

UNITED NATIONS DEVELOPMENT PROGRAMME  
INTERNATIONAL LABOUR OFFICE

REVIEW OF INSTITUTIONAL  
FRAMEWORK  
FOR DELIVERY OF  
PRODUCTIVITY RELATED SERVICES  
(NEP/89/019)

*Prepared by :*

*K. Lewis*

*G.B. Hansen*

*M.P. Pradhan*

*Kathmandu, Nepal*

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## RELEVANT COUNTRY DATA

AREA	-	141,000 Km2
POPULATION	-	15,022.839
RATE OF POPULATION GROWTH	-	2.66
EDUCATION		
- ADULT LITERACY	-	28.9% (1985)
- TOTAL PRIMARY SCHOOL ENROLLMENT	-	1.87M (1986)
- TOTAL, LOWER, SECONDARY SCHOOL ENROLLMENT	-	0.27M (1986)
- TOTAL SECONDARY SCHOOL ENROLLMENT	-	0.26M (1986)
- TOTAL UNIVERSITY ENROLLMENT	-	0.05M (1985)
GROSS DOMESTIC PRODUCT (GDP)	-	NRS.42,140m (1985)
GDP PER HEAD OF POPULATION	-	NRS. 2,810 (1985)
RATE OF EXCHANGE	-	\$US = 32.0 (MARCH 1991)

**Note:** Unless otherwise stated all statistical data quoted in this report is based on the 1985/86 National Population and Industrial Censuses, undertaken by the National Planning Commission, Bureau of Statistics.

## Abbreviations

APO	Asian Productivity Organization
CEDA	Centre for Development Administration
CDM	Central Department of Management
CID	Cottage Industry Division
CIDB	Cottage Industry Development Board
CSIDC	Cottage and Small Industries Development Centre
CTA	Chief Technical Advisor
DOI	Department of Industry
DOL	Department of Labour
EDP	Executive Development Program
ESEC	Economic Services Centre
FOM	Faculty of Management
FRG	Federal Republic of Germany
FNCCI	Federation of Nepal Chambers of Commerce and Industry
FYDP	Five Year Development Plan
GTZ	GTZ (Publically - Financed Foundation of FRG)
ICS	Industrial Services Centre
IESC	International Executive Service Corps
ILO	International Labour Organization
IOM	Institute of Management
MAN	Management Association of Nepal
MOE	Ministry of Education and Culture
MOF	Ministry of Finance
MOI	Ministry of Industry
MOL	Ministry of Labour
MOLSW	Ministry of Labour and Social Welfare
NASC	National Administrative Staff College
NPC	National Productivity Council
PC	Productivity Centre
PMC	Professional Management Consultants
RPC	Regional Productivity Councils (Committees)
SBPP	Small Business Promotion Project
TU	Trade Union
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
WB	World Bank
WED	Women Entrepreneurship Development

## Preface

This report contains the findings and recommendations of an ILO Mission Fielded at the request of UNDP Kathmandu from 9 February to 16 March 1991. The purpose of the mission was to assist the Government in framing an overall strategy for delivery of productivity services, including specific recommendations on a suitable institutional framework and technical assistance request for strengthening individual Nepalese institutions.

The mission wishes to acknowledge the assistance and support received from UNDP Kathmandu and ILO Kathmandu. Mr. J. Berke, the Resident Representative, and his staff provided valuable guidance, assistance and logistical support throughout the mission. Ms. M. Bergstrom, the ILO Resident Officer was most helpful and supportive of the team throughout the mission.

A large number of Government Officials as well as officials of the Federation of Nepalese Chambers of Commerce and Industry, Trade Unions, Management Association of Nepal, Economic Services Centre and other agencies and organizations provided the mission with valuable information and ideas. Particular thanks are due to Dr. B. Chalise, Joint Secretary of the Ministry of Industry, and Mr. R.N. Dhungel, Chairman of Economic Services Centre, and their colleagues and staff who provided invaluable technical support to the mission.

Members of the Team.

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## Executive Summary

This mission had the objective to assist the Government of Nepal in developing an overall strategy for delivery of productivity related services, including specific recommendations on a suitable institutional framework and technical assistance required for strengthening individual institutions. Several specific tasks were carried out: (1) An assessment of the productivity support service requirements of the most important target segments within the public and private medium and large enterprise sectors; and (2) A review and evaluation of the existing institutional framework and other available expertise for productivity related services in Nepal.

The principal findings are:

- oThe problems and constraints preventing growth of the industrial sector are considerable, and need urgent attention if this sector is to grow and contribute significantly to the nation's economy.
- oThe macro level factors impeding the growth of the economy originate from government policy and the economic environment. These include a protective fiscal policy as well as weaknesses in implementing monetary and fiscal policies, a lack of supply of raw material inputs to the manufacturing sector, the underdevelopment of suppliers and vendors of materials and services used to produce final products, and an inadequate electricity supply.
- oAt the micro level there are a number of factors contributing to low productivity. Among the more pertinent issues are: underdevelopment of Labour- Management relations, a lack of professional management and suitable corporate culture, little training and development of workers, obsolete equipment and technology, inefficient plant layout, poor working conditions, no technical assessment and shopfloor expertise in productivity improvement techniques, and a lack of accounting and financial controls.
- oThe existing institutional framework for providing productivity-related services (ie., MAN, FNCCI, ESEC) is very weak, and the other available expertise (ie., management consultants) is virtually non-existent.
- oThe trade union situation is confused and not likely to be clarified until sometime after the forthcoming elections. Trade Union leaders have expressed a strong desire for stable industrial relations situation, fully appreciating that increases in productivity are important to economic growth. However, they will need considerable assistance in persuading their members that such a policy is in their best interest.
- oDue to the lack of resources and other constraints, the Faculty of Management at Tribhuvan University is unable to meet the urgent need for well-trained young post-graduate managers.

