:*** Self Calculation based on NRB Banking and Financial Statistics, 2010,

The Column 1 exhibits the overall mean value and standard deviation of capital adequacy ratio of the commercial banks. The ratios are 6.72 and 2.64 respectively during the study period. The highest and lowest overall mean values of these ratios are 10.49 percent and 1.75 percent respectively. These ratios lies in the year 2003 (highest) and year 2007 (lowest) respectively. The figure 4.2.1 shows that the capital adequacy ratio (CAR) is clearly decreased in year 2007 but started to take an upward trend.

The column 2 exhibits the overall mean value and the standard deviation of the total capital fund to loan loss provision ratio of the commercial banks of Nepal. The ratios are 4.84 and 11.68 respectively. The highest mean value of this ratio is in year 2005 and the lowest in the year 2003, ratios are 17.38 and -16.66 respectively. Figure 4.2.2 exhibits that Total Capital Fund to Loan Loss Provision of the commercial banks is fluctuating in trend. It is not stable and it is varying between years.

The overall mean value and standard deviation of the Total Capital Fund to Total Deposit ratio (column 3) of Commercial Banks are 0.032 and 0.102 respectively. The exhibit also shows that the mean value of ratio is highest in the year 2005 and the lowest in the year 2003, ratios are 0.234 and -0.107 respectively. Figure 4.2.3 shows that the Total Capital Fund to Total Deposit ratio of the commercial banks has shown a decreasing trend. Highest ratio is in 2005 and it gradually declined to 0.071 in 2010.

The overall mean value and standard deviation of the Total Performing Loan to Total Deposit of the commercial banks are 0.706 and 0.083 respectively (Column 4). The maximum and minimum values of this ratio are 0.742 and 0.414 in 2010 and 2003 respectively. The plots of the average values are demonstrated in Figure 4.2.4 in Exhibit 4.2. It shows total performing loan to total deposit of commercial banks showed an increasing trend. There is a positive indication that commercial banks are mobilizing their deposits in productive activities.

The aggregate mean value and standard deviation of the Total Performing Loan to Total Loan and Advances of the commercial banks for the study period are 3.230 and 6.731 respectively (Column 5). The highest and lowest average values of this ratio are 19.887 and 0.713 in 2010 and 2003 respectively. The plots of the average values are demonstrated in Figure 4.2.5 in Exhibit 4.2. It shows an increasing trend in total performing loan to total loan and advances of the banks. During the year 2010 this ratio increased significantly. It shows that commercial banks are improving quality of bank assets as compared to the past. The significant increase in year 2010 has resulted from the NRB regulation limiting the banks' real sector investment.

The aggregate mean value and standard deviation of the Non-Performing Loan to Total Deposit of the commercial banks are 0.085 and 0.051 respectively (Column 6). The maximum and minimum values of this ratio are 0.167 and 0.027 in 2003 and 2010 respectively. The plots of the average values are demonstrated in Figure 4.2.6 in Exhibit 4.2. It shows total NPLs to total deposit of commercial banks are decreasing. It indicates that the commercial banks are downsizing their NPLs against their deposits; their loan recovery seems to have improved in the recent years.

In case of the ratio of non-performing loan to total loan and advances, the study has found that the aggregate mean value and standard deviation of this ratio are 0.222 and 0.220 respectively. The maximum and minimum average value of 0.728 and 0.041 were recorded in 2010 and 2009 respectively. The figure 4.2.7 shows the plots of the NPL to TLA ratio. The study shows that this ratio had a decreasing trend up to 2009 but it rose substantially in 2010. The abrupt rise of the ratio in 2010 could be because of the fact that the banks' loans were limited more to ailing sector like real estate and other manufacturing industries (like garments) that led them to have larger portion of NPLs in their total loan volume.

In regard to the ratio of non-performing loan to total net profit of the commercial banks (Column 8), aggregate average value and standard deviation of the mean are 27.120 and 63.490 respectively. The maximum and minimum values of the ratio are 184.020 and 1.610 in year 2003 and 2008 respectively. It shows substantially varying figures during the study period. Figure 4.2.8 in Exhibit 4.2 indicates that this ratio has decreased clearly in 2004, and remained almost stable in the remaining period of the study. However, commercial banks are able to reduce this ratio and create better profit potential.

Finally the Column 9 exhibits that the ratio of the non-performing loan to total gross loan. The study shows that the aggregate mean value and standard deviation of this ratio are 8.518 and 3.361 respectively. The maximum and minimum mean values of 12.80 and 3.52 were recorded in 2003 and 2010 respectively. The figure 4.2.9 shows the plots of this ratio, it reveals that this ratio decreased after 2006 and came to the minimum in 2010. This ratio has indicated that banks slashed sub-standard loan, doubtful loan and loss-loan.

