Abstract:

This paper deals with project management scenarios in Nepal. It identifies problems of project management. Essentially, it provides suggestions for improving project management in Nepal. Project management assigns total project authority responsibilities and accountability to a single project manager from inception to completion. It uses coordination, planning and control tools for better use of resources within the constraints of time, cost and quality.

Introduction:

Projects are the backbone of Nepal's development process. They encompass all development activities. The increase inflow of foreign aid has given impetus to project modality for management of development process in Nepal. Much of the foreign aid in Nepal is project-based.

- A project is planned investment. It is undertaken to deliver a unique product. It is a set of one-time-only activities designed to:
  - Attain specific objectives within the constraints of time, cost and quality performance,
  - Create a unique product through the planning and control of variety of resources in dynamic environment.

Economically viable, technically feasible, politically suitable and socially acceptable ideas result in projects. All projects must be owned by their beneficiaries.

Project Cycle

Every project has a life span. It has definite starting and ending points. No product can continue indefinitely. All projects are temporary. Most projects in Nepal originate from development plans of the government or business plans of the private sector. Activities of non-government organizations also create projects.

Every project has a life cycle. It consists of:

- **Formulation phase:** It develops objectives and outputs of the project. Preliminary estimate of time schedule, costs and resource needs are done.
- **Planning Phase:** It involves doing of feasibility study. Resource utilization is planned through detailed estimates of time, cost and quality. Detailed designs are also prepared.
- **Implementation phase:** It involves doing of actual project work. Project organization is set up. Resources are mobilized. Project team is formed control is done.
- **Termination Phase:** The project is completed. It is handed over to the client or beneficiaries. The project organization is disbanded.

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Project Management:

Project management is a new way of thinking about management. It has appeared as an alternative to bureaucratic approach to management of development. It is much like a task force approach to achieve project objectives within the constraints. It makes efficient and effective use of resources.

Project management begins with proper planning of project activities before the project begins. The project team, headed by a project manager has total responsibility for project deliverables. Resources are allocated to various activities. Performance is monitored for feedback and correction purposes. Team members are motivated to excel through higher performance. Project management constantly adapts to the changing project environment.

Project Scenario in Nepal

Nepal is one of the least developed countries of the world. About 31 percent of people live below the poverty line. Its per capita income is US $ 311. It ranks low in the Human Development Index (HDI) of UNDP. The country’s isolation from the outside would for more than one hundred years till 1950 keep it backward in terms of development. The project management in Nepal has the following scenario.

The project concept in Nepal began in 1950/51 with a grant assistance of US$ 100,000 by USA. The planned development began with the implementation of the First Five Year Plan in 1956. Since then, Nepal has implemented nine development plans. The current Tenth Plan (2002-2007) is under implementation. The financing of Nepal’s development plans has been heavily dependent on foreign assistance. Foreign assistance in Nepal is heavily project-based. (See Table-1)

| Table 1: Foreign Aid in Nepal’s Plans |
|-------------------------------|----------------|-------------------|
| Years                         | Total Outlay (Millions Rs) | Share of Foreign Aid % |
| 1. First plan                 | 1956-1961          | 382.9             | 100                |
| 2. Second plan                | 1962-1965          | 614.7             | 77.8               |
| 3. Third plan                 | 1965-1970          | 1639.1            | 56.1               |
| 4. Fourth plan                | 1970-1975          | 3356.9            | 45.0               |
| 5. Fifth plan                 | 1975-1980          | 8870.6            | 48.1               |
| 6. Sixth plan                 | 1980-1985          | 23330.0           | 67.9               |
| 7. Seventh plan               | 1985-1990          | 48344.4           | 70.6               |
| 9. Ninth plan                 | 1997-2002          | 189580           | 58.8               |
| 10. Tenth plan                | 2002-2007          | 234000.0         | 58.0               |

*planned Outlay

The foreign aided project in Nepal consists of:

   a) Turnkey Projects: Implemented by contractors through global bidding process.

   b) Donor Executed Projects: Donors directly execute the projects.

   c) Nationally Executed Projects: Nepalese project managers execute projects.

Project management domed appeared in Nepal during 1970’s. The organization structure adopted for project was "Development Committee". It was an autonomous government controlled project organization structure for the management of a specific project. The matrix project organization structure has also been used in selected cases.

INGOs and private sector are also using the project management concept since 1980s. BOT (Build, Operate, Transfer) modality has also emerged in power sector. Foreign Direct investment in Nepal has also led to greater use of project management. Nepal has approved 930 such projects till 2005. But few of them are operational.

Today, the implementation of Nepal's development plan depends heavily on project management. The project management model is widely used to implement projects in public, private and non-government sectors.

- The first engineering project in Nepal was an iron bridge over the Bagmati River in 1850
- The first hydro-electric project at Pharping was completed in 1911.
- The Raxaul-Amlekhgung Railway line was constructed in 1927.
- Mankamna Cable Car is the marvel of project management in Nepal.
- Kali Gandaki 'A', Kulekhani, Marsyangdi Hydro-power projects and Birendra International Convention Hall are the mega projects in Nepal

In The current Tenth plan (2002-2007), there are 660 approved projects by National planning commission. About 40% of them belong to priority one, 31% belong to priority tow and 29% belong to priority three. (See Table 2)
Table 2: Development projects in the Tenth plan

<table>
<thead>
<tr>
<th>Sector</th>
<th>Priority</th>
<th>Total Project</th>
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<tbody>
<tr>
<td></td>
<td>p1</td>
<td>p2</td>
</tr>
<tr>
<td>Agriculture</td>
<td>34</td>
<td>23</td>
</tr>
<tr>
<td>Forestry</td>
<td>6</td>
<td>3</td>
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<tr>
<td>Land Reforms</td>
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<td>1</td>
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<tr>
<td>Tourism</td>
<td>4</td>
<td>16</td>
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<tr>
<td>Industry and commerce</td>
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<td>3</td>
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<tr>
<td>Electricity</td>
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<td>17</td>
</tr>
<tr>
<td>Irrigation</td>
<td>25</td>
<td>18</td>
</tr>
<tr>
<td>Roads</td>
<td>60</td>
<td>50</td>
</tr>
<tr>
<td>Information/Communication</td>
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<td>5</td>
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<tr>
<td>Science &amp; Technology</td>
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<td>5</td>
</tr>
<tr>
<td>Physical Development</td>
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<tr>
<td>Population and Environment</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Education &amp; Sports</td>
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<td>Health</td>
<td>19</td>
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<tr>
<td>Drinking water/sanitation</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>Women &amp; Children</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Local Development</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>261</strong></td>
<td><strong>207</strong></td>
</tr>
</tbody>
</table>

Note: p1 = Priority one; p2 = Priority Two; p3 = priority three
Source: Tenth plan, 2002

Problems of Project Management in Nepal

Effective implementation is the essence of project management. Implementation is concerned with mobilization. It involves allocation of project tasks to project team within the project organization. Decisions are made about the procurement of equipment, resources and services, Implementation schedule is established.