Based on these findings, the following recommendations are made to strengthen the institutional framework for the delivery of productivity - related services to the medium and large enterprises in the industrial sector:

- oAdopt a long term strategy for the improvement of industrial relations which provides for the necessary tripartite framework allowing practical productivity improvement activities to take place at the enterprise level.
- oEstablish a tripartite National Productivity Council with five Regional Productivity Committees to meet on a regular basis to plan, implement and monitor the effectiveness of a consistent and comprehensive productivity campaign; and to co-ordinate and direct, through a National Productivity Centre and its Regional Offices, the productivity promotion campaign and the delivery of supporting services.
- oEstablish a National Productivity Centre with five Regional Offices at strategic locations to plan, organise and deliver professional productivity improvement consultancy and training services on a regular basis to industrial establishments in each of the country's industrial zones. In addition, the Centre would conduct inter-sectorial research and collect relevant statistical data on industrial productivity, and actively promote and co-ordinate all APO activities in the country.

- oHave the Productivity Centre initiate and carry out, as part of the productivity promotion campaign, a productivity improvement demonstration project in each Region to show employers how they can benefit from these activities.
- oExisting productivity - related delivery institutions, ie., ESEC, MAN FNCCI and should be strengthened and encouraged to provide co-ordinated support services to industry as follows:
  - ESEC should be reorganised and strengthened to provide productivity-related consultancy and training services to industry at the enterprise level on a self-funding basis.
  - MAN should be encouraged to form a Management Consultancy Association from within its membership, and to help it adopt professional standards of conduct. The MAN training programme should be refocused to more effectively meet the in-service training needs of the members.
  - FNCCI should establish within its Employer's Council the capability of providing anonymous interfirm productivity comparison services to its members.
- oSupervisory, shop steward and other forms of training should be made available to Employers and Trade Unions to improve their industrial relations skills and to foster labour-management co-operation to improve productivity and make work life improvements at the enterprise level.
- oSufficient Technical Assistance and other support services should be made available to assist the Government of Nepal to effectively implement the needed improvements in the nation's productivity institutions and infrastructure.
- oBecause of the critical importance of the FOM in providing, highly-trained managers to the industrial sector -- which are needed to sustain economic development within the country -- and the serious problems it faces, a separate project should be launched as soon as possible to strengthen this institution.



REVIEW OF INSTITUTIONAL FRAMEWORK  
FOR DELIVERY OF PRODUCTIVITY SERVICES

1. INTRODUCTION

1.1 Background

1.1.1 The Government of Nepal is planning increasing emphasis on industrial development and private sector participation in the economy as important means of achieving economic growth, export promotion and self sufficiency in essential goods. This will require substantially improved performance of the public managers and private entrepreneurs, particularly in the industrial and service sectors.

1.1.2 The seventh five year Development plan 1985-1990 (7 FYDP) states, (P 613) that "during the period, necessary improvements in areas such as strengthening management and financial resources will be undertaken to facilitate higher capacity utilization and to achieve greater productivity in industries in both the private and public sectors".

1.1.3 With the move to a democratic government the 7 FYDP has been extended for a further period until after the elections which are due to be held on 12 May 1991.

1.1.4 The 7 FYDP also states that the Industrial Services Centre (ISC) which was established under the Ministry of Industry (MOI) in 1974, was during the plan period, to provide management services to 30 industrial establishments, provide management training to 600 persons, undertake 25 productivity evaluations and hold 25 programmes to disseminate information on productivity. The ISC was also nominated by government as the National representative of the Asian Productivity Organization (APO). In 1988 ISC was divested from the MOI, registered as a public limited company and renamed as the Economic Services Centre (ESEC). However, ESEC retained its responsibility for productivity promotion and improvement. It was not made clear whether these responsibilities were extended to other economic sectors in addition to industry.

1.1.5 The current Government Policy concentrates on developing human resources, directly increasing income, expanding employment, reducing unemployment and under employment and raising the productivity of the entire economy. Emphasis will be given to bringing about structural improvements in Industry in order to ensure that industrial production is not adversely effected by factors relating to raw material, energy, machinery and appliances, technology, markets etc. The eighth plan has the target to increase industrial production by 13 percent per year.

1.1.6 The government's New Industrial Policy of 1987 aims to make available special cooperation "in order to save industries from sickness, to develop entrepreneurship [and] management, improve technology, and productivity, and to take ahead the productivity campaign. A high level National Productivity Board is to be formed in order to make the industrial sector as productive as possible through an extensive productivity campaign. The ISC [Now ESEC] will act as the secretariat of the council".

1.1.7 In the context of the industrial policy, industry is classified as : Manufacturing industry, Energy-based industry, Agro-based industry, Mineral industry, Tourism industry, and Service industries, including construction and transportation.