**Figure no. 4.2.1**
Capital Adequacy Ratio for Total Capital Fund to Total RWA of commercial banks

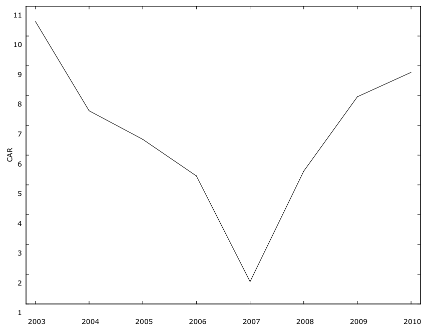


**Figure 4.2.2**
Total Capital Fund to Loan Loss Provision

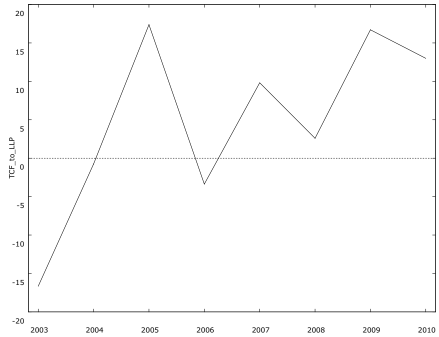


**Figure no. 4.2.3**
The total capital fund to total deposit ratio of commercial banks

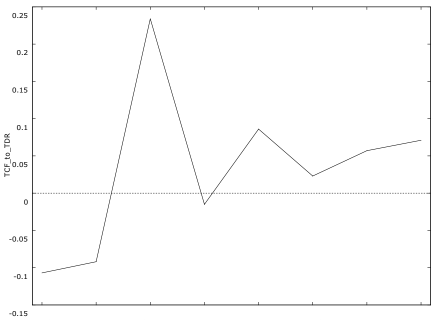


**Figure no.4. 2.4**
Total Loan (CD ratio) Performing Loan to Total Deposit

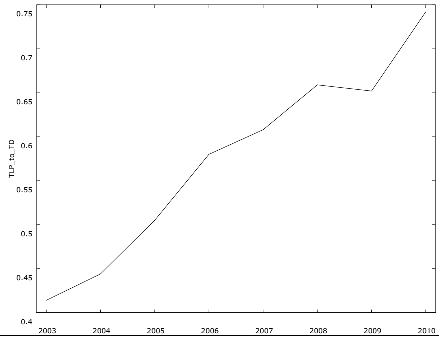


**Figure no. 4.2.5**
Performing Loan to Total Loan and Advances Ratio

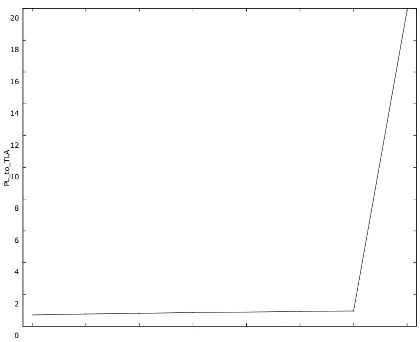


**Figure no. 4.2.6**
Non Performing Loan to Total Deposit

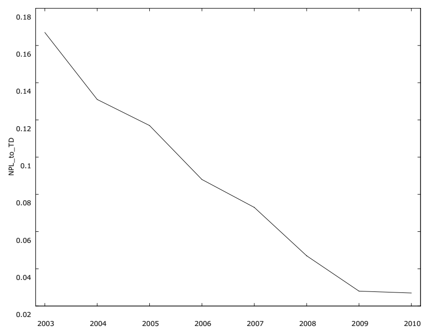


**Figure no. 4.2.7**
Non Performing Loan to Total Loan and Advance

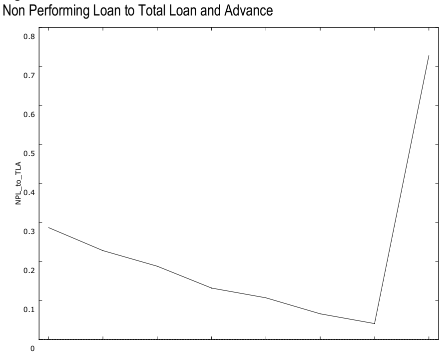


**Figure no. 4.2.8**
Non Performing Loan to Total Deposit

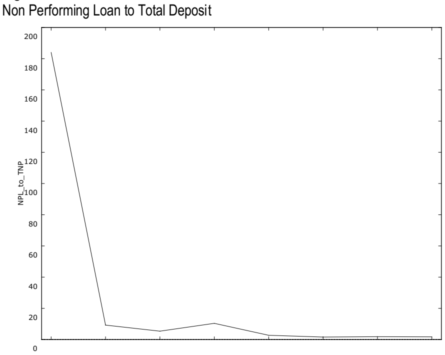

**Figure no. 4.2.9**
Non Performing Loan to Total Gross Loan

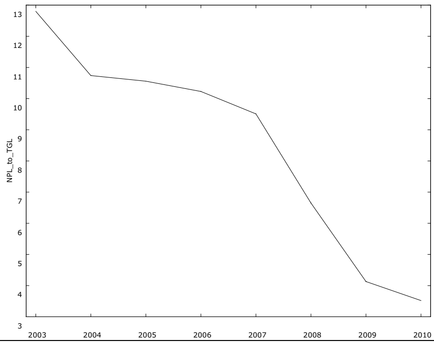


Exhibit 4.2: Plots of Overall Ratios of the commercial banks affecting financial health

### *4.4 Effect of NPL on Bank Stock Prices*

There are many factors affecting the market price of the stock. One such factor is NPL, because increase in NPL reduces the net profit and EPS (earning per share), as the result it ultimately affects the stock price. To examine the effect of the NPL on its stock price, the study applied an econometric model. The result of regression of the given model is exhibited in Exhibit 3 below.

Exhibit 4.3: Regression Result of Model

*This exhibit is result of regression of Model that effect of NPL to the stock prices of the commercial banks. The model is* $\boldsymbol{SP = \alpha + \beta NPL_i + e_t}$ *where SP = Stock Price,* $\alpha$ *=constant,* $\beta$*=Coefficient,* $\boldsymbol{NPL_i}$ *=Non performing loan at periode* $\boldsymbol{e_t}$ *= Error term. The dependent variable is Market Price and independent variable is NPL, no of observation is 1024. Figures in parenthesis are 't' statistics.*

| Intercept | NPL | F | R2 | SE |
|---|---|---|---|---|
| 990.415 | -0.258 | 3.295* | 0.355 | 219.468 |
| (-5.14) | (-2.815**) | | | |

***Source:*** Self Calculation, 2011

The result of regression of the model is shown in Exhibit 3. It indicates that regression of the non performing loans is in the negative. It shows a negative relationship between stock market price and NPLs. It explains that stock price declines when the NPLs increase. Overall model is also significant at 10 percent level. The coefficient of the NPL is negative 0.258. It shows that with a rupee change in the NPL, the average stock price decreased by 0.258 rupees. The number of observation is 128 and number of study years is eight. The "t" value of this coefficient is significant at 5 percent level, so that this model is properly explained. Similarly, the R2 value is 0.355, which means the model explains at 35.50 percent.

## VII. SUMMARY AND CONCLUSION

The study has analyzed trend of NPLs and ratio related to credit analysis of the 18 sampled commercial banks of Nepal. The study has found improvements in the commercial banks' loan recovery endeavours, making positive impact on their profits and stock prices. The study also concluded that NPL affects the stock prices of the commercial banks to an extent of 35.50 percent, whereas it also hints at the existence of other factors that would also make their impact on the stock prices. In particular, the study found that the real stock price of the commercial banks has a negative association with the levels of their NPLs.