Project implementation in Nepal has remained ineffective. Most development projects have failed to achieve the desired objectives. Time and cost overruns are common. The average delay in implementation of projects is about three years. It is eight years for energy projects and seven years for irrigation and transport projects.

The main problems in project management in Nepal are:

1. **Unclear Policies and Objectives**

Nepal lacks effective implementation of foreign aid policy. This has perpetuated donor-driven projects with lack links to national priorities. Conditionality of donor-assisted projects lack compatibility with the country's realities. Such projects also lack transparency considerations. Government policies keep on changing in Nepal.
2. Weak Institutional Capabilities

An institutional capability for effective implementation of projects is weak in Nepal. The managerial aspects of implementation are also weak. Most project managers are appointed through political intervention. They get transferred frequently. Project staffs tend to be under qualified and incompetent. Considerable delays happen in setting up the project team.

Technical know-how is poor in the project team. The information system is weak.

3. Lack of User participation

Beneficiary participation is lacking during formulation, implementation and evaluation of projects in Nepal. This has led to lack of ownership of projects by the beneficiaries.

4. Defective Project Design

Donor-driven projects get formulated in foreign countries. The involvement of government agencies in project formulation is inadequate. The result is defective project design, higher cost estimates and wrong assumptions. The implementation is ineffective. Technologies provide in the project also tend to be inappropriate.

The project design for school building in Terai region of Nepal consisted snow roofing in the Basic and Primary Education Project. The foreign consultant assumed that the Himalayan Nepal had snow everywhere.

5. Delays in Project Approval

Decision delays are common for project approval in Nepal. The process of project approval involves multiple parties and cumbersome procedure. Projects need approval from the concerned Ministry, National Planning Commission, and Ministry of Finance and in some cases the Cabinet. The approval process takes a lot of time.

6. Delays in Appointment of Consultants

Procedures and guidelines for the appointment of consultants are complex and time consuming. Political pressures are pronounced in their appointment. Moreover, the utilization of consultants by the projects is also poor due to their poor quality, and unclear terms of reference and poor supervision.

7. Procurement Delays

Delays in procurement are also responsible for poor project implementation. Donor procedures are guidelines for procurement and Financial Administration Regulations of the government are largely responsible for such delay. Decisions take a long time in bureaucratic corridors of the Donor Headquarters and HMG Ministries.
8. Delays in Contract Award
The awards of project contracts are considerably in Nepal because of political interference and pressures from commission agents. Those who do not win the contract generally lodge a complaint with the anticorruption agencies. This further delay awards of contract. Clear-cut procedural guidelines are also lacking to award of contracts.

9. Lack of Co-ordination
Poor interaction and communication between executing agencies, line ministries, and a variety of other agencies has led to poor coordination. Project files remain unattended in the ministries for months. This has constrained project implementation. The project activities lack integration. There is lack of delegation of adequate authority to project manager. Donor co-ordination is also lacking for funding of projects.

10. Delays in Budget Releases
The budget releases for the project are not done on time. The donor funds need to be channeled through the Financial Comptroller General's Office. Considerable delays happen for the release of budget to the projects. This has adversely affected disbursement of funds in the project. Donor procedures also vary with each donor.

11. Lack of Counterpart Funds
Most donor-supported projects require counterpart funding from the government. Inadequate allocation and lack of timely release of counterpart funds have constrained project implementation; this has adversely affected fund releases by donors since donor fund releases are tied to counterpart funds.

12. Reimbursement Problems
Foreign aided projects operate on the reimbursement modality. The projects make claims for reimbursement after incurring expenses. There are delays in submission of reimbursement claims by the project. Donors also take a lot of time in processing such claims. Auditing and reporting requirements are also not fulfilled effectively by the project.

13. Poor Monitoring and Evaluation
Monitoring and evaluation has remained a weak aspect of projects in Nepal. Institutional arrangements exist for monitoring and evaluation. But action is lacking on the problems identified by monitoring and evaluation exercises. Corrective actions are lacking to improve implementation of the projects.

14. Corruption
- Projects are the major source of corruption in Nepal. The recruitment of consultants, award of contracts and procurement of goods and services are the key areas for corruption.
• Corruption has led to delays in decision-making, poor quality of projects outputs, cost and time overruns.
• Vested interests "make or break" the projects. Actions for corruption are few and ineffective. Corruptions at higher political levels have further constrained project implementation.

- The upper Sagarmatha Development Project had 13 Project managers from inception to completion.
- Project Manager was transferred within two years of appointment for
- Third Road improvement Project
- Second Irrigation Sector Project
- Melamchi Water supply project
- The average time from loan approval to signing to contract by consultant time is 10 months in Nepal

Improving Project Management in Nepal

Problems of project management are profound in Nepal. Poor management has been the key reason for project failures. Project management needs improvement in Nepal. The actions needed for this purpose are:

1. **Effectively Implement Policies and Guidelines**

   Foreign aid policies and guidelines should be effectively implemented. Need-based projects should substitute donor-driven projects. Comprehensive guidelines should be laid down for all the important aspects related to projects, such as:
   - a) Project formulation and planning methodologies and techniques of
   - b) Project approval procedures
   - c) Project implementation guidelines
   - d) Procurement guidelines

2. **Ensure Good project Design**

   This should be done through:
   - a) Enhanced Nepalese capacity to formulate and plan project. National planning Commission and Planning Cells of line ministries should be engineered and strengthened. HMG involvement should be a must in all project designs.
   - b) Ensured stakeholder ownership of the project. The key stakeholders, including the beneficiaries, should be involved and informed at all the phases of the project. Local level ownership of the project should be ensured.
   - c) Improved project-screening process. Criteria should be defined for screening purposes. NPC should have a special cell for project screening staffed by professionals and experts.
d) A "Project Bank" should be established in National planning Commission and line ministries.

