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Contents

1 Role of Government: In Nepal

The role of government in context of Nepal after mid 1880s can be distinguished basically into three phases, Rana regime, Panchyat era and post Panchyat era. The autocratic Rana regime, which lasted for 104 years until 1951, was an era of extreme government dominance of every aspect of people's lives. The whole country was thought to be the property of the government, which included Rana family and the royal family. All the institutions of government, plans and policies were built to fulfill the needs of the rulers. Jung Bahadur Rana at Rani Pokhari established the first school of Nepal, Durbar High School, in 1854 A.D to provide education to children from the Rana families. It was only opened to public in 1886 A.D. during the reign of Bir Shamsher. Similarly, Nepal's first and also Asia's second hydropower plant was built in Pharping with the support of UK Aid and was used solely for lighting up the residence of then Prime Minster Chandra Shamsher at Singha Durbar. All the national revenue used to go directly to the Rana rulers. Mechanisms to hold the Rana rulers accountable to the revenue collection and their expenditures were absent. (Shakya, 2009)

The panchayat system, which was introduced in Nepal in 1961 after the democratically elected government was thrown off by a royal coup, lasted for about three decades. Despite being yet another autocratic rule of the King, Panchayat was comparatively more systematic and basic institutions required for democratic process were established. The economy was overwhelmingly agriculture-based and private sector involvement in economy was very limited. However, due to establishment of new institutions and government organizations, there was massive government expansion employing around 31,000 civil servants.

Some level of decentralized process was initiated by dividing the country into fourteen zones, seventy-five districts and every district consists of fifty to seventy village panchyats and town panchyats. Role of every district was to carry directives of central level, maintaining law and order and execution and coordination of development work. One of the focuses of government during Panchyat was to institutionalize the equality of all citizens and to achieve that government had took over many sectors of the economy like, education, healthcare, finance, business and development.

International Monetary Fund (IMF) and World Bank put the economic stabilization program named Structural Adjustment Programme (SAP) in place for developing countries facing deteriorating macroeconomic situation in 1980s. During that period, Nepal was also facing economic problems like budget deficit, imbalances in balance of payment and so on. Thus, in mid-1980s Nepalese government with the help of IMF and the World Bank, embarked on the path of liberalization and privatization by implementing SAP. However, due to the various structural constraints the government could not successfully implement privatization policy during the Seventh Five-Year Plan (1985- 1990).

The people's movement of 1990 was successful in putting an end to the Panchyat system and re-establishing democracy in Nepal. Nepali Congress, which had won a comprehensive victory in the 1991 election, initiated the liberalization and privatization process by issuing a white paper on privatization. Nepal initiated most of the economic reforms under SAP with the IMF and Structural Adjustment Loan (SAL) with the World Bank. The focus of reform was on fiscal side.

Although balance of payment crisis was already fixed, the second phase of SAP called SAP-II was implemented in 1989/90 for three years. The second program was introduced with the objectives of revamping the tax system, restructuring two large state-owned banks and opening up the financial sector in the market, improving the distribution of fertilizer and effectiveness of irrigation facility. Again in 1992, the government further undertook Enhanced Structural Adjustment Facility (ESAF) with the IMF. All three programmes pushed structural changes and economic reforms in Nepalese economy. The transformation of the Nepalese political system in 1990 from absolute monarchy to constitutional monarchy with multi-party democracy also facilitated the economy to transform from state-led to market-led. The restoration of democracy in 1990 and the newly elected government of Nepali Congress formed in 1992 further added pace to the process of liberalization in Nepal.

Since, India had also embarked upon economic liberalization since 1990s it was easier for Nepal to walk in the same path. Nepal obtained WTO membership in 2004 with further commitments to liberalize trade in goods and services.

Current status

Even though the role of government has been minimized to some extent since 1990s, government still plays a dominant role in the economic and social lives of Nepalese citizens. Large budget deficits and foreign loans have been the characteristic of Nepalese government. Most of the government spending is being inefficient resulting in a massive burden on the citizens of Nepal. In the year 2009, Nepal's total debt was US$ 4.5 billion (CIA Factbook). This meant that in 2009, every new born baby with her birth was already in a debt of NRs. 12,000.00. After the process of Constituent Assembly election, the rate of government expenditure has been increasing in a massive scale. But, only around 80% of the government source is covered by taxes, tariffs and other services and remaining is covered by foreign grants and foreign borrowings.