1.1.8 The official classification of industrial size is based on the level of invested capital as follows:

-Small industry up to	-	NRs. 3 M
- Medium size industry up to	-	NRs. 10 M
-Large industries over	-	NRs. 10 M

According to the 1981/82 population census there are some 4903 industrial manufacturing establishments of which 4,743 were in private ownership, 106 controlled by Government, 13 under foreign ownership and 41 others. There were 3922 firms employing less

than 10 persons and accounting for the employment of some 12,400 employees. A further 663 companies employ between 10 and 49 employees, leaving only 308 establishments employing 50 people or more. Of those employing less than 50 persons, the vast majority--3583, were oil and grain mills whilst the large number of establishments with over 50 employees were all in the brick tile sub sector. The manufacturing sector comprises over 80 percent of small establishments, 14 percent of medium size and 6 percent of large or very large companies.

## 1.2 Industrial Relations

- 1.2.1 The recent political changes occurring in the country have drawn attention to the role, contribution and effects of industrial relations and labour market mechanisms in the development process. From a single imposed workers' organization under the previous government, the National Labour Organisation has been disbanded in its place the workers have formed numerous trade unions in exercise of their freedom of association. The major organizations appear to be linked to the different political parties represented in the coalition government. Labour disputes, including work stoppages, have also escalated on such issues as wages and termination of employment. The existing legislation and current policy governing industrial relations and government dispute resolution machinery are either lacking or are inadequate to cope with the changed situation. A recent paper from the Federation of Nepalese Chambers of Commerce and Industry characterized the situation as follows: "unfortunately, the present state of industrial relations is a hangover from the earlier chaotic days, and we are still drifting as aimlessly as before".
- 1.2.2 The question of wages, including the minimum wage, which is invariably linked to productivity, and job security are the main labour market issues that pervade most labour disputes. It also highlights the absence of a wages and incomes policy, a productivity improvement strategy and the lack of expertise and experience in wage bargaining and wage determination.
- 1.2.3 The implications of the current industrial relations situation in Nepal are succinctly stated in a recent planning paper prepared by the ILO: "This is a situation which, if not properly managed, structured or attended to, can be a prescription for trade union multiplicity, labour unrest, labour disputes, strikes and lockouts, low efficiency and productivity with adverse effects on investments and productivity and the overall national economic and social programme". ("Long-Term Perspective Plan in the Improvement of Industrial Relations and Labour Market Mechanisms in Nepal, 1991-1996".)
- 1.2.4 The main industrial relations representatives of employers in industry are the MOI and the Federation of Nepalese Chambers of Commerce and Industry (FNCCI). Within the public sector some 18 enterprises are under the direct administrative control of the MOI. FNCCI has both public and private organizations in its membership. It has in membership some 49 District Chambers of Commerce and Industry, 25 commodity organizations and 122 company members from both the private and public sectors. The FNCCI has a specialist sub committee, amongst others, reporting to the executive committee, called the Employers Council, which deals with all industrial relations matters, including the promotion of productivity.
- 1.2.5 The multiplicity of Trade Unions arising with the introduction of democracy in 1990 has created considerable confusion and made it somewhat difficult to identify and work with their leadership on industrial relations issues. This situation may be clarified and improved with the holding of elections in May 1991.
- 1.2.6 The International Labour Office (ILO), supported by the United Nations Development Programme (UNDP) and other Bi-lateral Donors, has been extensively assisting Government, the Employers Council of FNCCI and the Trade Unions in an attempt to develop a stable industrial relations atmosphere. Several tripartite seminars and workshops have been held, a draft Trade Union Act, a Draft Social Security Act and a Draft Industrial Disputes Act have been submitted to the Government. An Employment Act is to be prepared for consideration and a Long Term Perspective Plan for the Improvement of Industrial Relations and Labour Market Mechanisms has been designed (1991 - 96) which is presently under consideration by Government. The objectives of the strategic plan include: the enactment and implementation of all legislative and policy measures aimed at promoting sound labour relations, labour-management cooperation, productivity improvement and social justice as essential elements for development. The plan includes strengthening industrial relations in such areas as collective bargaining, labour-management cooperation, productivity improvement, wages, gain sharing and the improvement of institutional mechanisms to ensure a coordinated and coherent approach for industrial peace, productivity improvement and social justice.

1.2.7 The continuing importance of industrial relations to Nepal's future was recently pointed out by Prime Minister Krishna Prasad Bhattarai in a speech to the ILO sponsored South Asian Employers Symposium held in Kathmandu on 10 March 1990. The Prime Minister stressed the need for promoting a sound rapport between employers and their workers. "The country today needs rapid industrialization, and questions related to employers and employees are very important in the process". (The Rising Nepal 11.03.91)

### 1.3 Efficiency in the Industrial Sector

1.3.1 A recent ILO Sectoral Review mission report "Employment, Training and Labour in Nepal" (August 1990), noted that the employment situation is marked by a high degree of under-utilization. The report quotes the National Planning Commission as stating "six percent of the rural labour force is unemployed and two thirds are under-employed. In the urban areas unemployment is again around six percent and under-employment about 45 percent". The report also noted the lack of reliable data on the productivity of public and private enterprises, although it is generally recognized that performance has been poor.