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# Owners'/Managers' Perception on Privatization

**Tara Devi Chitrakar**

***Abstract:*** *The present study was conducted to examine the perception of owners on privatization including its necessity and unnecessary, its impact, process and modalities to be adopted, existing policy, role of government etc. A questionnaire survey of 40 owners found that they were in favor of privatization. They want some measures to be followed before privatization. They viewed its benefits are not reached to the targeted people of the society. They suggested policy improvement and mixed modality to be followed.*

## I. INTRODUCTION

Privatization process began in Nepal only after the restoration of democracy in 1992, where three public enterprises were privatized. Hither to, more than 26 state-owned enterprises have been privatized on phase-wise basis. However, the privatization process was not easy. Several charges were made against the privatization process of the government. Such charges were mainly confined on valuation of assets and land, sale proceeds and its utilization. The charges and criticisms on privatization were further fueled up by the misleading reports of an impact study published by MOF (1991). As a consequence, the privatization process rested on the ice box and no more state enterprise was privatized as was planned. Therefore, it seems essential to enquire as to what actually has been the impact of the privatization of 26 public enterprises. For answers to this question, it is necessary to understand the view of owners of those privatized enterprises as they have been the crucial stakeholders of privatization and also the determining factor for their success. The present study is, therefore, directed toward exploring on these issues.

## II. REVIEW OF THE LITERATURE

Elliot Berg (1987) views, privatization as the mobilization of private resources, energy, skill, money to more effectively serve the needs of economic and social development

Dr. Chitrakar is Associate Professor at Public Youth Campus, Tribhuvan University.
Email: tchitrakar@pyc.edu.np

changes in law and practice deregulation user fees divestiture and wider resort to the private sector for delivery of services (Shirley,1987)

In the opinion of J.N. Goodrich (1988), privatization refers to any strategy or process that results in the transfer of function, activity, asset or organization in whole or part, which is owned or controlled either directly or indirectly by a government, to a non government body.

Cook and Kirkpatrick (1988) on the other hand explained privatization from three different angles. According to them privatization, firstly, means to a change of ownership of assets or part of it from public sector to private entrepreneur through the process of denationalization or divestiture. Secondly, the privatization can be brought in by allowing the private sector to enter into the areas until now protected for the public sector and thirdly, privatization can be introduced by way of contracting out the services and utilities while retaining the ownership with the Government (Mandal, 1994:14).

Sigmund (1990) has clarified it comparing with nationalization. According to him nationalization signified 'expansion', privatization signifies 'contraction' (Uwe, 1996).

Feigenbaum and Henig (1992) viewed that privatization should be seen as an 'ideology of transformation' rather than 'transformation of a theory peaking any change from public to private hands may be called privatization. (Bhojani, 1994:2).

The impact of the move on our social fabric can be severe if government do not take adequate measures to safeguard the interest of a large numbers of work forces employed in public sector and are likely to be adversely affected (R.Mandal, 1993:60).

Privatization is also defined as a transfer of assets from the state to the private sector along with a radical reallocation of available productive resources, restructuring of the existing institutional setting in which production activities are carried on and the introduction of new method of corporate governance, free from the most vicious kinds of political interference (Thakur, 1994:17).

Mr. Robin Sharma (1995) described it as the transfer from the public to the private sector of various functions and or things of direct significance to these functions. These functions principally cover industries, human services and regulatory privatization in purest form, the other being methods which do not go all the way (Sharma, 1995:27).

It is a tool to open the door for creating the environment of competition. We should know that privatization is necessary (but not sufficient in itself) condition for the creation of a market economy (Young, 1997:28).

Although the word privatization is not a new word it can be taken as one of the search oriented action to find substitution of the government participation in public enterprises (Mishra, 1998:42).

Among the major problem too the 'inconsistent government policy' was a great issue because almost all respondents accepted this fact. There was also an example of a case file by a salt importer, Himal Noon Pvt. Ltd., at Supreme Court against government on the context of contradictory decisions. The cabnet decision on March 22 allowing only salt trading corporation to deal with import and distribution of salt until the Nine Five year period (1998-2002) effectively bans import and distribution of salt by any other party. This decision had violated Iodized Salt (supply and manufacture) Act 1998. The Act allows entry of capable private firms in salt trade (The Kathmandu post, July 2, 1999:1).

In short, in order to understand the concept of privatization we must have to consider mainly four points. (1) Ownership changes, (2) Efficiency, (3) Competition and (4) Market economy along with social and environmental effect. It should be such that in which the supply side structure is competitive and 'privately owned' and demand side consists of individual purchases (Gupta, 1999:5).

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Privatization is sweeping the world except in some countries like Libiya, Cuba, North Koria, Burma and very few others (Satish Chandra, 1997:3). The first wave focused largely on industrial, financial and commercial ventures. The second wave starting during 1990s concentrated on infrastructure sectors and activities; while the third which includes municipal and local services, is currently gaining strength. The next stage of privatization which are now seen starting to emerge in many countries is reaching to social services including health, education and administrative (Adam Smith Institution, 1999:3).

MOF (1999) published a study on performance of privatized enterprises which has measured the status, complains, problems, remedies, agreements etc. relating to privatization process. The study concluded that most of the privatized enterprises were doing well and it has positive impact on the economy. The impact study however drew significant criticisms.

In Jan 2000, DFID, in agreement with HMG/N, commissioned an independent review of the privatization programme in Nepal. The objective of the review was to address concerns about the pace of privatization to date, transparency of procedures and process and social impact of privatization. Some of the important findings from that review were that there is neither serious commitment of the government nor any consensus among the leadership.

Adhikari and Adhikari (2000), on behalf of Pro-Public conducted a study, the objectives of which were to get insights into the process and the level of transparency followed by the government and evaluate the gains and losses of privatization along with the study of existing policies, acts and regulations and their adequacy.

Shrestha (2004) conducted a doctoral study entitled 'privatization and economic performance: A study of selected privatized public enterprises of Nepal'. The objective of the study was evaluation of the financial performance of selected public enterprises before and after privatization along with opinion survey.

The full economic benefits of privatizing the state's industrial assets will not be that of managing the market,not diricting it.(Yusuf, Nabeshima and Perkins, 2006:239).

With the growing trend toward business partnership between the public and private sectors (so called PPPs), the new face of privatization promises even a greater benefits for all –including a better distribution of risk and the eventual turnover of operatins to the country hosting the investment, along with the requisite infrastructure technical know-how needed to sustain the investment (www. fdi.net, December 2007).

## III. METHODOLOGY

The present study had adopted a Descriptive as well as Analytical Research designs to have detailed study about the perception of the owners/managers of the privatized enterprises mainly in manufacturing sector. The study was conducted on the basis of questionnaire and interview. Out of 50 questionnaires administered and distributed only 40 owners questionnaires were collected. Therefore a total of 40 from the five enterprises were selected as a sample size covering 80% level of success.