3. Improve Project Management
   This should be done through:
   a) Projects Management Information System (PMIS) should be established.
   b) Project manager should be given full accountability for the project. The needed authority should be delegated to the project manager to ensure accountability for results. There should be a performance contract with project manager.
   c) Project personnel should not generally be transferred till the completion of the project. They should be technically qualified and competent with adequate experience.
   d) Implementation plan should be prepared and effectively carried out for timely completion of project.
   e) Institutional capacity should be enhanced for project implementation. Training and development of project staff should be a continuous process.

4. Improve Financial Management
   This can be done through:
   a) Project budgeting system should be effectively strengthened. Project budget should be released on time.
   b) Adequate provisions should be made for counterpart funds. The Ministry of Finance should have a special "Counterpart Fund" for this purpose.
   c) Reimbursement claims should be made on time. They should be accompanied by proper documentation, Financial statements and audit reports to track expenses
   d) Project costs should be effectively controlled.

5. Streamline Procedures
   This can be done through:
   a) The procedures for procurement of goods and services, recruitment of consultants and award of contracts should be streamlined and made transparent.
   b) Government administrative procedures for project approval should be simplified. "One window" modality should be introduced for dealing with projects in the concerned agencies.
   c) Donor procedures should also be streamlined. Project personnel should get adequate training an orientation to gain the understanding of donor procedures.
6. Strengthen Co-ordination Monitoring and Evaluation

This can be done through:

a) Project coordination with concerned agencies should be strengthened. Timely information flow, review meeting and effective supervision can ensure better coordination.

b) Monitoring and Evaluation system for projects should be strengthened. The greatest need is to take corrective actions for solving the problems of the project. The organizational arrangement for M & E should be strengthened. M & E system should be simplified.

7. Control Corruption and Politicization

This can be done through

a) Corruption should be effectively controlled in projects. The legal framework for corruption should be strengthened. Strict actions should be taken for cases of corruption. Vested interests should be discouraged.

b) Project management is professional job. Politicians should not interfere in project matters. The initiative for this must come from the top political levels of the country.

Above all, Nepal should increase its project management capabilities for effective management of its development process.

References

The State of Nepal’s Governance

Dr. Dev Raj Dahal*

Introduction

Modern governance—as a structure of norms, rules, processes and institutions—enables national actors to organize information, knowledge and capacities to formulate joint policies and achieve common goals—national security, rule of law, public access to information, citizen participation in civil bodies, delivery of public goods and services and resolution of various types of conflict. The concept of governance marks a paradigm shift from the state-centric to society-centric regime. Horizontal macro actors of governance—the state, the market and all intermediary actors, institutions, networks and movements constituted as civil society—are autonomous decision making bodies. The vertical actors—District Development Committees (DDC), Municipalities and Village Development Committees (VDCs) and similar forms of hierarchically designed sectoral units of various business chambers, ministries, departments and corporations—are decision implementing units. Adaptive governance requires a complex system of decision making rules regarding information, incentives, compliance and feedback.

Government is a territorial entity located within the state. Governance, by contrast, is de-territorialized. Governance is a coordinated regime and, therefore, its synergy can be captured through proper communication, coordination, coherence, steering and collective action of its actors under the vision defined by the Interim Constitution of Nepal and various international regimes of which Nepal is a member. Similarly, its normative means and ethical values are assessed in terms of its performance, neutrality, transparency, accountability and equity. In a information-driven society four fundamental concepts characterize the notion of democratic regime—sovereignty of citizens, inclusive nature of political system, autonomy of public sphere from the state and society for policy discourse and opinion formation and a sense of balance between law and politics. Without these attributes, the tendency of power elites to strategically frame public issues can easily distances citizens from the service of public administration and prevents the rationalization of social transformation.

Good governance enables citizens to have opportunities to secure their basic needs, freedoms and rights through an access to the state, markets, assets, and economic goods and properly regulated civic institutions so that even the poor, marginalized and excluded sections of the society can realize their potential self-worth. Are the governance actors in Nepal sufficiently cooperating to achieve their goals and deploying the normative means? This paper explains the nature of macro-actor of governance in Nepal, public administration, development and delivery of public goods, conflict resolution and presents a short conclusion.

* Chief FES
Governance Actors

The restoration of multi-party democracy in Nepal in 2006 following April mass upsurge and the subsequent parliamentary pronouncements made the possibility of holding Constituent Assembly (CA) election a necessity. The CA has not only made the Nepalese politics an open-ended exercise but also marked a paradigm shift from bureaucracy possessing the state’s essence to opening itself to market and civil society, universal spirit of hierarchy and control to equality, flexibility and competition, and faith in authority and confidentiality to democracy, transparency, ownership, participation and subsidiarity. The Comprehensive Peace Agreement (CPA) signed between the government of Seven-Party Alliance (SPA) and CPN (Maoist), promulgation of Interim Constitution and formation of Interim Legislative Parliament have brought the trappings of structural shift of historical proportions. What about corresponding shift in the political culture?

Ethical governance requires a new equilibrium beyond legislative, executive and judiciary where the state’s imperative of public order is matched with the market and civil society’s instinct for freedom, autonomy and internationalization. Owing to growing political conflicts in the country and globalization, the governance actors in Nepal face institutional deficiency in providing public good and adapting to technological, sociological and political conditions of modernity. Chronic political crisis in Nepal has produced a political culture of confrontation and deadlock, weakened the power of public to live in civil coexistence and nurture their well-being through non-violent means. A proper balance in governance actors and norm-governed action alone can prevent the extraction of social surplus by their leaders. What is the nature of governance actors in Nepal? Why the policies and institutions they adopt do not support broad-based sustainable economic development?