1.3.2 The most comprehensive information available on industrial efficiency levels is contained in a report to MOI prepared in 1988 by the United Nations Industrial Development Organization (UNIDO) project DP/NEP/86/005. The report entitled "Manpower Planning and Human Resources Development for the Industry Sector", gives the capacity utilization of some 52 selected public and private enterprises which were the subject of indepth study. On average, this amounted to a utilization of just under 50 percent (49.1 percent), although the range of performances was extremely wide, ranging from 3.5 percent utilization in the plywood industry to 100 percent utilization of installed machine capacity in the plastics industry. These utilization percentages are more or less confirmed by the "1988/89 Industrial Review", which is based on a representative sample survey undertaken by ESEC for MOI.

1.3.3 The UNIDO report goes on to compare selected performance indicators for private and public corporations. The ratio of supervisors, technical and administrative personnel to operatives was considerably better in the private sector as compared to the public sector. Output per numbers employed was also calculated. This indicated that output per head in the private sector was higher than in the public sector. At least 25 percent higher in the Jute sub-sector and 167 percent higher in the Leather Industry. In Textiles, output per employee in a foreign-owned Nepalese company was a staggering 600 percent higher than the public sector and 200 percent higher than the private sector. However, the report indicates extreme caution in the interpretation of the statistics should be used, as the comparisons assumed a comparable stage of technology. From the limited number of studies undertaken during this mission the above results do not appear unrealistic.

### 1.4 Economic Perspective

1.4.1 The Nepalese economy is largely agrarian, with agriculture accounting for over 58 percent of the Gross Domestic Product (GDP) and employing 90 percent of the people. However, this sector has been growing, in real terms, at a rate lower than the population even though substantial investment during the last three decades has gone into the agricultural sector. Between 1974 and 1984 the annual rate of agricultural GDP increased at a rate of 2.06 percent while the population grew at a rate of 2.66 percent per annum in the same period. The Industrial sector, starting from a such smaller base, has grown more rapidly. The contribution of production - oriented industries accounted for 4 percent of GDP in 1975, and 6 percent in 1985.

1.4.2 While Nepal has made significant economic progress over the past 50 years in moving from an agrarian economy to a mixed economy and the Industrial Sector has increased its share of GDP, the performance of the industrial sector is still disappointing. The sector suffers from a lack of investment in modern plant and equipment, little innovation, a lack of managerial and technical skill and a low wage economy. The only growth areas in the industrial sector are those labour intensive industries that take advantage of low wage costs and high export quotas, eg., garment manufacturing for export, etc.

1.4.3 Because of the poor performance in the manufacturing sector, the Government, beginning with the 5th Development Plan, has attempted to place greater emphasis on "structural adjustment" including the expansion of the Industrial Sector. In the 7th Plan, the goal was to create an economic environment conducive to productive industrial growth, wherein market forces would provide the

signals and the prices would reflect true economic costs. Since skilled and trained manpower are essential for the implementation of development plans, another important goal of the Government's 7th plan (P.134) was to stimulate the quantitative and qualitative growth of such manpower.

1.4.4 Whilst there have been significant efforts to improve the supply of workers with middle and low level technical skills, supported by donor agencies, the recipients of such training have not been attracted into industrial employment in the private sector. They prefer either self employment where the rewards are higher or work in the public sector where employment is more secure. Recent initiatives have been undertaken by CIDA and the World Bank (CR - 2044), and GTZ to strengthen and expand the ability of the Institute of Engineering and Institute of Science and Technology at Tribhuvan University to provide high level skilled Technical Manpower.

1.4.5 Unfortunately, the effort to improve the supply of highly trained technical manpower has not been matched by efforts to improve the supply of highly trained new managers for the private industrial sector. It is abundantly clear that the economic goals set out in the Seventh National Plan cannot be reached without a major strengthening of the Faculty of Management at Tribhuvan University along the same lines as that planned for the other two components of the high-skill manpower triad.

## **2. ASSESSMENT OF NEEDS**

### **2.1 Introduction**

2.1.1 As noted in section 1, the industrial and self-employed sectors in Nepal employ some 250,000 persons out of a labour force of over eight millions. The problems and constraints preventing growth in the industrial sector are considerable, and need urgent attention if this sector is to grow and contribute significantly to the nation's economy. The problems and constraints in the industrial sector can be divided into macro- and micro-level factors.

### **2.2 Macro-level Factors Impeding Productivity Growth**

2.2.1 The macro-level factors impeding the growth of the Nepalese economy originate from economic environment. These include a lack of supply of raw material inputs to the manufacturing sector, the underdevelopment of suppliers and vendors of materials and services used to produce final products, an inadequate electricity supply which results in frequent voltage fluctuations and interruptions of service, and an inadequate road infrastructure.

2.2.2 Governments' protectionist policies have resulted in the emergence of industries based on raw materials imported from foreign countries. These industries undertake only a few manufacturing operations, adding very little value, and produce products whose market is directed toward India where they obtain high prices but contribute little toward strengthening Nepal's industrial sector.

2.2.3 Another problem is that manufacturing industries are not inter-linked or developed sufficiently to enable the outputs of one manufacturer to be purchased by other firms in the industrial sector to use as inputs to their operations. Most firms are tied to foreign suppliers rather than other domestic suppliers for their supplies of raw materials and intermediate goods. The nature and length of the supply line also requires manufacturers to maintain large inventories of raw materials and supplies or to face periodic interruptions in their production processes. The result is low capacity utilization on the one hand and the high cost of interest incurred on the large inventories.