The questionnaires were tabulated along with frequencies and percentage. Mean values and rank correlation were also computed. The five point scales of 'strongly agree', 'agree', 'so so', 'disagree' and 'strongly disagree' were used for the study. In the same way mean value were also analyzed.

## IV. DATA ANALYSIS

The following tables (from Table 1 to Table 16) indicate the perception of owners/managers on privatization including necessity of privatization, its processes, modalities to be followed, policies to be adopted etc.

Table 1 : Need for Privatization as Perceived by OMs

| Yes | No | Total |
|---|---|---|
| 36 | 2 | 38 |
| (94.7) | (5.3) | (100) |

Table 1 presents the perception of owners/managers about the need of the privatization of PEs. Of the total 38 respondents, a high majority of them i.e. 36 (94.7% of total respondents) perceived that privatization was necessary and only 2 (5.3%) of them felt it was not necessary. It can, therefore, be concluded that overwhelming majority of the respondents were in favor of privatization.

Table 2 : Perception of OMs on the Need for Sector Wise Privatization

| **Rank** | **1** | **2** | **3** | **4** | **5** | **6** | **Total** |
|---|---|---|---|---|---|---|---|
| Manufacturing | 26 (68.4) | 9 (23.7) | 1 (2.6) | - | - | 2 (5.3) | 38 (100) |
| Trading sector | 9 (23.7) | 17 (44.7) | 6 (15.8) | 4 (10.5) | 1 (2.6) | 1 (2.6) | 38 (100) |
| Social sector | - | 1 (2.9) | 4 (11.4) | 4 (11.4) | 10 (28.6) | 16 (45.7) | 35 (100) |
| Public utility sector | 4 (11.4) | 2 (5.7) | 1 (2.9) | 11 (31.4) | 11 (31.4) | 6 (17.1) | 35 (100) |
| Service sector | 2 (5.6) | 3 (8.3) | 6 (16.7) | 11 (30.6) | 7 (19.4) | 7 (19.4) | 36 (100) |
| Financial sector | 4 (10.8) | 5 (13.5) | 17 (45.9) | 5 (13.5) | 5 (13.5) | 1 (2.7) | 37 (100) |

Table 2 exhibits the OMs perceptions on the need for sector wise privatization. Out of total respondents, majority of them gave first rank to 'manufacturing sector' (68.4%), second to 'trading sector' (44.7%), third rank to 'financial sector' (45.9%), fourth or fifth rank to 'public utility sector' (31.4%), sixth rank to 'social sector' (45.7%). 'Service sector' was also given fourth rank. Thus, it showed that owners viewed to privatize manufacturing sector first followed by trading, financial, public utility and service sector. They gave less emphasis to privatize social sector.

Table 3 : Reasons for Privatization as Perceived by OMs

| **S. N.** | **Reasons** | **Strongly agree** | **Agree** | **So so** | **Disagree** | **Strongly disagree** | **Total** |
|---|---|---|---|---|---|---|---|
| 1 | Reduce financial and administrative burden of government | 29 (74.4) | 4 (10.3) | 3 (7.7) | 3 (7.7) | - | 39 (100) |
| 2 | Increase revenue | 16 (41.0) | 11 (28.2) | 4 (10.3) | 4 (10.3) | 4 (10.3) | 39 (100) |
| 3 | Increase efficiency of the enterprises | 25 (64.1) | 7 (17.9) | 3 (7.5) | 4 (10.0) | - | 39 (100) |
| 4 | Increase private participation | 19 (48.7) | 10 (25.6) | 5 (12.8) | 3 (7.7) | 2 (5.1) | 39 (100) |
| 5 | Reduce corruption | 25 (64.1) | 7 (17.9) | 6 (15.4) | 6 (15.4) | 2 (5.1) | 39 (100) |
| 6 | Increase employment | 5 (12.8) | 10 (25.6) | 5 (12.8) | 9 (23.1) | 10 (25.6) | 39 (100) |
| 7 | Supply better quality of goods/services | 20 (51.3) | 7 (17.9) | 9 (23.1) | 2 (5.1) | 1 (2.6) | 39 (100) |
| 8 | Successful operate in the competitive market | 19 (48.7) | 10 (25.6) | 3 (7.7) | 5 (12.8) | 2 (5.1) | 39 (100) |

Table 3 shows the reasons for privatization as perceived by the owners/managers. Out of total respondents of 39, majority of the respondents accepted to the statements 'Reduce financial and administrative burden of government' (84.7% ), 'increase efficiency of the enterprise'(81.0%), 'increase private participation'(74.3%), 'increase revenue'(69.2%), 'supply better quality of goods/service'(69.2%), 'reduce corruption'(63.1%). However 48.7% of the total respondents did not accept the statement 'increase employment' as the reason for privatization. But a considerable number of respondents (38.4%) accepted this as one of the reasons behind privatization. Thus, owners agreed to most of the statements in the above table as the reason behind privatization.

Table 4 : Reasons Against Privatization as Perceived by OMs

| S. N. | Reasons | Strongly agree | Agree | So so | Disagree | Strongly disagree | Total |
|---|---|---|---|---|---|---|---|
| 1. | Poor service/quality of goods to consumers | 8<br>(29.6) | 1<br>(3.7) | 6<br>(22.2) | 3<br>(11.1) | 9<br>(33.3) | 27<br>(100) |
| 2. | Loss of revenue | 7<br>(25.0) | 5<br>(17.9) | 1<br>(3.6) | 5<br>(17.9) | 10<br>(35.7) | 28<br>(100) |
| 3. | Price increase | 7<br>(25.0) | 4<br>(14.3) | 9<br>(32.9) | 1<br>(3.6) | 7<br>(25.0) | 28<br>(100) |
| 4. | Loss of employment | 4<br>(13.8) | 5<br>(17.2) | 8<br>(27.6) | 2<br>(6.9) | 10<br>(34.4) | 29<br>(100) |
| 5. | Creation of private monopoly | 9<br>(30) | 4<br>(13) | 8<br>(26.7) | 2<br>(6.7) | 7<br>(23.3) | 30<br>(100) |
| 6. | Negative effect to employee welfare | 5<br>(16.7) | 9<br>(30.0) | 4<br>(13.3) | 4<br>(13.3) | 8<br>(26.7) | 30<br>(100) |

As is revealed in Table 4, some of the owners/managers viewed that it was not necessary to privatize public enterprises and many reasons were provide for it. A large numbers of respondents were favor of the statements given in the above table. Out of total related respondents, most of them were in favor of the statements like 'negative effect to employee welfare' (46.7%), 'creation of private monopoly. (43.3%) and 'price increase' (39.3%). There was considerable number of respondents who disagreed to these statements. Likewise there were majority of disagreed respondents relating to the statements 'loss of revenue' (53.6%), 'poor quality of goods/service to consumers' (44.4%) and 'loss of employment' (41.4%). Considerable numbers of respondents were there who agreed to these statements. This indicated that owners viewed that privatization would not bring 'loss of revenue' , 'poor service quality of goods' and 'loss of employment' but it might have negative effects on the 'employee welfare', 'creation of private monopoly' and 'price increase'.