Out of ninety-five government office in Nepal only fifteen cater the development activities and rest all are for administrative purpose. Even in those 15 government offices 57% of the budget allocated was used for internal administrative purpose and only 43% was used for development activities. (Self calculation based on data provided by websites of various ministries)

Currently, the government owns and operates 36 enterprises. More than half of these enterprises are operating under recurring loss and the amount of accumulated loss is alarming. Except for a few of them, public enterprises are epitome of corruption, inefficiency and financial disasters. More than 30 percent of the government's initial investment of 86 billion rupees has already been lost. In the fiscal year 065/066 alone, only 4 of the public enterprises paid dividend of Rs. 3 billion and 470 millions to the government which is just about 4.3 percent return on the investment. Some of the public enterprises have even negative net worth owing to the continuous losses over a long period of time. (MoF, 2011)

Consensus has been reached between major political parties of the constituent assembly to adopt a three-pillar economic model in the new constitution. The mixed-model economic policy is said to ensure independent development of the public, private and cooperative sectors as well as allow space for the three sectors to work together. However, media, civil society and public intellectuals have criticized the the proposed model for being vague and providing potential platform for the government to further intervene in economic and social lives of people.

2 Privatization: An Unprepared And Incomplete Effort

Since 1970's it has almost been proved by many countries throughout the world that businesses are better if handled by private sector than public. This has been learnt the hard way as public entities started to pose as a burden to the government budget. The first privatization efforts were initiated in the UK as losses made by the public entities started to distress the economy of powerful countries like the UK and USA. Thus, rigorous efforts of privatization were undertaken to boost the health of UK's economy and it still remains one of the most successful story of privatization. In a report published by the Adam Smith Institute in 1999, State Owned Enterprises (SOEs), which were later privatized, in 1981 cost as high as USD 50 million a week to the UK treasury which were contributing an average of USD 60 million per week by the end of 1999. The wave of privatization spread al the over the world as SOEs had become a malaise to economies around the globe. By the 1970's, SOEs in developing countries accounted for nearly one-third of all international borrowing by developing countries from international lending agencies like the IMF and World Bank (ASI, 1999). Hence, it was realized that doing business is not the business of the government. The government run entities, generally, tend to suffer from inefficiency, poor bureaucracy, political interference and lack of profit motive.

In Nepal, the Company Act of 1936 and the Industrial Policy of 1957 both were inward looking and focused on import substitution and self-reliance. Thus in Nepalese history of industrialization the three decades, from 1960s to 1980s, marks the supremacy of public sector. Economic activities were protected by license system, protection was given to public entities, foreign investments were restricted and government shouldered the responsibility of providing goods and services to its citizens like shoes, cement, drinking water, electricity, roads, medical care and so on. Therefore, a huge number of SOEs were established during that time with the objective of promoting industrialization, creating employment opportunities and generating revenue for the government. However, the fulfillment of all the three objectives can be questioned. The financial burden on the government had been increasing and the SOEs were not performing well to promote growth in the country.

On an average, the flow of funds to public enterprises accounted for 30 percent of the budget deficit for the period 1979-1998. For the same period, the flow of funds from government grew at a rate of 23 per cent per annum. However, the flow of funds from public enterprise was 17 percent per annum only. By 1997/98, the capital employed in public enterprises reached to the tune of Rs. 81 billion. The bureaucratic structure, political interference, corruption, lack of profit motive and the like has adversely affected the performance of the SOEs in Nepal (Manandhar and Bajracharya, 1999).