### 2.3 Micro-Level Factors Impeding Productivity Growth

2.3.1 At the micro-level there are a number of factors contributing to low productivity. Among the more pertinent issues are : underdeveloped labour-management relations, a lack of professional management, corporate culture and little training and development of workers, obsolete equipment and technology, inefficient plant layout, poor working conditions, no technical assessment and consultancy capabilities, and a lack of accounting and fiscal controls.

#### 2.3.2 Labour-Management Relations

The labour-management relations climate is colored by the absence of suitable labour legislation. The concerns of labour generally center around the facts that: (a) workers are not issued any letter of appointment, and thus are treated as casual labour with no continuing or permanent status in the enterprise; (b) they can be dismissed at the whim of the management; (c) The wage rates for most workers are below the minimum subsistence level. Management concerns include: (a) the work discipline of labour is poor; (b) the market rate for unskilled labour, and by implication its marginal productivity, is sometimes below the minimum wage rate; (c) the Factory Act does not specify the responsibility of workers in the work relationship or provide any guidelines for when and under what conditions they can be disciplined. Above all, the labour unions in Nepalese manufacturing companies are weak and unable to represent the workers in negotiating with management representatives over issues of mutual concern and help implement the decisions reached in a responsible manner.

#### 2.3.3 Corporate Culture and a lack of Professional Management

The private manufacturing enterprises are mostly small and cottage-scale in size and only a few are medium and large-scale ones. Many of the firms are managed by first generation entrepreneurs, i.e., traders - turned - industrialists, who lack long range perspectives and management expertise. Most of the managers are close relatives of the entrepreneurs. These enterprises are basically family-managed concerns. Many firms do not have annual business plans, targets or strategies. The small - and medium - sized enterprises have only two functional divisions in their organizations: production and administration. The administrative section or division, looks after marketing, personnel, finance, etc.. In most of these firms there are no trained supervisors or professional staff. As a result of the lack of professionally trained management and staffs, manufacturing enterprises are not innovative or growth oriented - in the sense that most of them lack any awareness of the need for product improvement and development, process improvement and adaptation, and cost reduction.

#### 2.3.4 Production Management

Almost all public and private manufacturing enterprises, small and large, do not have formal production planning and control systems linking production with marketing, inventory, maintenance and quality control. Few of the industries have developed standard operating procedures either in manufacturing, maintenance or quality control. Manufacturing systems in these industries also lack standardization of work methods. They have tools and equipment which could be utilized more efficiently through careful planning, better organisation and training of new workers. Similarly, quality attributes of products and intermediate and raw materials are not formally specified and standardized to develop a systematic approach to quality management. Except for a few large private and public enterprises, others do not have planned maintenance schedules. Maintenance of equipment is done only after serious breakdown. Inventory management in businesses is almost non-existent, even though the absence of these systems is costly to the enterprises. The problem of inventory management is critical in dealing with two serious problems faced by business firms in Nepal: (1) the long lead time needed to procure materials and parts from foreign countries, and (2) the requirement of long credit periods because of the distribution system.

#### 2.3.5 Training and Development

Nepalese industrial enterprises lack trained managers, skilled workers and supervisors. The supply constraint of skilled manpower has created a situation where a nominal increase in wages offered by various manufacturing enterprises prompts the skilled personnel to switch jobs. This causes the enterprise to bear increased costs for more training, or to compromise the level of productivity by

working with fewer skilled people. Many private firms hire their key technicians from India, and production is left to their supervision. Most of them are not academically qualified and learned their trade through experience. Their experience and skill are not usually transferred to Nepalese workers. The supervisors are also untrained in supervisory skills, and use "bossism" as the primary method of supervision. Equally serious, enterprise managers are usually not willing to bear the burdens or costs of training Nepalese workers. This negative human resource attitude of managers is reinforced and compounded by the poor work culture of the Nepalese workers. Employers report high worker absenteeism and complain that workers do not feel the need to report before taking leave. On the other hand, managers do not exhibit good work habits either. In short, there is an absence of a "culture of competence" in the Nepalese industrial sector at both the managerial and worker levels. Competence does not just happen, it results from self discipline, hard work, constant training and practice, and continuous learning - an attitude that recognizes the inevitability of occasional failures but always seeks to learn from them. Ultimately, competence requires that managers and workers, be held accountable for their performance. At the present time this "culture of competence" is lacking at all levels in the industrial sector. Because of the rigidities in wage scales there is little incentive for high performance by workers or managers in most enterprises.

### 2.3.6 Obsolete Equipment and Technology

A number of industries are operating with old machines that are subject to frequent breakdowns. Due to this state of technology, productivity is low, products are of inferior quality, and overall output is low. Further-more, because the products of some manufacturing enterprises are intermediate inputs to other manufacturing enterprises, the problems cascade through the sector, and the forward-linked enterprises ultimately incur higher costs, making them less competitive relative to imported products.

### 2.3.7 Plant Layout

Many manufacturing enterprises were established with little or no long term planning or provision for expansion. Consequently, they are now operating in facilities poorly arranged to meet their needs, thus reducing productivity and output. In one recent (1990) survey of industry conducted by ESEC, poor plant layout was observed in 32 percent of the surveyed enterprises.