As shown in Table 5, majority of respondents viewed that 'privatization would bring benefits to big business houses (79.0%), 'government/decision makers (65.7%), 'consumer' (44.7%) and lastly to 'employees' (35.1%). They disagreed to accept that it would bring benefit to 'small investor' (54.0%) and 'general people' (40.5%). This showed that benefit of the privatization might not reach to the targeted people of the society. They viewed that privatization had not brought the distributional efficiency. Its advantages only reached to the richer section of the society.

Table 5 : Beneficiaries of Privatization as Perceived by OMs

| S. N. | Stakeholders | Strongly Agree | Agree | So so | Disagree | Strongly disagree | Total |
|---|---|---|---|---|---|---|---|
| 1. | Big business houses | 22 (57.9) | 8 (21.1) | 6 (15.8) | 1 (2.6) | 1 (2.6) | 38 (100) |
| 2. | Small investors | 4 (10.8) | 4 (10.8) | 9 (24.3) | 9 (24.3) | 11 (29.7) | 37 (100) |
| 3. | Government/decision makers | 12 (34.3) | 11 (31.4) | 5 (14.3) | 3 (8.6) | 4 (11.4) | 35 (100) |
| 4. | Consumers | 11 (28.9) | 6 (15.8) | 9 (23.7) | 8 (21.1) | 4 (10.5) | 38 (100) |
| 5. | Employees | 6 (16.2) | 7 (18.9) | 12 (32.4) | 4 (10.8) | 8 (21.6) | 37 (100) |
| 6. | General people | 7 (18.9) | 5 (13.5) | 10 (27) | 7 (18.9) | 8 (21.6) | 39 (100) |

Table 6 : Improvement Needed in the Policy as Perceived by OMs

| Yes | No | Total |
|---|---|---|
| 38 (95) | 2 (5) | 40 (100) |

Table 7 : Preferred Modalities of Privatization as Perceived by OMs

| S. N. | Statements | Yes | No | Total |
|---|---|---|---|---|
| 1. | Selling only unprofitable enterprises | 21 (56.8) | 16 (43.2) | 37 (100) |
| 2. | Selling shares to the extent of 51 percent | 19 (54.3) | 16 (45.7) | 35 (100) |
| 3. | Ceiling the number of shares to be subscribed by a person | 16 (50) | 16 (50) | 32 (100) |
| 4. | Selling shares to employees | 32 (84.2) | 6 (15.8) | 38 (100) |
| 5. | Allowing employees to manage SOEs | 22 (66.7) | 11 (33.3) | 33 (100) |
| 6. | Restructuring the SOEs | 27 (77.1) | 8 (22.9) | 35 (100) |
| 7. | By mixing various modes as per the nature of PE | 27 (77.1) | 8 (22.9) | 35 (100) |

Regarding improvement in the existing policy for privatization, majority of respondents wanted improvement, as is revealed in Table 6. Out of 40 total respondents, 38 respondents viewed the necessity of improvement and only two respondents answered in negation.

Table 7 registers the OMs responses on their preferred modalities of privatization. When OMs were asked about how privatization should be done, majority of them accepted almost all statements i.e. 'selling shares to employees (84.2%), 'restructuring public enterprises (77.1%), 'by mixing various modes as per the nature of SOEs' (77.1%), 'allowing employees to manage SOEs' (66.7%), 'selling only unprofitable enterprises' (56.8%), 'selling shares to the extent of 51 percent' (54.3%).

As regard to 'ceiling the number of shares to be subscribed by a person there was equal number of positive (50%) as well as negative (50%) respondents. Thus, owners emphasized to sell shares to employees, restructuring SOEs, mixing various modes etc. They gave less emphasis to selling shares to the extent of 51%.

Table 8 : Factors Essential for the Success of Privatization as Perceived by OMs

| S. N. | Essential Factors | Strongly Agree | Agree | So so | Disagree | Strongly Disagree | Total |
|---|---|---|---|---|---|---|---|
| 1. | Clear and consistent policy | 32 (80) | 1 (2.5) | 6 (15) | 1 (2.5) | - | 40 (100) |
| 2. | Political commitment and stability | 28 (70) | 5 (15.2) | 5 (12.5) | 2 (5) | - | 40 (100) |
| 3. | Well developed capital market | 22 (59.5) | 7 (18.9) | 7 (18.9) | 1 (2.7) | - | 37 (100) |
| 4. | Bureaucratic support | 26 (66.7) | 8 (20.5) | 4 (10.3) | 1 (2.6) | - | 39 (100) |
| 5. | Positive public attitude and support | 25 (62.5) | 9 (22.5) | 5 (12.5) | 1 (2.5) | - | 40 (100) |
| 6. | Professional management in the private sector | 35 (87.5) | 3 (7.5) | 1 (2.5) | 1 (2.5) | - | 40 (100) |
| 7. | Competent and responsible private sector | 26 (68.4) | 8 (21.1) | 4 (10.5) | - | - | 38 (100) |
| 8. | Improvement in business environment in the country | 28 (70) | 10 (25) | 2 (5) | - | - | 40 (100) |
| 9. | Commitment and owing by the private sector | 24 (61.5) | 7 (17.9) | 6 (15.4) | 2 | - | 39 (100) |

Table 8 reveals that majority of the respondents accepted all the factors essential for the success of privatization. They were 'professional management in the private sector' (95.0%), 'improvement in business environment in the country' (95.0%), 'competent and responsible private sector' (89.5%), 'bureaucratic support' (87.2%), 'political commitment and stability' (85.2%), 'positive public attitude and support' (85.0%), 'clear and consistent policy' (82.5%), 'commitment and owing by the private sector' (79.4%)

and 'well developed capital market'(78.4%). Thus owners viewed that all above factors were very important for the success of privatization in the country. Among them they gave more emphasis to the 'professional management', 'business environment' and 'competent and responsible private sector'. They gave less emphasis to the 'well developed capital market'.