The State

The state of Nepal has lost legitimate monopoly on power, taxation and loyalty of citizens. The government’s decision to cancel national unification day celebration and its agenda of state restructuring will further weaken its ability to maintain security, impose law and order, regain the periphery and restore its capacity to pursue common good unless a widely accepted social contract is negotiated in the mutual interest of all the actors—powerful, potential and excluded. It cannot be seen as a civil association unless it abolishes the state of nature and guarantee citizens’ basic freedoms to enjoy life, liberty and property. Restoring the state’s monopoly on power is important to overcome security, democratic and development deficit, hold CA elections to draft a new constitution, renew democratic legitimacy of the government and shape the rule-based notion of ethical life. Nepal is over dependent on foreign aid, recognition and legitimacy.
The autonomy of state has been eroded by the growth of multiplicity of societal actors sharing policy and decision domain. Due to growing incongruence between the state (ruler) and society (ruled), inability to contain multiple insurgencies and provide service delivery in the periphery, donors call Nepal a “fragile state” and have accordingly defined the principles for engagements for relief, humanitarian works and peace building with the support of the connectors of society. Only visionary leaders can minimize the political differences, build consensus among the key actors for national action and strengthen the constitutionalization of society, economy and polity.

The Market

The Nepalese market is internally fragmented and well-integrated externally. There are hundreds of pockets of small markets unconnected to each other. This condition has defied the national political economy of scale, posed problems for exchange relationship and increased difficulties of collective action. The Nepalese planners’ earlier belief in the infallible wisdom of market to allocate goods and services and specialization has been shattered as it remained too weak to support the pattern of cooperation across national societies, modernize workforce and strengthen the backward and forwards linkages of the economy. The ideology of state minimalism, espoused by Nepalese policy technocrats, limited the power of the state to create security, integrate society, formulate rules and authority and seek the loyalty of citizens to polity. Economy cannot grow if it does not get societal support. Corporate elites, concentrated in urban areas, preside over a grossly inequitable division of wealth that is both the source of their supremacy, disenfranchisement of the mass of Nepali people from livelihoods and the crisis of public life. The market can serve as a meeting point for all citizens when corporate elites assume social responsibility for that market drop out population. They need to pursue class-specific social policy both to increase workers interest in the shared economic projects. Ethical governance requires a tab on the unrestricted interplay of economic actors driven by self-interest and orients them towards corporate ethics of serving public interests.

Civil society

The horizontal series of groups in Nepal called civil society have been regarded as a rational response to social change. Therefore, they are tossed with huge responsibilities of promoting social justice without thinking first their capacity to foster civic involvement and political participation. Despite mushrooming growth of civil society, NGOs and voluntary associations, cooperation between the state, the market and civil society in Nepal is marked by general weariness, distrust and lack of interest in collaborative problem solving. The societal denationalization by civil society and the market forces has produced a class of cosmopolitan citizens who are not obliged by what the notion of citizenship loyalty entails in a democratic polity. The class-bounded nature of civil society has undermined the national ideology of the state-nationalism. It has also exonerated the market and civil society from constitutional control. Moreover, hyper social activism of civil society contributed to the decline of party
politics, eroded the capacity of leadership to inspire mass followers and confront the state with demands arising from the life-worlds of diverse societies. The government is now facing problem in projecting its policy making capacity over the territorial sovereignty. National territory has become too small for the markets and civil society to function and the government and political parties have not developed any integrative political response to this denationalization. A civic identity, without which Nepal cannot acquire the capacity to act independently, can only evolve within a national political community constituted together by a constitutional state, competitive market, socially responsive civil society and citizens.

**Public Administration**

The society-centric governance presumes that there are enough competing centers of power and competing groups, enough citizens competing for influence over public policies and the institutions of governance giving scope for participatory democracy. But the hard question is to explore how democratic process itself is situated within certain political relations, social and economic division of labor, civil-military relations and their competition and conflicts. Nepalese bureaucracy cannot be divorced from this reality. This has posed a problem for civil servants to remain neutral, seek to pursue institutional interests and manage to bring social and collective goods to the citizens. Autonomy of public administration from special interest groups of society is possible with highly selective meritocratic recruitment by the Public Service Commission (PSC), long-term rewards for career improvement, fair penal system and a system of rule of law.

Public administration is an executive part of the state. The legality of public administration in Nepal springs from the separation and balancing of powers among executive, legislature and judiciary, the justification and application of norms and binding administrative power to the interest of citizens in common. This means its integrity, impartiality and honesty in performance are crucial indicators for good governance. The Constitution obliges the state to protect citizens and leave many activities to self-regulating market forces except in the cases of poor, Dalits, women, indigenous people, Madhesis and the marginalized requiring social justice, access to opportunities and identity. Bureaucracy coordinates the functions of the state and society and executes the “rules of the game” governing public policies, elections, property rights and contracts.

Representative democracy defines the basic norms of governance where bureaucracy is bounded by general policies, structured by division of labor and hierarchical control and reviewed for rough conformity to some principles and policies of the state, constitution and laws. The administrative power has a statutory basis approved by people’s representatives in a procedure by discussion, consent, public opinion and constitutional legitimization. The expanding nature of welfare state has added more power to bureaucracy in planning, policy making and service provisions and their increasing control over money, infrastructure development, technical expertise and information. The governance reforms thus also required
new checks, such as ownership of clients, the use of ombudspersons, hearing of public grievances, and citizens’ access to the conduct of public affairs.

The realistic road map of governance reforms in Nepal is a necessary condition to address the question of national integrity system and a culture of impunity. System of political will necessary to carry out reforms in Nepal is complicated by the legacy of paternalism, discretionary authority and a political culture of chakari and affno-manchhe thus de-motivating the esprit de corps of civil servants and the exercise of rational authority.

A number of reasons militate against the accountability of Nepalese bureaucracy. First, despite considerable growth in size and professionalism, civil servants are finding it difficult to hold their job in high esteem due to ongoing political uncertainty. Second, as the boundary between law and politics has been lost, symptoms of institutional decay have occurred in which public officials find hard time to main their dharma (institutional duty and authority) above self-interest and self-aggrandizement. Third, there has been an increase in the atrophy of their morale and civic responsibility to serve the citizens as multiple insurgencies in the country have made them survival-oriented, rather than innovative and risk-taking. And, finally, de-motivation of civil servants in both karya dachhata (ability) and karya chhamata (capacity) has consequently led to a breakdown in the functional imperatives of governance as a national instrument of collective action. The culture of confidentiality has further eroded the trust between the government and the governed and bred the source of corruption. Only a free press and autonomous public sphere grounded on the ability of the state to guarantee citizens’ right to information, protected by independent courts and a vibrant civil society makes the abuse of governmental power absolutely intolerable and reduces the distortionary effects of corruption and culture of impunity. Public access to government information empowers citizens to make important choices and to achieve a greater degree of transparency of governance actors.