The concept of privatization had entered Nepal by mid-eighties with the introduction of SAP. The Sixth Plan (1980-85) provided for "selling" of unprofitable public enterprises but it was realized only in the year 1992 with the privatization of three SOEs. However, the Privatization Act was introduced only in 1994. The government has already divested 30 enterprises by 2010 through the adoption of different modalities like sale of business assets, disinvestment of shares, leasing, liquidation, management contract and so on. A total of 11 enterprises have been liquidated so far in the year 2008 including Nepal Tele-Communication Company (NTC), a profit making entity, was divested where shares were sold off. However, only 8.53 percent of the shares have been divested thus the state ownership still remains very dominant in the NTC till date (Economic Survey, 2010). The Act has listed six modalities for privatization:

- Sale of shares
- Cooperatization
- Sale of assets
- Leasing of assets
- Management contract
- Other depending upon the recommendation of the privatization committee and decision of the government

Among the six modalities the two—leasing of assets and management contract—cannot be deemed as pure privatization. In other words, it doesn't relegate the role of doing business from public sector to the private. Even after privatization the actual ownership of assets lies within the government and the private party can't use (pledge or sell) or dispose the assets. Similar is the logic with management contract, as handling over the management to private sector is again not complete privatization in its true sense. Bhaktapur Bricks Factory and Biratnagar Jute Mill are the two enterprises where the modality of asset sale was chosen and both have failed.

Lastly, the sixth modality specified in the Act has been controversial because it gives absolute autonomy to the privatization committee and the Government of Nepal to undertake any modality according to their discretion. In a country like Nepal, where politics and business come together to fulfill the vested interest of each other and unhealthy relation and corruption is rampant, this modality gives enough room for such activities to foster.

The process of bid selection is crucial in all of the six modalities of privatization. Unfortunately there were some serious procedural flaws in the process and also in maintaining transparency. Although six criteria have been mentioned in the Act inside the bid selection process, they have not been prioritized. The privatization process of Nepal Tea Development Corporation (NTDC) was severely delayed as the highest bidder chosen by the government could not deposit the money that was agreed upon. It was only after two years NTDC was sold off to the second highest bidder. In case of Agriculture Tools Factory (ATF), the chosen bidder offering highest price but having very little experience in managing a big industrial enterprise was chosen by the government which led to the failure of the enterprise later on. Only after these cases it has been realized that a company should not be chosen only on the basis of highest amount of bid but management ability and technical feasibility should also be given equal weight (Adhikari and Adhikari, 1999).

Since privatization was initially undertaken more in order to meet the conditionality put forward by the international institutions, the organizations with poor condition were prioritized for privatization (Joshi, 2001). In other words, the privatization process in Nepal was more of a supply driven process than demand driven. The Government should have consulted with the private sector and put forward only those companies for privatization in which the private parties were willing to invest. This could have, to a large extent, helped to avoid the present failures like closure of companies and reverting back to the Government even after undergoing privatization.

The valuation process undertaken by the government has also been criticized by people from various sectors. The Annual Report of the Auditor General (1998) has accused that eleven enterprises have been sold off with an undervaluation of 29.28 percent, on an average. Enterprises like Balaju Textile Industry, Nepal Foundry Industry, Leatherage Bansbari Tannery and Shoes Factory and Nepal Bitumen and Barrel Udhyog were sold on less than the liquidation value. Similarly, a corruption of about Rs. 29.8 million have been suspected in the case of privatization of Bhrikuti Paper Mills. An expert from New Zealand was hired and assistance was received from UNDP and World Bank for facilitating the privatization programme. However, the valuation programme was not satisfactory as a result of the prevalent corruption and lack of transparency and preparedness of the government (Adhikari and Adhikari, 1999).

Experience from the developing countries suggests that the benefits of privatization can be realized only in the long-term and good business environment is crucial. In Nepal's case there has been very little monitoring and evaluation from the government after privatization let alone deregulation (Joshi, 2001). Even after privatization, the role of government still continues as a facilitator and regulator in order to ensure smooth transition and ensure proper competition.

However undesirable the process of privatization might have been, yet the question - have the objectives of privatization been met? still remains. The important questions are - have the privatized enterprises been performing well and has the financial burden on the government reduced? Out of 16 enterprises privatized till 2000, four were closed down and two have been reverted back to the government. As the new management failed, Bhaktapur Bricks and Agricultural Tools Factory were reverted back to the government. At the same time, performances of other enterprises have also not been satisfactory (Adhikari and Adhikari, 1999). In fiscal year 1998/99, SOEs received budgetary support amounting to 25% of the total development budget. Capital employed in them was Rs. 83,421 million and return on capital employed amounted to 3.83% (Bajracharya and Sharma, 1996).