Table 9 : Problems in Privatization Efforts in Nepal as Perceived by OMs

| S.N. | Problems | Strongly Agree | Agree | So so | Disagree | Strongly disagree | Total |
|---|---|---|---|---|---|---|---|
| 1. | Poor valuation of assets/ properties | 20 (50) | 5 (12.5) | 3 (7.5) | 2 (5) | 6 (15) | 36 (100) |
| 2. | Poor technical capacity of bidder | 17 (30.6) | 8 (22.2) | 12 (33.3) | 2 (5.6) | 3 (8.3) | 36 (100) |
| 3. | Poor financial status of bidder | 10 (28.6) | 7 (20) | 11 (31) | 1 (2.9) | 6 (17.1) | 35 (100) |
| 4. | Lack of transparency in decision | 20 (54.1) | 10 27.0) | 6 (16.2) | - | 1 (2.7) | 37 (100) |
| 5. | Poor policies regarding employees | 15 (41.7) | 10 (27.8) | 7 (19.4) | 2 (5.6) | 2 (5.6) | 36 (100) |
| 6. | Inability to implement in a short period | 13 (35.1) | 15 (40.5) | 9 (24.3) | - | - | 37 (100) |
| 7. | Lack of national consensus | 14 (37.8) | 11 (29.5) | 6 (16.2) | 6 (16.2) | - | 37 (100) |
| 8. | Lack of commitment | 19 (51.4) | 10 (27) | 7 (18) | - | 1 (2.7) | 37 (100) |

Table 10 : Role of Government Towards Labour as Perceived by OMs

| S. N. | Statements | Strongly Agree | Agree | So so | Disagree | Strongly disagree | Total |
|---|---|---|---|---|---|---|---|
| 1. | Guarantee the labour right and interest in the privatized enterprises | 21 (55.3) | 6 (15.8) | 4 (10.5) | 4 (10.5) | 3 (7.9) | 38 (100) |
| 2. | Guarantee the rights and interest of all the workers | 14 (50) | 5 (17.9) | 4 (14.3) | 2 (7.1) | 3 (10.7) | 28 (100) |
| 3. | Guarantee the rights and interest of all the consumers | 13 (34.2) | 11 (28.9) | 6 (15.8) | 5 (13.2) | 3 (7.9) | 38 (100) |
| 4. | Let the public enterprises remain in the existing state | 8 (21.1) | 3 (7.9) | 6 (15.8) | 7 (18.4) | 14 (36.8) | 38 (100) |
| 5. | Increase social security | 10 (28.6) | 12 (34.3) | 8 (22.9) | 4 (11.4) | 1 (2.9) | 35 (100) |

The OMs responses on the problems associated with the privatization efforts have been presented in Table 9. As is shown by the table, majority of the respondents accepted the statements 'lack of transparency in decision'(81.1%), 'inability to implement in a short period'(75.6%), 'poor valuation of assets/properties(69.5%), 'poor policies regarding employees'(69.5%), 'lack of national consensus'(67.5%), 'lack of commitment' (58.4%), 'poor technical capacity of bidder'(52.8%) and poor financial status of bidder'(48.6%). Thus, OMs agreed all above statements as the problems associated with privatization in Nepal. They opined that lack of transparency, inability to implement in a short period, poor valuation of assets/properties and poor policies regarding employees as major problems or issues of the privatization process.

Regarding the role to be played by the government, as per the records in Table 10, out of the total respondents, majority of them emphasised on the statements 'guarantee the labour right and interest in the privatized enterprises' (71.1%), 'guarantee the labour right and interest of all the workers' (67.9%), 'guarantee the labour right and interest of all the consumers' (63.1%) and 'increase social security' (62.9%). They did not agree to the statement 'let the public enterprises remain in the existing state' (55.2%). Thus, owners viewed that labour right and interest in the privatized enterprises as well as of that of all workers and consumers should be protected and guaranteed. They also suggested that government should increase social security but needed further privatization of SOEs.

Table 11 : Perception of OMs Regarding Issues Related to Privatization Process in Nepal

| S. N. | Issues | Highly satisfied | Satisfied | So so | Dissatisfied | Strongly dissatisfied | Total |
|---|---|---|---|---|---|---|---|
| 1. | Existing policy of privatization | - | 7 (17.9) | 15 (38.5) | 12 (30.8) | 5 (12.8) | 39 (100) |
| 2. | Benefits as regard to objectives | 2 (5.4) | 9 (24.3) | 13 (35.1) | 11 (29.70) | 2 (5.4) | 37 (100) |
| 3. | Institutional arrangement (set up of privatization) | 2 (5.4) | 5 (13.5) | 16 (43.2) | 13 (35.1) | 1 (2.7) | 37 (100) |
| 4. | Transparency with valuation of assets | 1 (2.6) | 4 (10.3) | 11 (28.2) | 13 (33.30 | 10 (25.6) | 39 (100) |
| 5. | Selling process | 2 (5.9) | 6 (17.6) | 12 (35.3) | 10 (29.4) | 4 (11.8) | 34 (100) |
| 6. | Employee's conditions | 1 (2.6) | 6 (15.8) | 16 (42.1) | 10 (26.3) | 5 (13.2) | 38 (100) |
| 7. | Assets valuation | 1 (2.6) | 5 (13.2) | 15 (39.5) | 13 (34.2) | 4 (10.5) | 38 (100) |
| 8. | Land valuation | 1 (2.8) | 7 (19.4) | 12 (33.3) | 12 (33.3) | 4 (11.1) | 36 (100) |
| 9. | Payment agreement | | 9 (25) | 18 (50) | 6 (16.7) | 3 (8.3) | 36 (100) |
| 10. | Modality adopted | 1 (2.8) | 7 (19.4) | 16 (44.4) | 7 (19.4) | 5 (13.9) | 36 (100) |
| 11. | Monitory system | 2 (5.6) | 5 (13.9) | 15 (41.7) | 9 (25) | 5 (13.9) | 36 (100) |

Table 11 indicates different issues relating to privatization process in Nepal. Owners' level of satisfaction and dissatisfaction in these grounds were analysed and found that out of total respondents majority of them dissatisfied with the statements 'transparency with valuation of assets' (58.9%), 'assets valuation' (44.7%), 'land valuation' (44.4%), 'existing policy of privatization' (43.6%), 'selling process' (41.2%), 'employees condition'(39.5%), 'monitoring system'(38.9%), 'benefits as regard to objectives'(35.1%) and 'modality adopted'(33.3%).