**Delivery of Public Goods**

Globalization and the ongoing multi-staged conflicts have undercut the policy capacity of national state to pursue various phases of human rights needs in Nepal—civil and political rights and social, economic and cultural rights and equal outcome. International community has become equal stakeholder of policy regime. One can cite the example of holding of periodic Nepal Development Forum (NDF) where politicians and the parliamentarians have only one option to adapt. As a result, development policies in Nepal are negotiated with the donors and tailored to the strategic pursuit of the “rational choice” followed by most of its development partners regardless of the “political framework condition of a weak state.” The Comprehensive Peace Agreement has yet to enable the state to regain sovereign control over the whole country and overcome authority and institutional vacuum. The rational choice model is a historical, grounded in the neo-liberal ideology and does not fully take into account the existing irrational, unresponsive and tenacious obstacles to change. It also contradicts both social rationality and Constitutional responsibility to create an open society based on social justice, freedom and solidarity of capital and labor mediated by a gender, caste and class-neutral democratic state.
Governance’s ability to muster political will for institutional reforms and achieve targeted programs for poverty alleviation embedded in Tenth Plan, MDGs and PRSP can be realized only if the central functions of the state such as security, order, rule of law, humanitarian and welfare schemes are restored and linked to negotiated conflict transformation. Economic performance is largely determined by the structure of incentives, “public choices” accorded to the stakeholders by the government and the delivery of basic services, such as education, health, social welfare provisions, water and sanitation, communication, technology and ecological resources underlined in Service Delivery Guidelines through alternative mechanisms—private, community, civil society and humanitarian organizations. Persistence of chronic poverty in Nepal implies the deficiencies of economic policies to trigger production revolution and foster the social integration of Nepalese society.

If poverty alleviation is meant to overcome powerlessness there must be a political will and strategy of the political class. A political structure must be created in such a way that right to livelihood is constitutionally guaranteed, poverty alleviation becomes a participatory process, a new social contract of the poor with the state is negotiated where the state serves as a helping hand to them and root causes of conflicts are addressed in time before they escalate into unmanageable proportion.

**Conflict resolution**

Conflict escalation implies governance ineffectiveness. In Nepal, conflict is hierarchical situated at the geopolitical (links of various national actors to geo-strategic contest of great powers), structural (between the state and CPN-Maoist), manifest (between the CPN-Maoist and SPA) and latent (between the state and subsidiary identities of societal forces) levels. Conflict is formed at the societal level due to gaps between constitutional ideals of freedom, equality and social justice and hard reality of inequality, bonded labor and structural injustice. Due to a lack of proper management, the underlying grievances of critical mass were articulated at the political level, then militarized and finally escalated at geopolitical level. Resolution of conflict demands proper study and suitable political response to address the “root causes” of conflict. Resolution of conflict in Nepal requires a transformation of the rationalist conception of politics where power is pitted against power for survival, supremacy and identity thus sidetracking the question of social justice.

The Comprehensive Peace Agreement (CPA) stresses on conflict management through social, economic and political transformation. But, popular ownership of the peace process must be followed through discursive practices and mediation of perspectives than imposition, monopolization and hegemony. Nepalese political actors must learn from the failure of power-mediation approach of 1950, 1990 and 2006 where social contracts created their own enemies and rendered democratic peace unsustainable. The high political dynamics played out on the root causes by subsidiary identities on redesigning of the state, proportional representation, arrangement of arms and armies of all sides, etc and irresolution of conflict residues are generating other negotiation environment. Hierarchical nature of conflicts in Nepal entails
multi-track and multi-step conflict transformation strategies. This means peace building measures requires simultaneous strengthening of security, order and welfare.

Ordinary citizens, working at the grassroots level, are now coping with various types of conflict and inventing the change process. But, they need full agents of change—information, skills, organizations, networks and resources for peace building. To change the structural causes of underdevelopment, the organization of the poor must have critical mass of change agents to reform the unreasonableness of public order that does not bring well-being, freedom and identity and articulate a vision for things higher than those offered by today’s government, political parties and civil society.

Conclusion

Governance in Nepal requires the citizens to forge a single national identity, an identity sustained by a democratic partnership among the state, the market, the civil society and citizens, and instill in them a sense of belonging to the state. A discursive, rather than elite mediated, communication has to be steered on constitution-making processes so that consensus on national vision and public order facilitates the resolution of various types of conflict. Governance has to take into account the plurality of considered public opinions and, consequently, bridges the interests of all sides. The greatest strength of governance lies in their capacity to enlist the confidence of ordinary citizens to shape the shared interest of society and its future. Without strengthening the national integrity system and proper separation and devolution of power, transparent, just and responsive governance cannot be realized. The tissues that connect the citizens to governance, such as legislatures, political parties, civil society and a myriad of mediating social and economic institutions, now require a coherence, trust, cooperation and collective action based on general human essence.

If the Interim Constitution, the only governing plan of the nation, is made a contested site for power struggle and interest groups of society reflect institutional biases of their organizations, the only option left for bureaucracy is to act with public-minded spirit and link themselves with the values and experiences of ordinary citizens who are coping with various types of conflicts and struggling to evolve norms based on their needs, aspirations, reciprocity and order encapsulated into a local regime. This is the way to win the confidence of Nepalese citizens and the development partners who believe that Nepal ceased to become a developing country. At this critical historical juncture, the responsibility of Nepal’s governing and opposition leadership lies in steering the governance in right direction that is both democratic and legitimate and closes the gap between expectation of citizens and reality of deficiency that threatens domestic political stability, forces the retreat of the state from society and a rational process of social change which makes violent conflict redundant.
Development of Private Sector: Concepts, Issues and Prospects

Ram Babu Nepal

Abstract

This article aims to talk about the concept of private sector and its role in national development, issues and challenges in its development and prospects. The author has stressed that private investment is an influential vehicle for improvement, economic growth and poverty diminution. An energetic and healthy private sector is basic to sustainable growth of state economy. In addition, he has stated that the private sector be able to minimize scarcity by contributing to economic growth, work formation and poor people’s incomes. It is able to give power to poor people by providing wide variety of products and services at lesser prices.