The situation has not improved even after two decades since the initiation of the privatization programme. The Economic Survey, 2009/10 presents a gloomy picture of the public enterprises in Nepal. There are a total of 36 fully government owned and 39 partially owned public enterprises in Nepal. Naturally, the number is daunting for a small economy like Nepal and even more is the financial burden. According to the Economic Survey 2008/09, the total government shareholding and investment in SOEs stands at over Rs 61 billion and Rs 86 billion respectively. The percentage of dividend earned against the share investment ratio is 4.03 percent. Similarly, the loan investment made by the government in SOEs amounts to 74,602.6 million which comprises of both domestic and external loans. To add on to it, there are discrepancies in the accounting of loan investment between the one prepared by the Financial Comptroller General Office (FCGO) and the ones by the respective SOEs. It is a matter of serious anomaly that about 10 SOEs have been presenting loan amount lesser in their books as compared to the one prepared by FCGO.

A glance on the overall financial situation of 36 SOEs fully owned by the Government shows only 50 % of them are in profit. The sector-wise analysis if the SOEs have been presented below:

Industrial Sector : Net loss of 701.1 million

Business Sector : Net profit of 3225.6 million

Service Sector : Net loss of 593.4 million

Social Sector : Net loss of 283.2 million

Public Utility Sector : Net profit of 4573.7 million

Financial Sector: Net profit of 4328.7 million

Source: Economic Survey, 2009-10

While half the number of SOEs are loss -making entities, we cannot be very satisfied with the remaining half that is making profit either because of the factors like monopoly and subsides being enjoyed by them. The Government has to bear the brunt of the loss-making enterprises because at times they are not even able to meet their operational cost. The investment of Rs. 472.2 million and Rs. 537.2 million to Butwal Spinning Mills and Biratnagar Jute Mills respectively for the payment of staff salary is the latest example. By the end of the fiscal year 2009/10 the Government has already made an investment of 1,064.27 million for the payment of the liabilities of SOEs. The SOEs have been making news almost everyday for their inefficiency, corruption, huge loss and the like. Thus the question persists, after about two decades of privatization efforts why the government has not been able to reduce its financial burden? Let alone earn some revenue.

Besides the financial aspect, the quality of the goods and services provided by the SOEs and the level of consumer satisfaction has also been deteriorating. The most common examples are the everyday complaints of the general people regarding drinking water supply, telecommunication service, electricity and petroleum supply among others. In electricity, generation is open for private sector with intrinsic hassles whereas distribution and transmission is still preserved for state. The Nepal Electricity Authority's (NEA) total income is NRs 1.5 billion but its yearly operating expense is NRs 1.65 billion (ES, 2010). Its total loss is about NRs 19.47 billion, despite being a monopoly and ever increasing market demand. Similarly, Nepal Oil Corporation (NOC), sole importer of petroleum products in Nepal, recently received loan assistance of Rs. 1.5 billion from the government. In electricity, the per unit investment is NRs 8.97, but is sold at NRs 6.57 per unit (Sapkota, 2011). As per the latest price list, NOC has been incurring the loss of Rs. 20.96 per litre in diesel, Rs. 11.25 per litre in kerosene, and Rs. 288.79 per cylinder in the Liquefied Petroleum Gas. However, corporation is in profit in Air Turbine Fuel (ATF) (Nepal News, 2011). Due to political interference, lack of ownership and profit motive the SOEs have not been able to run business like and the losses have to be compensated from the government treasury.

The financial burden on state and the level of consumer satisfaction clearly indicates that the privatization efforts in Nepal still has long way to go to achieve the true objectives of privatization.

3

Foreign Direct Investment

The role of FDI in accelerating economic growth and technology transfer have been elucidated by upcoming economies of recent time be it China, India or the East Asian economies. The host country conditions necessary to realize such growth, however, cannot be undermined. Of the many conditions liberal economic policy is fundamental.