There were equal number of satisfied (25%) and dissatisfied (25%) respondents regarding 'payment agreement' with 50% 'so so' respondents. There were 43.2% of total respondents who expressed 'so so' relating to the institutional arrangement. Thus, owners were mainly not satisfied with the transparency in the valuation of assets.

Table 12 : Criticisms of Privatization as Perceived by OMs

| S. N. | Criticisms | Highly satisfied | Satisfied | So so | Dissatisfied | Strongly dissatisfied | Total |
|---|---|---|---|---|---|---|---|
| 1. | Selling national silverware to buy groceries (in the sense of short terminism) | 3 (7.7) | 9 (23.7) | 12 (30.8) | 10 (25.6) | 5 (12.8) | 39 (100) |
| 2. | Selling the country to the foreigners | 2 (5) | 4 (10) | 5 (12.5) | 18 (45.0) | 11 (27.5) | 40 (100) |
| 3. | Making under the table deal (in the sense of lack of transparency) | 6 (15.40 | 9 (23.1) | 11 (28.2) | 5 (12.5) | 8 (20.5) | 39 (100) |
| 4. | Concentration of wealth in few hands (in the sense of equity issue) | 7 (17.9) | 9 (23.1) | 6 (15.4) | 14 (35.9) | 3 (7.7) | 39 (100) |
| 5. | Selling the enterprises at a trash value (in the sense of under valuation of assets) | 6 (15.8) | 13 (32.5) | 10 (25.0) | 6 (15.0) | 5 (12.5) | 40 (100) |
| 6. | Inducing enterprises in losses and privatizing them | 6 (15.8) | 8 (21.1) | 10 (26.3) | 12 (31.6) | 2 (5.3) | 38 (100) |
| 7. | Reducing social obligation of the government | 3 (7.7) | 17 (43.6) | 8 (20.5) | 7 (17.9) | 4 (10.3) | 39 (100) |
| 8. | Lack of monitoring by the government from time to time among privatized enterprises | 13 (33.3) | 13 (33.3) | 7 (17.9) | 3 (7.7) | 3 (7.7) | 39 (100) |

Privatization in Nepal was criticized under several grounds. In Table 12, different statements of criticisms for privatization have been presented and perception of owners on these criticisms were analysed. Out of total respondents, most of them agreed to the statements 'lack of monitoring by the government from time to time among privatized enterprises' (66.6%), 'reducing social obligation of the government'(51.3%), 'selling the enterprises at a trash value'(47.5%) and 'making under the table deal'(38.5%). There were also majority of disagreed respondents relating to the statements 'selling the country to the foreigners' (72.5%), 'concentration of wealth in few hands (43.6%) and 'selling national silverware to buy groceries' (38.4%). There were equal respondents of agreed (36.9%) and disagreed (36.9%), relating to the statement 'inducing enterprises in losses and privatizing them'. However 26.3% of the total respondents appeared in 'so so' response in this case. Thus, there was agreed and disagreed respondents to different criticisms of privatization. The main criticisms were about 'monitoring, 'social obligation' 'selling SOEs at a trash value', 'making under the table deal' etc. They disagreed about the statement 'selling the country to foreigners', 'concentration of wealth' and 'selling national silverware to buy groceries'.

Table 13 : Ways for More Successful Privatization as Perceived by OMs

| Easy transfer | | | Condition about:- | | | | | | Support by government in:- | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Employment | | | Land sale | | | Financing | | | Payment period | | |
| **Yes** | **No** | **Total** | **Re-tain** | **Re-move** | **Total** | **Retain** | **Re-move** | **Total** | **Need-ed** | **Not need-ed** | **Total** | **Need-ed for exten-sion** | **Not need-ed for exten-sion** | **Total** |
| 29 (74.4) | 10 (25.6) | 39 100 | 28 (71.8) | 11 (28.2) | 39 (100) | 24 (70.6) | 10 (29.4) | 34 (100) | 23 (62.23) | 14 (37.8) | 37 (100) | 28 (71.8) | 11 (28.2) | 39 (100) |

For the successful privatization, respondents were asked to respond on easy transfer, conditions about employment and land sale, support by government in financing and payment period. As revealed by Table 13, of total respondents 74.4% showed necessity of easy transfer, more than 70% were in favor of retaining condition about employment and land sale. Majority of them (62.2%) showed need of financing by government and extension of payment period (71.8%).

Table 14 : Timing of Privatization as Perceived by OMs

| S. N. | Statements | Strongly agree | Agree | So so | Disagree | Strongly disagree | Total |
|---|---|---|---|---|---|---|---|
| 1. | Privatization should not be done | 8 (20.5) | 1 (2.6) | 1 (2.6) | 5 (12.8) | 24 (61.5) | 39 (100) |
| 2. | Privatization should be done only after adopting appropriate measure | 29 (72.5) | 9 (22.5) | 1 (2.5) | | 1 (2.5) | 40 (100) |
| 3. | Privatization should be done only after restructuring and evaluating | 25 (64.7) | 8 (20.5) | 4 (10.3) | 1 (2.6) | 1 (2.6) | 39 (100) |
| 4. | Certain sectors should not be privatized | 25 (62.5) | 3 (7.5) | 7 (17.5) | 2 (5.0) | 3 (7.5) | 40 (100) |
| 5. | Privatization should be done on a time bond basis | 10 (25) | 15 (37.5) | 5 (12.5) | 2 (5.0) | 8 (20.0) | 40 (100) |
| 6. | There should be gradual privatization | 10 (25.6) | 14 (35.9) | 10 (25.6) | 3 (7.7) | 2 (5.1) | 39 (100) |
| 7. | There should be immediate privatization to reduce losses and worns of SOEs | 17 (42.5) | 7 (17.5) | 5 (12.5) | 6 (15.0) | 5 (12.5) | 40 (100) |

In a question of proper timing of privatization, respondents were asked to express their opinion over different statements. Their responses are presented in Table 14 and as per the table, majority of respondents agreed to the statements 'privatization should be done only after restructuring and evaluating' (84.6%), 'certain sector should not be privatized'(70.0%), 'privatization should be done on a time bond basis'(62.5%), 'there should be steady privatization to reduce losses and worsen of SOEs' (60.0%). Majority of them (74.3%) disagreed to the statement 'privatization should not be done'. Thus owners liked to adopt appropriate measures, restructuring etc. before privatization. They felt the necessity of privatization but agreed that certain sectors should not be privatized. They preferred time bound, immediate or steady privatization as circumstances demanded.