Introduction

Modern world is facing the critical challenges of alleviating poverty and correcting inequalities in the distribution of income and opportunities, delivering the basic services to people especially living in rural and backward areas, and stabilizing and sustaining the levels of growth and development achieved. Public sector was recognized to be the major player in the process of socio-economic development. But history and experience had demonstrated that private sector can also make meaningful contribution in shaping the process and pace of development mainly by promoting industrial development, fostering production, investment and trade and providing employment opportunities to growing number of active population. As a consequence, the development community is focusing, in recent years, on the need of developing and strengthening private sector and making its role broader, stronger and dynamic.

Private sector and its development: concept and essential features

What is a private sector? This term is widely used in economics, planning and administration. From the perspective of economics, it encompasses farm and non-farm business activities promoted and managed by individuals and their group(s). It is made up of small and medium business enterprises, formal or informal and registered and non-registered and also large well-established firms including multinational enterprises. In the context of planning, it implies all economic and non-economic activities initiated and managed by agencies other than government. From administrative viewpoint, it comprises a wide spectrum of activities initiated and managed by individuals and their group(s) to
serve common interests, to promote self-help initiatives and to improve living condition. The DAC Orientations define the private sector as ‘a basic organizing principle of economic activity where private ownership is an important factor, where markets and competition drive production and where private initiative and risk taking set activities in motion.’

Virtually private sector is present everywhere. The terms ‘private business’, ‘private enterprise’, and ‘private entrepreneurship’ are used interchangeably to indicate private sector. It is made up of the wide variety of business initiatives including widely known business initiatives of the rich and highly influential business tycoons and some activities whose presence may be unnoticed. The main features of the private sector are as follows:

1. Driven by profit motive.
2. Private ownership of physical and financial capital.
3. Personal risk taking and entrepreneurship substantially determining the nature of operations.
4. Personal initiatives, innovation and vision influencing the development of private sector.
5. Represents wide variety of activities i.e., from farming, small and medium enterprises (SMEs), and manufacturing companies to multinational enterprises.
6. May be unorganized (not registered) or organized and formally registered.
7. Operations are influenced mainly by the market trend, test of customers, capacity and willingness to take risks and business environment.
8. Entrepreneurs invest in new ideas, products and facilities to stay relevant and ahead of competition.

Large private enterprises are the vital part of national economy. But small and unorganized enterprises also play meaningful role in the delivery of essential goods and services to people and generating employment locally. Private sector development (PSD) is a process of promoting entrepreneurship, innovation and investment to stay relevant and to be competitive. It aims to provide the entrepreneurs the opportunities and incentives to test their ideas, strive for success, prosper or fail and to support people to enhance potentials and to improve the quality of life. In brief, PSD is about the following:

1. Maintaining a reasonable balance between the complimentary functions of state and private sector to achieve the objectives of sustainable development and growth of economy.
2. Releasing and harnessing productive potentials of people and satisfying their needs.

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1 Quoted in the Accelerating Pro-poor Growth through Support for Private Sector Development: An Analytical Framework, DAC Network in Poverty Reduction, OECD, 2004, p. 17
3. Promoting growth, reducing poverty and helping people improve the quality of lives.

PSD strategy covers a number of approaches and includes mainly the following:

- Creating conducive environment to foster private investment and entrepreneurship.
- Promoting innovation and entrepreneurship.
- Supporting the development, modernization and expansion of businesses.
- Providing financial support and incentives.

**Role and contribution of private sector in national development**

National development is a comprehensive term. It is not just economic well-being but also the social, cultural and political enhancement of citizen. It is a continuous and participatory process. Its objectives can be achieved with the active support of public and private, economic and socio-cultural institutions and people representing all sections of societies. Until the 1990s, the role and contribution of private sector was not sufficiently assessed and highlighted in economic and development literatures. "The role of private enterprise in development has been neglected by scholars, governments and aid organizations. This is regrettable: a vibrant private sector generates jobs, raises incomes and makes better, cheaper goods and services available." 2

The development community had now realized that private businesses are at the heart of economic success, the main engine of growth, the source of entrepreneurship and innovation and the major provider of essential services. It also helps allocating a country’s human resources to their most productive uses, enhancing general economic welfare, maintaining regional balance and encouraging further growth and development. The local entrepreneurs in particular play a key role in reaching out to disadvantaged area and supplying essential commodities and generating employment. The following opinions highlight the role, importance and contribution of private sector in economic growth, development, poverty reduction and delivery of public goods and services:

1. A vibrant private sector building on the combined strength and linkage between large, medium, small and micro enterprises is an essential prerequisite for triggering economic dynamism, enhancing productivity, transferring and diffusing new industrial technologies, maintaining competitiveness, and contributing to entrepreneurship development and ultimately poverty reduction, as called for in MDG 1.3

2. Development of a strong and dynamic private sector is crucial to long-term, rapid economic growth, a necessary condition for sustained poverty reduction.4

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3 Operationalizing UNIDO’s Corporate Strategy, UNIDO, 2004, p. 36
3. The private sector has a central role to play in the war on poverty and mobilizing private investment, both domestic and foreign, is imperative for promoting the broad-based and sustained economic growth that will help drive poverty reduction.5

4. Private firms are at the heart of development process. Driven by the quest for profits, firms of all types – from farmers and micro-entrepreneurs to local manufacturing companies and multinational enterprises – invest in new ideas and new facilities that strengthen the foundation of economic growth and prosperity.6

5. The private sector can alleviate poverty by contributing to economic growth, job creation and poor people’s incomes. It can also empower poor people by providing broad range of products and services at lower prices.7

6. When private enterprise is robust and dynamic, it not only invigorates the national economy as a whole but also increases job opportunities and reduces poverty. Furthermore, accompanying growth in national tax revenues leads to enhancement in education, health care, welfare, and other public services.8