In Nepal, policy reforms were undertaken and a new act titled Foreign Investment and Technology Transfer Act, 1992 was formulated an effort to provide open and liberal environment for attracting and absorbing FDI in Nepal. In that year a new foreign investment law was passed and a single window system was introduced to facilitate FDI. The rate of import tariff was brought down from 111 % in

1989 to 16 percent by 1992 and the number of tariff slabs from more than 100 in the 1980s to only 5 in 1996. The currency was made partially convertible in the current account in1992 and fully convertible in 1993. Since 1994 all individuals and firms have been allowed to open accounts in major convertible currencies with domestic banks after showing evidence of the source of foreign exchange in order to facilitate foreign investment. The FDI flows in Nepal which stood at an average of $0.5 per annum during 1980-1989 accelerated to an average of $8.3 million per annum during 1990-2000. There has been improvement in the rate of FDI flow in Nepal after the liberal policies of the 90s. During 1980-1989, FDI flows to Nepal were minimal with an annual average of $0.5 million which reached to an annual average of $8.3 million per annum during 1990-2000 and peaked at $23 million in 1997. However, the scenario is not satisfactory neither when compared to other South Asian Least

Developed Countries nor when compared to other land locked economies like Lao, People's Democratic Republic (PDR) and Mongolia (UNCTAD, 2003).

Nepal's case is unique as political insurgency and infrastructural barriers pose as severe hindrances for foreign investment to thrive. Besides, the legal requirements and bureaucratic hassles are still tedious in Nepal. The Foreign Investment and Technology Transfer Law, 1992 is not liberal and open enough to attract investment from abroad. The law has prohibited foreign investment in a range of sectors listed as the 'negative list' besides those reserved for national investors and in State Monopoly. The list bars investment in travel agencies, small-scale tourism related activities and farming, consultancy services and retail trading among others. There are three statutory monopolies in Nepal—Nepal Oil Corporation (monopoly on import), Nepal Drinking Water Corporation and Nepal Electricity Authority in which there is no question of any type of private investment. Besides the three statutory monopolies, in which foreign investment is absolutely barred, there are 36 public entities in Nepal. Foreign investors may feel inhibited to enter into such areas where public entities are already in operation. Public entities, most often than not, enjoy incentives and benefits from the state and it goes without saying that in an environment where protection prevails competition cannot strive in, especially for foreign investors. For instance, in industrial and manufacturing sector, having potential for attracting foreign investment, there are fully public owned enterprises like Nepal Drugs Limited and Hetauda Cement Limited. Government approval is required for every proposed foreign investment although sensitive industries are covered by the 'negative list'. This approval requirement in a market economy appears to be an unnecessary hurdle for foreign investors.

Regardless of the liberal policy initiatives to attract FDI in Nepal there still are some grey areas in the policy itself giving leeway for State dominance. In the pretext of national interest and social welfare the present policy environment still seems skeptical about the importance and potential of FDI in economic development of the country

4

Liberalization And Development

Since the 80s Nepal has been making gradual efforts to liberalize the economy and integrate with the global economy. In 1992, after the restoration of democracy, the newly elected government led by Nepali Congress pursued a policy to bring all faceted reforms in the areas of trade, industry, foreign investment, agriculture, monetary and fiscal policies and so on (Bajracharya and Sharma, 1998).

The trade policies introduced since 1992 were oriented towards open and free market economy. The quantitative restrictions on imports were completely eliminated and tariff rates were also reduced. Unlike 1980s, when a total of 100 commodities required import licenses, almost none of the commodities require import licenses at present. The number of rate slabs was brought down from more than 100 in 1980s to 5 in 1997-98 and peak tariff rate from 245 percent in 1991-92 to 80 percent in 1997-98. The new trade policy has taken care of the biases like Import Substituting Industrialization (ISI) in order to promote free trade (Karmacharya, 2011). Despite all these efforts, Nepal has been suffering from serious BOP deficit. Trade deficit as percentage of GDP has increased from 3.8 percent in 1965-1975 to 18.0 per cent in 1996-2005 and it remains at 26.9 per cent as of 2009/10. Liberal economic policies coupled with maintenance of business friendly environment can only drive a economy towards growth. But in Nepal factors like infrastructural development, stable government, rule of law, peace and security, domestic competitiveness are crucial for trade to foster in the country. Nepal's prospect to drive economic growth through the development tourism, hydropower, biodiversity, handicrafts and several labour intensive industries has almost become like a fable. The decade long political insurgency followed by political stalemate has either put a halt on development activities or has demolished whatever was already there. For instance Nepalese households and industries are made to suffer from power crisis because hydropower projects have been affected by the political reasons. Hence, Nepal has a long way to go in order to utilize its potential and achieve growth.