### 2.3.8. Poor Working Conditions

In the same ESEC study of the industrial sector, 45 percent of the surveyed firms were found to have very poor working conditions in terms of sanitation, venti-lation and lighting, as well as inadequate safety measures like gloves, boots, machine guards, and fire equipment.

### 2.9 Technical Assessment and Consultancy Capabilities

Nepal lacks adequate professional assessment capability and expertise in providing technical and managerial consultancy services. Without the availability of these services it is difficult to assist the manufacturing and industrial sectors in their modernization or expansion, as well as in establishing financially sound and competitive manufacturing enterprises.

### 2.3.10 Accounting and Fiscal Controls

Small and medium-sized firms lack proper accounting procedures, and even large firms do not have cost accounting systems. In general, there is no tradition of basic decision making based on managerial accounting and financial analysis.

### 2.4 Special Problems of Public Enterprises

2.4.1 It should be recognized that public sector manufacturing enterprises, which are a significant part of the Nepalese industrial sector, are constrained in a number of ways by government control in addition to facing many of the same problems outlined for the private sector industrial enterprises. Although public manufacturing enterprises are, on average, better organized and staffed with better qualified and trained staff and workers, their efficient commercial operation is limited by a number of additional

constraining factors: 1) chief executives in public enterprises are appointed by the concerned ministries, but the managers are not made responsible for performance; 2) business targets are not set and manager's rewards are not related to the performance of the enterprises s/he is managing.

## 2.5 Needed Changes and Improvements

The achievement of industrial growth and productivity in Nepal's industrial sector will require action to deal with both the macro and micro-level problems. The macro-level environmental problems should be dealt with to eliminate the constraints and provide the motivation for improving productivity throughout the industrial sector. Fiscal, monetary and trade policies should be revised so they become supportive to manufacturing but neutral to other sectors of the economy. The administrative policies and procedures impacting on business enterprises need to be reformed and simplified. At the micro or enterprise level, a number of steps are needed:

1. Foster the development of good industrial relations geared to Labour - management cooperation and productivity improvement at the enterprise level.
2. Foster the introduction of production/productivity management in industrial enterprises.
3. Encourage the introduction of proper cost accounting and record keeping procedures as part of enterprise financial control systems.
4. Inculcate a culture of creativity, innovation and problem-solving in the production systems
5. Provide for the education and training of competent, qualified professional managers in both the short and long-term
6. Inculcate a culture of competence in the industrial sector workforce and management.
7. Provide human resource development and training to the work force and manage it to achieve its maximum productivity, utilization and conservation.



### **3. Existing Organizations**

#### **3.1 Management Association of Nepal (MAN)**

##### **3.1.1 Background and Organization**

The Management Association of Nepal was established in 1979 with the objective of promoting and developing the science and application of modern management. The numbers of individual and institutional members of MAN in Kathmandu are 645 and 20 respectively. The association also has three regional chapters in Pokhara, Birgunj and Biratnagar. MAN is governed by a chairman and 23 member board of directors with a six member executive committee, and has one full-time professional staff member who serves as Executive Secretary to the organization. The association is housed in a rented building and occupies about 1800 square feet of space. Facilities include a meeting hall and a library. MAN is self-sustaining as an organization, with its staff and programmes financed by the membership fees, training programmes and other activities it undertakes. The bulk of MAN's income is provided by the programmes and activities (76.3%), membership fees (17.6%) and other, such as interest, journal/newsletter sales, etc, providing the remaining income (6.1%).

##### **3.1.2 Programmes and Activities**

The major programmes carried out by MAN are training seminars, consultancies and Talk Programmes. About five training programmes are conducted each year, averaging one week in length and attracting 23 persons per programme. Past training programmes have covered different aspects of management, including planning, compensation, leadership, personnel, marketing, use of computers, etc. The teaching techniques used in training programmes are mostly lectures and discussions. Research and consultancy activities are a minor part of MAN's activities, with an occasional project being undertaken under the aegis of the organization. Talk Programmes consist of visiting local and foreign speakers addressing topical issues. These programmes are provided on a regular basis. More recently, discussion forums and member seminars have been held occasionally to enable members to discuss relevant management topics.

### 3.1.3 Strengths and Weakness

The strengths of MAN are the broad diverse membership among managers and others interested in the management and consultancy professions, and a dynamic leadership anxious to develop the organisation and the range of services provided. The leaders of MAN have their work cut out for them. Participation of membership in MAN sponsored activities is not great, with only five to eight percent of the total membership becoming involved on a regular basis. This is attributed to the differences in academic and occupational backgrounds of members, and their motivation and commitment to the purpose of MAN. Because of the cultural and developmental differences between the few Western educated members and the management structures prevailing in most Nepalese businesses, the MAN sponsored programmes and activities are perceived by many members as not being too helpful. They believe the programmes are not geared to effectively bridge the gap. There is also a perceived lack of need-based training programmes and activities. The association also suffers from a lack of suitable physical facilities and resources to develop coherent and consistent programmes, and the ability to motivate the membership to participate in those activities. The Chairman and Directors of MAN have recognized their weaknesses and commissioned a study to help them determine what the role of MAN should be in the next decade. The report, Role of MAN in the Decade Nineties : A Long term Strategy, was completed in 1990. It sets out a very ambitious strategic development plan designed to overcome the organisation's weaknesses through a number of short and long term strategies. The short term strategies are to: (1) reorient training programmes to be more action-oriented and skill specific; (2) combine training programmes with consultancy; (3) expand their capabilities to conduct research; (4) prepare and update the roster of members; (5) reorient the MAN organizational structure and programme activities to more effectively serve the needs of members; (6) create a permanent body of "faculty" capable of conducting training and research; and (7) begin planning for permanent physical facilities. The long term strategy set out by MAN is even more ambitious. It calls for the creation and running of an Entrepreneurship Development Programme, and the development and offering of a full fledged post-graduate academic programme -- a one-year. Executive Development Programme -- which would offer a Diploma upon completion.