7. Private enterprise is the engine that sustains economic growth in today’s world. In turn, economic growth is essential for reducing poverty and lessening the tensions that can feed conflict, lead to state collapse, and contribute to the growth of criminal and terrorist networks. Economic growth also promotes the expansion of international markets and commerce, and increased prosperity in both rich and poor countries.9

In recent years, poverty alleviation has moved to the centre of the global dialogue as the primary overriding objective of development – not a derived outcome.10 The multidimensionality of poverty embodied in the Millennium Development Goals (MDGs) represents a shared commitment. It also provides comprehensive guidelines to donors and governments to direct resources to overcome the most critical challenges facing humanity today. Governments and donors are striving to harmonize their support and lending strategies to achieve the MDGs. Growing trend of privatization (shifting the ownership and/or management responsibility from public to private sector) also reflects the realization of the efficiency of managing businesses by private entrepreneurs. The concept of PSD has gained prominence in development plans and policies mainly because of the contribution in addressing the following:

- **Sustaining growth** – Production and employment are vital to economic growth and complimentary. Growth creates jobs that use labor, the main assets of the poor and

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5 Using ODA to Private Investment for Development: Policy Guidance for Donors, OECD, 2006, p. 5  
8 Japan International Cooperation Agency (JICA), www.jica.org.jp  
10 Unleashing Entrepreneurship, op. cit., p. 6
contributes to reduce poverty. Private enterprises contribute to economic growth by boosting production. Other economic activities (services such as transport and communication) are dependent on production. Impact of growth may not necessarily trickle down and benefit poor people and contribute in improving their living standards. However, growth increases and expands tax base that enables government to generate revenue which can be used for the well-being (education, health, housing, water supply, sanitation etc.) eventually contributing to enhance human productivity.

- **Expanding job opportunities** - One of the key measures of eliminating poverty is employment that does not only provide the source for livelihood but also contributes in enhancing the opportunity to live with dignity. Social security schemes may provide the source of living (income) but that does not necessarily satisfy people. They always look for opportunity to work and make their identity. In this context, employment is critical. Employment is key link between output growth and poverty alleviation. Employment contributes in increasing household expenditure on health, housing and education. "Secure, safe and well-paid jobs and productive self-employment are important pathways out of poverty for the billions of poor men and women in developing countries that struggle to survive." Due to informal nature, private sector also provides job opportunities to those who could not find job in formal economy. According to the DFID "nine out of ten jobs in the developing world are in the private sector." Increased job opportunities not only support individual to raise income but also contributes in generating government revenues that can be further mobilized to create and expand public goods and services.

- **Improving the quality of life** – The demands for the basic social services (health, education, drinking water, sanitation etc.) is increasing. Government’s performance is also judged against its capacity to deliver public services in an economical, efficient and effective manner. Providing those services to growing population demands pragmatic and cooperative approach. Private enterprises can compliment government in providing basic services such as water, sanitation, health and education and improving infrastructures - the essentials for the sustainable improvements of livelihoods. As a measure to respond increasing demand for education and health services, governments have already adopted the policy of private participation in education and health. ‘Private provision of goods and services with public financing can also be well-suited to the social sectors, as another form of support for poverty reduction, where the private sector can sometimes be engaged on a contractual basis to operate not-for-profit social facilities, like schools and health clinics." Private sector supports in empowering poor people by providing them with services and consumer products, increasing choices and reducing costs. Local businessmen support people in meeting needs of basic goods at

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11 Promoting Private Investment for Development: The Role of ODA, DAC Guidelines and Reference Series, p. 11
12 DFID and the Private Sector: Working with the Private Sector to Eliminate Poverty, Department for International Development (DFID), p. 5
reasonable cost which makes life easier. The social benefits of a strong and vibrant SME in empowering people alleviating poverty for many of the poor in developing countries has been well recognized. Nepal also provides a good example of the contribution of local businessmen in remote and underprivileged areas. Despite a number of challenges, private entrepreneurs have been supplying basic goods to people. ‘The private sector is already meeting the needs of poor people in places governments do not reach.’ The end results of improved services to poor can be seen in terms of economic growth and reduced poverty.

Major constraints in the development of private sector

Development of private sector demands careful analysis of the constraints to identify appropriate remedial measures and to develop suitable implementation strategy. Entrepreneurs in developing countries face a number of challenges at various stages business operations i.e., registration, setting up business, running, marketing and expanding business. Modernizing technical skill of traditional craftsmen through training and the provision of equipment is critical to boost local economy and prevent people leaving their age old businesses. The Commission on the Private Sector and Development had identified three major structural challenges of private sector in developing societies, to varying degrees.

- Micro enterprises and many small and medium enterprises operate informally.
- Many small and medium enterprises have barriers to growth.
- A lack of competitive pressure shields larger firms from market forces and the need to innovate and become more productive.

State has the obligation not only to develop economy but also to ensure fair distribution of opportunities. This obligation poses serious challenge to governments in developing countries like Nepal where geophysical complexities and inequalities between genders and ethnic groups are high. Wider distribution of economic opportunities to different parts of the country and encouraging the participation of women and backward communities in the mainstream of development is a must and it needs a comprehensive strategy. Inequalities between genders have been a serious impediment in development. ‘Women and men face different social and economic constraints in responding to economic opportunities in the private sector.’ Women face specific constraints to participating in labor, financial and goods and services markets because of social norms, biases, prohibitions and gender divisions of labor. Pro-poor growth strategy has to aim at encouraging diversified economic activities which could provide opportunities to women and backward population. The common constraints in the development of private enterprises in developing countries are: (a) low rate of investment mainly due to low rate of saving, (b) underdeveloped entrepreneurship and motivation, (c) low productivity.
because of lack of skilled manpower and the capacity to invest on modern technologies, (d) inadequate incentives for innovation due to socio-cultural factors, values and lack of technical and business skills, (e) difficulty in predicting rate of return due to smallness of the size of market, frequent changes government policies that effect business. As entrepreneurs, the poor face obstacles which prevent them from: (1) owning assets (such as land); (2) accessing finance for development; (3) acquiring market information; (4) formalizing their businesses; and (5) accessing basic infrastructure services. Macro-economic instability, lack of comprehensive and integrated policy on trade, industries, investment, banking and insurance, labor, underdevelopment of infrastructures, procedural complexities for entry and exit to business, limited flow of technology, underdeveloped financial markets and support services are the major issues in the development of private sector in developing countries.