Agriculture is still regarded as the most important sector of Nepalese economy as it produces one- third of output, employs two-third of population and is a key of rural growth. In an attempt to liberalize this sector, the government has adopted reforms such as removal of subsidies, privatization of the Agriculture Inputs Corporation (AIC), deregulation and opening up to foreign direct investment.

Concurrently, the Asian Development Bank

(ADB) helped develop and implement the Agricultural Perspective Plan (APP). Nepal ,which used to be an agricultural economy, has now been suffering from food deficit and imports food to sustain its population. The share of agriculture output in total GDP has fallen from 71.6 percent in the 1975 to 33.7 percent in 2008/09 (ES, 2010). One of the reasons for the deteriorating condition of this sector lies in the fact that it is still dependent on monsoon. According to the Economic Survey, 2010 there was decline in the production in of food crops in the year 2009-10 due to adverse monsoon conditions. Despite liberalization the efforts from private sector to modernize and enhance agricultural production has been negligible in Nepal. The reduction in tariffs and elimination of subsidies in agriculture sector had a negative effect to Nepalese farmers. The reduction in subsidies increased cost of production and the elimination of tariffs led to flow of cheaper products form Indian market which dampened the growth of agriculture sector. Despite few efforts to make the agriculture sector competitive the government has failed to bring proper deregulation in this sector and provide conducive environment for attracting private sector participation (IFPRI, 2005). Land fragmentation, rural poverty, lack of infrastructure and investment and supply bottle-necks present state of has been hindering the growth of agriculture sector.

The effects of financial sector liberalization have been most visible in Nepal and to some extent successful also. There were only two state owned commercial banks in Nepal till 1980, since entry was restricted for private sector. At present there are a total of 27 Commercial Banks, 78 development Banks, 79 Finance Companies, 18 Microfinance Institutions, 16 Cooperatives and 25 Insurance Companies in Nepal (ES, 2010). The liberal economic policies initiated in the 80s like liberal entry policy for banks and non-banks, complete autonomy in determining interest rates, withdrawal of statutory liquidity ratio and allowing personal foreign currency accounts have facilitated private sector participation. Several competition enhancing measures and regulatory activities were also initiated by Nepal Rastra Bank (NRB) in the financial sector. However, there have been pitfalls in the financial sector liberalization process too. The financial institutions have been too urban centric and rural people are still denied of this facility. At the same time cartels among commercial banks in determining interest rates and cases where depositors have been gravely affected by fraudulent activities have been hitting the news time and again. Recently, Nepalese financial market is suffering from liquidity crunch. As a result of which the financial sector is facing crisis at present. Although the number of different kinds of financial institutions from the private sector have come up, the two large State

Owned Commercial Banks (SOCB)—Rastriya Banijya Bank (RBB) and Nepal Bank Limited (NBL)—are two major players in the financial sector (Adhikary, 2007).

The World Bank, Department for International Development (DFID) of UK Government, and loans and grants from Government of Nepal have been implementing Financial Sector Reform Program (FSRP). The Financial Sector Strategy, 2000 aimed at restructuring and privatizing these two banks. Not much progress has come up in the privatization aspect but, considerable improvement has taken place in condition of these two banks since then. Both the NBL and RBBL have made some progress since the initiation of their restructuring programs. NBL, which was continuously at loss of billions of rupees since 1999, has been gradually reducing such losses and it managed to earn a net of Rs 660 million in 2009. Similarly, RBB has earned a net profit worth Rs. 2,090 million in 2009 in contrast to the accumulated net loss of Rs 4,840 million in 2002/03. The negative net worth of both NBL and RBB is gradually improving after undergoing restructuring program. However, the government has not been taking privatization of RBB seriously (ES, 2010).

As the largest commercial bank, these banks have significant role in the country's economy. However, the common problems associated with government ownership like political intervention, bureaucratic hassles, weak management, lack of profit motive and ever growing losses have tremendously handicapped these banks. NBL still does not operate like a private bank and it does not have a strategic banking partner amongst its private shareholders.