Table 15 : Existing Problems of Enterprises as Perceived by OMs

| S. N. | Statements | Yes | No | Total |
|---|---|---|---|---|
| 1. | Inconsistent government policy | 31 (88.6) | 4 (11.4) | 35 (100) |
| 2. | Employee's commitment | 20 (60.6) | 13 (39.4) | 33 (100) |
| 3. | Increased competitiveness | 28 (80) | 7 (20) | 35 (100) |
| 4. | Financial problems | 22 (61.1) | 14 (38.9) | 36 (100) |
| 5. | Trade unionism | 12 (36.4) | 21 (63.6) | 33 (100) |
| 6. | Uncertain market | 20 (57.1) | 15 (42.9) | 35 (100) |
| 7. | Small market | 24 (66.7) | 12 (33.3) | 36 (100) |
| 8. | Increasing cost of production | 26 (78.8) | 7 (21.2) | 33 (100) |
| 9. | Cheap imports | 14 (48.3) | 15 (51.7) | 29 (100) |

Table 16 : Perception of OMs Regarding if SOEs not privatized

| S. N. | Statements | Strongly agreed | Agreed | So so | Disagreed | Strongly disagreed | Total |
|---|---|---|---|---|---|---|---|
| 1. | Will have to be liquidated | 14 (40) | 8 (22.9) | 5 (14.3) | 3 (8.6) | 6 (14.3) | 35 (100) |
| 2. | Increase government burden | 20 (52.6) | 9 (23.7) | 3 (7.4) | 2 (5.3) | 4 (10.5) | 38 (100) |
| 3. | Public resources will be wasted | 16 (44.4) | 8 (22.2) | 2 (5.6) | 4 (11.1) | 6 (16.7) | 36 (100) |
| 4. | Even the limited value commit be protected | 17 (47.2) | 9 (25) | 6 (16.7) | 2 (5.6) | 2 (5.6) | 36 (100) |
| 5. | PE resources will be unable to meet even employee obligation | 20 (57.1) | 6 (17.1) | 2 (5.7) | 3 (8.6) | 4 (11.4) | 35 (100) |

In Table 15, OMs perceptions in terms of their responses on the existing problems of privatized enterprises have been shown. Majority of the respondents accepted these statements like 'inconsistent government policy' (88.6%), 'increased competitiveness' (80%), 'increase cost of production' (78.8%), 'small market'(66.7%), 'financial problems(61.1%), 'employees commitment'(60.6%) and 'uncertain market'(57.1%). They did not think 'trade unionism' (63.6%) and 'cheap imports' (51.7%) as their problems. Thus, owners felt inconsistent government policy, competition and increase cost of production as the major problems of enterprises.

Table 16 reveals the statements of what would happen if PEs were not privatized and the responses of owners thereon. Out of total respondents majority of them accepted that if PEs were not privatized it would 'increase government burden' (76.3%), 'SOEs' resource would be unable to meet even employee obligation' (74.2%), 'even limited value cannot be protected' (72.2%), 'public resources will be wasted' (66.6%) and lastly' 'would have to be liquidated' (62.9%). Thus, owners opined that privatization was essential for the betterment of the enterprises.

## V. MAJOR FINDINGS

Owners were in favor of privatization but opined that certain sectors should not be privatized. They wanted privatization of manufacturing sector first then followed by trading, financial, public utility and service sector. The last emphasis was given to privatization of social sector. Majority of them expressed that privatization reduces financial and administrative burden of the government, increase efficiency of government and private participation but the considerable number of owners viewed that privatization will not bring loss of revenue, poor service quality and loss of employment but it will lead to negative effect to employee welfare, creation of private monopoly and price increase.

Privatization brings more benefits to the big business houses, government/decision makers and then only to consumers and employees. The owners felt necessity of improvement in the existing policy for privatization. They preferred on selling shares to employees, restructuring and mixing various modes of privatization. They gave more emphasis on the professional management and competent and responsible private sector but lesser emphasis to the well developed capital market.

Among the different problems associated with privatization efforts in Nepal, major problem perceived by the owners were 'lack of transparency',' inability to implement in a short period', 'poor valuation of assets/properties' and 'poor policies regarding employment'.

As regards to role of the government toward labor, respondents opined that labor rights and interest in privatized enterprises as well as that of all workers and consumers should be protected and guaranteed. They also suggested that government should increase social security.

Major criticisms were about 'monitoring', 'social obligation', 'selling SOEs at a trash value', 'and making under the table deal'. They disagreed to the statement 'selling the country to foreigners', 'concentration of wealth' and 'selling national silverware to buy groceries'.

Relating to the ways far more successful privatization, majority of the respondent favor necessity of easy transfer, retention of condition about employment and land sale, need of finance by government and extension of the payment period.

The owners preferred to adopt appropriate measure i.e. restructuring before privatization. They preferred time based or immediate or steady privatization as circumstances demanded.

The owners felt 'inconsistent government policy, competition and increased cost of production' as a major problem of enterprises. They did not think 'trade unionism' and 'cheap imports' as their problems.

They perceived that if SOEs were not privatized, it will increase government lenders, SOEs resources will be unable to meet even employee obligation', 'limited value cannot be protected', etc. In short they opined that privatization is essential for the betterment of the enterprises.

## VI. CONCLUSION

Major issues on privatization in Nepal were transparency, with valuation of assets and properties, existing policies of privatization and selling process. The privatization had not brought the distributional efficiency. The benefits of privatization were not reached to the targeted people of the society. The government had not been monitoring the privatized enterprises and once they handed over not bearing the social obligations. In consistent government policy, lack of competition, increase cost of production was seemed to be major problems faced by privatized enterprises. Professional management, business environment, competent and responsible private sectors are the most essential factors of the success of privatization even if capital market is not well developed. Right and interest of all the privatized and not privatized enterprises should be protected to have positive result of privatization. Selling shares to employees could be one of the effective modalities to be adopted. Thus, privatization should not be a means of transferring government burden to the shoulders of private sector nor should it be transferring public properties to the hand of private hands.

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