### **3.1.4 Summary and Conclusions**

MAN is a professional association of managers dedicated to raising the status of the profession and ensuring the quality of membership. This is an important role, and much work needs to be done to accomplish the professionalization of management in Nepal including the provision of quality management training. MAN has a role to play in management training, but its long-term objective of conducting lengthy, academically orientated executive development programmes and awarding diplomas would be a duplication of the academic roles and functions of the Faculty of Management (FOM) at Tribhuvan University. Whilst the need for quality post-graduate training is apparent, this need should be met through the strengthening of the FOM. MAN has significant potential in addressing some of the immediate in-service training needs of the private sector on issues which can be covered in intensive, short-term courses. These activities should be encouraged.

## **3.2 Economic Services Centre (ESEC)**

### **3.2 Economic Services Centre (ESEC)**

#### **3.2.1 Background**

Economic Services Centre (ESEC) was established in 1987 as a non-profit public company under the Company Act 1978. Its major shareholders are Nepal Rastra Bank; Nepal Industrial Development Corporation; Bhrikuti Paper Mills; Nepal Rastra Banijya Bank; Nepal Bank Ltd; Janakpur Cigarette Factory; Birgunj Sugar Mill; Himal Cement Company and Staff Members. Prior to its registration under the Company Act, it was operating under the Development Board Act 1964 in the name of Industrial Services Centre. The primary objectives of ESEC are to : (1) undertake socio-economic research and studies in the fields related to the industrial sector; (2) undertake research and studies in the fields of economic planning and development policies; and (3) provide technical and management consultancy services to industrial enterprises. A fourth role of ESEC is to serve as the Nepalese representative to the Asian productivity organization (APO).

#### **3.2.2 Organization and Staffing**

ESEC is managed by a Board of Directors consisting of members nominated by Government and elected from among its shareholders. The daily management of ESEC is provided by an Executive Chairman nominated by the Government. The organizational structure of ESEC is set forth in Fig.2.1. The General Services Division looks after general statistics, services, library, finance, personnel, and a wholly-owned Garment Unit which operates as a separate arm of ESEC. The Economic Policy and Research Division and the Project Consultancy Division handle research and consultancy projects respectively. The business manager supervises contracts with clients and business promotion. The small APO unit maintains liaison with other productivity organizations in the region, receives publications and other materials, and arranges for Nepalese participants to attend APO sponsored seminars and Training programmes. ESEC has 81 staff members of which are research and consulting professionals. The Garment Unit has 12 general service staff, the library four staff, the business managers office two staff, and the remainder are attached to the General Services and Research and Consultancy Divisions. The main offices of ESEC are located in an 8,000 square foot building within the Balaju Industrial District. It also has rented office in Baneswor east of Kathmandu near the airport which houses the Garment Unit.

Diagram insertion

### 3.2.3Resources

The ESEC library contains 10,000 books and reports, and 100 periodicals in the fields of economics, management and industrial technology. It also has a database in the area of macro-economics and industrial statistics, computer facilities including IBM compatible personal computers with hard disks and two printers. Reproduction facilities available include Xerox machines, typewriters and report binding equipment. The company also has training equipment such as VCR, video camera, slide and over head projectors. Other equipment includes telex and fax machines, four cars, a jeep and a bus.

### 3.2.4Strengths

The company inherited from the predecessor Industrial Services Centre a multi-disciplinary staff experienced in industrial surveying, economic and project analysis, industrial planning, and research and management consultancy. Various staff have educational backgrounds in engineering, economics and management. Some of the senior staff have also been exposed to the concepts of productivity measurement and promotion. They also have an understanding of industrial operations at the enterprise level. ESEC has recently employed a group of bright young university graduates. These individuals are presently undergoing training. A major strength of ESEC lies in its library and documentation units, which contain large collections of books, periodicals, reports and international business information handbooks. However, much of this information is now dated and little new material is being added. It also has a wealth of information on Nepalese industries, although they are poorly collated. Another strength of ESEC is that most of its senior staff have close contact with public and private manufacturing enterprises.

### 3.2.5Weaknesses

The original group of professional staff assembled during the earlier incarnation as the Industrial Services Centre (ISC), and who were experienced in technical and economic analysis, socio-economic research and shop-floor management consultancy, has gradually diminished in strength. Professional staff turnover resulted in the loss of many of the better staff, and these were not replaced until recently and only with inexperienced new staff. Thus the professional strength of the company is considerably reduced at the present time. Also, terms and conditions of service in ESEC and its career development programme are not sufficiently competitive or attractive to recruit motivated, educated and professionally trained graduates. Similarly, the cumbersome organizational structure is top heavy with support and administrative staff, inefficient operating procedures and poor a salary structure. This situation places severe limitations on motivation, hard work and good performances by professional staff. Above all, ESEC as an organization does not have a vision of what it wants to be. It has no long-term goals and lacks a long-term strategy for development and growth. Consequently, its professional staff are frustrated with the lack of a sense of direction and feel burdened with a multiplicity of project assignments, many of which may be outside their areas of expertise. The lack of direction and focus and lack of a long term developmental strategy have confused and demoralized most of ESEC's senior professionals.