As per the WTO agreement, Nepal's financial market has to be opened up for global competition starting 2010. This provision, if implemented, will drive up competition among national & international banks in Nepal. Hence, it is very important to formulate necessary policies, strengthen domestic market and improve institutions so as to ensure the growth and development of the financial sector. Since, the sector is already facing problem, it is bound to aggravate with the entry of more number of players and that too foreign.

At present the evils of free market like cartels, syndicate and tied selling have also been upsetting the Nepalese market. The syndicate in transportation business is so rampant in Nepal as a result of which the price of goods and services are rising exorbitantly. At the same time, education institutions specially schools and campuses in urban areas are openly practicing tied selling. In absence of proper monitoring, policy formulation and implementation by the government the citizens have been suffering. Hence, the government has a long way to go in order to manage its economy.

5 Conclusions And Recommendations

The orientation towards free, liberal and market-led growth that took over the world since 1970s has been weakened after the financial crisis of 2001. Since, 2008 the role and responsibilities of government in economic activities have been highlighted. The role of government in the economy is important not as a business entity but as a facilitator and regulator. It is more important that a government provide a healthy environment for businesses to prosper than engage directly in doing business. Relegating the responsibilities of state from doing business or providing goods and services to an efficient regulator and maintaining peace and security in the country has always been welcomed. The state has greater role to play like providing an environment where businesses can flourish by maintaining rule of law, ensuring security of life and property and formulating laws and policies and assuring proper implementation of the both. With liberal and free market economy it is highly probable that inefficiencies and evils of market might germinate. Different kinds of market evils like tie-ups, cartel, syndicate and financial crime can only be checked with efficient laws, policies and their implementation. Thus, the role of government as a regulator and facilitator should not be undermined after liberalization and privatization. Otherwise when one state monopoly ends with liberalization and privatization different types of market evils creep in.

After two decades of economic liberalization Nepal hasn't been able to achieve significant level of prosperity. Within the same time period India has leaped successfully by embarking upon liberal economic policies. It was only since 1990 India adopted economic liberalization. Of course there are inherent problems ailing Nepalese economy like inadequate infrastructural development, supply bottlenecks, inflation, political instability, poverty, lack of conducive business environment, competitiveness and preparedness at the domestic level and so on. Besides that, the role of the government in revamping Nepalese economy should also be reconsidered. The state is still occupied with doing business and this has been costing huge financial burden to the government treasury. Political interest and interference has taken over the very objective of doing business—profit making. At the same time, citizens are also not being benefited.

Based on the above discussions it is clear that Nepal's liberalization and privatization efforts have still not been very successful. Besides, the inherent problems of the Nepalese economy there is still a long way to go and the government is still not free from the burden of managing economic activities and private parties still do not have enough space in Nepalese economy. The lessons learnt from this study have been outlined as follows:

- The performance of the SOEs gives a clear message that privatization, in proper modality, has become the need of the hour. Hence, the loss making entities which have become unmanageable and burdensome for the state should be listed for privatization.

- The huge number of SOEs burdening Nepalese economy till date suggests that the privatization efforts should be continued. This should be seriously considered and proper modalities and procedures should be designed to take the privatization efforts further.

- While going for privatization the past mistakes of lack of transparency and haste shouldn't be repeated. The state should offer such entities for privatization in which the private sector has shown interest and not think of only about selling away obsolete industries.

- Regulatory mechanism and deregulation should be discussed and designed simultaneously with privatization process. At present this is important for the previously privatized entities as well. Only if healthy competition can be ensured after privatization the industry as a whole will sustain and flourish. Otherwise closure of privatized industries and unhealthy market practices like tie-ups, cartels and syndicate are bound to come up.

- A great amount of urgency and prudence should be applied to reform and enhance the progress of financial sector liberalization not only because it is the backbone of the economy but, because Nepalese financial market now has gone global. Hence, polices and institutions should be timely designed and implemented in order to avoid chaos and financial crime in the sector.

- Serious consideration should be given to the privatization of the two large state owned banks so that the financial sector can be liberal in its true spirit. The political interference should be avoided in these two banks and an environment should be provided where they can operate like private entities.

- The government should reconsider its subsidy policy. The present subsidy which has been granted in oil and electricity is absolutely unnecessary. It is only because of political reasons that the government hasn't been able to determine the price of them appropriately despite loss.

- Restrictions and regulations should be formulated and proper monitoring should be done so that unfair and evil practices like cartel and syndicate do not take a toll on the general public.

- The mechanism for market supervision and information dissemination should be strengthened by the government after embarking upon market-led growth strategy.

- Foreign investors should not be discriminated. Understanding the importance of FDI in economic growth conducive environment should be prepared in order to attract FDI. The unnecessary procedural hassles and investment restrictions should be lifted up.

- Serious effort should be undertaken to develop sectors having the potential to uplift the rural population like agriculture and industry.

- Consistent efforts should be taken to make the country's environment business friendly by establishing peace, security and rule of law.

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Samriddhi, The Prosperity Foundation

An introduction

Samriddhi, The Prosperity Foundation is an independent -- non-partisan, not-for-profit, research and educational, -- public policy institute based in Kathmandu, Nepal.

Following the April 2006 movement for democracy that marks the re-emergence of political freedom in Nepal, it has been established with the vision of “a free and prosperous Nepal where individuals can live a dignified life in a vibrant and democratic society with equal access to opportunities and respect for rule of law.”

Samriddhi operates with a three-tier approach to achieve its mission of promoting ideas of civil, political and economic freedom through public policy recommendations (based on independent research), educational programs and public participation. Samriddhi believes in the power of private entrepreneurs as a key to economic development and engages in fostering democracy and building a conducive environment for economic growth.

Following are some of the programs Samriddhi is currently engaged in:

01. Education and Training Programs

Education and Training Programs of Samriddhi, The Prosperity Foundation is largely about working with the youth to reinvent the entrepreneurial zeal among the young population of the nation. Most educational and training programs are with youth from undergraduate and graduate levels. One day workshops, residential programs, discussion programs, documentary features on issues related to entrepreneurship, public policies that affect the market and economy come under these programs. Some of Samriddhi's regular programs on Education and Training are :

a. Arthalaya – School of Economics and Entrepreneurship
b. Neetishala – The Public Policy Discourse
c. Docu-Talks- (Discussions on Documentaries related to entrepreneurship and livelihood)
d. Internship opportunities for the youth

02. Research and Publication

Samriddhi conducts research on several public policy issues. Its area of interest lies on research related to economics and political economy. Mostly, the research it conducts is related to studying the impact of policy on livelihood issues. Such researches are published by the organization in print and in website along with several other publications for e.g. a yearly handbook for entrepreneurs in Nepal titled 'Towards Enterprise Building in Nepal' and translated versions of international books relevant to promoting economic freedom in Nepal. Samriddhi has also been publishing a series of pocketbooks to educate and inform about the importance and roles of various fields like Rule of Law, Economic Freedom, etc. in promoting the private market to build a prosperous Nepal.

03. Public Outreach

Public Outreach of Samriddhi involves hosting discussion programs on contemporary issues, organizing interaction programs that draw policy makers' attention to alternative solution on issues, creating a platform for entrepreneurs to speak and network through talk programs and using national and international networks to bring people from relevant sectors with varied experiences to discuss on several global policy issues.

Besides this, Samriddhi is proud to be associated with National Campaign for a Livable Nepal- Gari Khana Deu!! (www.livablenepal.org), which is an effort to raise voices to end the prevailing lawlessness and impunity in the country by advocating rule of law, safety of life and property and freedom to pursue livelihood and enterprises in Nepal as essential preconditions to a livable country. In addition to its programs, to encourage research and scholarship in the area of political economy, Samriddhi hosts a Political Economic Resource Center (PERC) in its office premises.

Few Programs under Public Outreach are:

a. Policy Talkies
b. Last Thursdays with Entrepreneur (in collaboration with E4N)
c. Occasional Discussions
d. Campaigns (Democracy is…: A Peoples' campaign, गरी खान देऊ !)

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Other Publications

1. Towards Enterprise Building in Nepal
2. Towards Enterprise Building in Nepal II
3. आर्थिक स्वतन्त्रता
4. उद्यमशीलता विकासमा बजारको भूमिका
5. Role of Rule of Law in Enterprise Building
6. बजारका गुणहरु
7. Role of Government in Enterprise Building vol I

The publications are available at,
Samriddhi, The Prosperity Foundation

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