### 3.2.6 Summary and Conclusions

As a public limited company ESEC is a commercial consulting organization, albeit with close links to the Ministry of Industry. It is not able to fulfill its mission because of its inherited responsibilities for productivity promotion and other service activities for which it cannot charge fees, and because it lacks focus and a sense of direction. Therefore, the company must be reorganized and revitalized so that it may successfully operate in line with its charter.

## 3.3Federation of Nepalese Chambers of Commerce and Industry (FNCCI)

### 3.3 FNCCI

#### 3.3.1Background and Organization

FNCCI was established in 1965 by nascent district trade and industry associations in Nepal, and today it serves as the main representative of the private commercial and industrial sectors in the country. FNCCI is a federation—an apex body comprising 49 District Chambers of Commerce and Industries, 25 various commodity organizations and 122 associate (individual firm) members. However, at the District level the local chambers are all run voluntarily with no full time staff employed. Policy is made by a 41 member Executive Committee broadly representative of the organization's membership. The Executive Committee is aided and advised by several sub-committees and a 17 member Employer's Council, an interim arrangement created to provide industrial employers with a voice. This council serves as a lobbying vehicle enabling employers to communicate their views on labour and other matters, plus providing it's members with industrial relations services, training, research and information, seminars and conferences, and a reference and information service. The administrative functions of FNCCI are managed by a secretariat with an elected Secretary-General who functions as the chief administrative head of the organization. About 30 percent of the revenue to finance FNCCI and its services are provided by subscriptions from the various classes of member: Associate (corporate members and institutions), Ordinary (district chambers, industry and commodity associations) and Honorary. Additional income is provided by receipt of a share of the issuance of "certificate of origin" fees, which are generated by certifications issued by District Chambers.

### 3.3.2 Programmes

The FNCCI serves as the apex organization for the business sector and performs most of the normal functions of lobbying, information gathering and publications (FNCCI publishes journal on industry and trade and a directory of members). It's leaders also maintain liaison functions with international groups such as the Paris-based International Chamber of Commerce, as well as serving on various national bodies and Government appointed committees.

### 3.3.3 Resources

The full time staff of the Federation number 20, of which 8 can be considered as professional staff and the remainder support staff. The Federation is organised into 4 Directorates viz: Industry, Commerce and Supply, Publications, and Research and Training. Each directorate is headed by a deputy secretary, with the exception of Research and Training, which is headed by the Joint Secretary. The FNCCI has in the past been the recipient of assistance from several donors. This will continue in the immediate future, with projects planned by UNDP (NEP/88/19) to develop an information system, ILO for industrial relations support and the Confederation of Norwegian Business and Industry which will provide staff training in the areas of employment law and statistics.

### 3.3.4 Strengths and weaknesses

The strength of FNCCI lies in its role as sole representative and national voice of the business community in Nepal. Unfortunately, it is very weak. A recent study commissioned by FNCCI and financed by USAID/NEPAL (Study Report on the Structure of Federation of Nepalese Chambers of Commerce Industry with Recommendations to strengthen it to Expand activities Services 1990), evaluated the structure of the organization and made recommendations to strengthen it. The study found that FNCCI is organizationally and financially weak. Duties of officers were not clearly defined, agendas of the executive committee were "cluttered up with small administrative items and not spent on policy issues". FNCCI publications were inadequate, with FNCCI's name virtually unknown outside the business community and rarely appearing in the media. Little contact is made with external groups of chambers, the salary structure of staff is low and contact with members infrequent, FNCCI publications lack information of value or interest to the members, and office hours are inconvenient. The condition of FNCCI was noted by the 1990 ILO sectoral review on employment, training and labour in Nepal: "FNCCI needs considerable assistance to strengthen its ability to represent the business community in a dialogue with policy makers, on questions of industry, trade and other policies with implications for productivity".

### 3.3.5 Summary and Conclusions

The FNCCI, as the only national employers federation, is the single representative of trade and commerce in both the public and private sectors (although a new organization representing cottage and small-scale industries has recently been established). It is also the National voice representing the employers on all industrial relations matters, including productivity improvement. The strategic objectives of the FNCCI are clear and in line with its charter. Although organizationally weak the organization has been in receipt of, and will continue in the near future to receive donor assistance to enable it to meet the challenges of the new democratic era.

### **3.4 Trade Unions (TU)**

Since the advent of the pro-democratic movement in early 1990, the previously imposed single Trade Union - The National Labour Organization - has been disbanded. In its place numerous trade unions and would-be trade unions have mushroomed throughout the country. It appears that the vast majority of these are aligned to one of the political parties in the interim coalition government. The situation is confused and is not likely to be clarified until some time after the forthcoming elections. Although the country has seen a period of labour unrest during the past 12 months, the situation has now improved. The few (three) Trade Union Leaders interviewed displayed a responsible attitude and expressed a strong desire for a stable industrial relations situation, fully appreciating that increases in productivity are the only practical way to create economic growth in the