**Measures to promote private sector**

The objective of achieving sustainable and broad-based development contributing to fair distribution of income and opportunities depends to a great extent in the support of private sector. Domestic resources are much larger than actual or potential external resources. But there is a need to adopt policies and programs that channel domestic resources for productive purposes. ‘Vigorous and sustained economic growth, fuelled by investment and entrepreneurship, is needed for the private sector to create more jobs and increase income of poor. In return, this will generate the revenues that governments need to expand access to health, education and infrastructure services and so help improve productivity.’ Unleashing the domestic resources in an economy – both financial and entrepreneurial – is likely to create a more stable and sustainable pattern of growth. The following factors are critical to the development of private sector:

1. **Creating an enabling environment** – It implies the creation of an environment where entrepreneurs irrespective of their financial and social status are encouraged or feel comfortable to invest their capital and to do business. It is about making entrepreneurs to feel, realize and harness their potentials and demands strong institutions that support business enterprises. There is a correlation between the quality of the business environment and the long-term national economic performance, including the pace of poverty alleviation. It encompasses steps and measures that reduce the share of informal sector in an economy by encouraging moving to formal economy. The major issues to be considered in creating such environment are reforming regulations that govern business sector (property rights, taxation, regulation of business, banking, finance etc.), promoting rule of law, formalizing the economy and encouraging private sector in policymaking processes. Rule of law requires that government decisions are made according to a set of written laws and rules, to be followed by every citizen. ‘Laws form an intrinsic layer of the foundation for a robust private sector. Without a transparent legal

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17 DFID and the Private Sector: Working with the Private Sector to Eliminate Poverty, op. cit., p. 13
18 Using ODA to Private Investment for Development: Policy Guidance for Donors, OECD, 2006, p. 1
framework and a fair judicial and administrative system, other efforts to foster private sector development cannot work as intended, and may even do harm.\textsuperscript{19}

Domestic and global macro-environment is the major incentives to promote private investment. Predictability of public policies, peace and political stability, transparency and accountability and sound macro-economic policies are key elements of the domestic macro-environment. ‘An enabling domestic environment is vital for mobilizing domestic resources, increasing productivity, reducing capital flight, encouraging the private sector, and attracting and making effective use of international investment and assistance.’\textsuperscript{20} Open exchange of goods, capital and information and the transfer of technology, experience and information stimulate the growth of private sector as the main elements of global macro-environment. ‘The foundations for growth in the private sector start with a well-functioning global macro business environment involving a dynamic global economy that provides markets, as well as adequate trade rules that enable competitive process to market opportunities.’\textsuperscript{21} Liberal industrial policy and legislation to support to the implementation of policy encourages the technology transfer and foreign direct investment.

2. **Create a good investment climate** – Investment underpins growth by bringing more inputs to the production process. ‘The investment climate is the set of location-specific factors shaping the opportunities and incentives for firms to invest productively, create jobs, and expand.’\textsuperscript{22} Such climate is critical: (a) to higher productivity by providing opportunities and incentives to develop, adapt, and adopt better ways of doing things, (b) to fight against poverty, and (c) to enhance quality of life of people. Investment climate is largely affected by the costs, risks and competition and the government policies and procedures. A good investment climate encourages firms and farms, both small and large to invest, create jobs, and increase productivity. ‘Improving the investment climate is the first pillar of the World Bank’s overall development strategy.’\textsuperscript{23} Employees, entrepreneurs, consumers and general public are benefited from such climate. The main elements of a good investment climate are as follows:

a) **Stability and security** – These are vital to encourage investment and entrepreneurship. No investor wishes to invest in an unstable and unsecured environment. Stability is about providing predictable policy and regulatory environment in which investor are assured of the future of their investment. Security is about the protection of properties, people and reducing the cost of doing business.

b) **Regulation and taxation** – Business has to comply with the government regulations and procedural requirements. Sound regulation supports preventing market failures that inhibit

\begin{itemize}
\item \textsuperscript{19} Unleashing Entrepreneurship, p. 16
\item \textsuperscript{20} Monterrey Consensus on Financing for Development, United Nations, 2002, p. 7
\item \textsuperscript{21} Unleashing Entrepreneurship, p. 15
\item \textsuperscript{22} World Development Report - 2005, Overview, p. 2
\item \textsuperscript{23} World Development Report – 2005, Overview, p. 2
\end{itemize}
productive investment and reconciles the interests of firms with wider social goals. Sound taxation contributes generating the revenues that can be applied to finance the delivery of public goods and services which improves the investment climate and also meets broader social objectives. Legal and administrative requirements are the matter of concern to entrepreneurs because of their impact on resources and profitability. Reducing over-regulation and red tape, improving competition policy, cross border business and tax laws are important to encourage investment. Regulations should be prepared considering its principles; (a) transparency, (b) accountability, (c) proportionality, (d) consistency, and (e) targeting to make them responsive.

c) **Infrastructure (financial, physical and social)** – The quality, accessibility and affordability of infrastructures are one of the major determinants of growth and development. Financial infrastructure implies banking, insurance and financial services. These services provide support in managing and mobilizing finance for business. Physical infrastructure (transport and communication networks and power) connects businesses to customers and suppliers and helps take the advantages of modern technologies, to access market and promote efficiency in production. It makes significant impact on cost which is a key element of competitiveness. Socio-cultural values also affect private businesses. Developing countries are facing the problem of attracting of qualified people in private sector for a number of reasons including job security, social values, and underdevelopment of corporate culture and prospects of career progression. Developing these infrastructures and making them supportive to business will encourage investment.

d) **Workers and labor markets** – Availability of skilled workers and organized labor market make a direct impact on the development of business. Investors are concerned with quality and availability labor force, the rate of compensation and the terms and conditions of services. These elements are critical for the success of business and profitability. Technology is changing fast. Labor should be trained and developed to keep pace with the changed technology. Businesses that fail to realize the need of change may loose opportunities to grow. Improvement in the investment environment from the perspective of labor management requires attention mainly on: (a) fostering a skilled workforce, (b) crafting labor market interventions to benefit all workers, and (c) helping labor to cope with change in technology. Support to education and training to enhance skill makes job potentials wider and encourages businesses to adopt new technologies. Labor regulations are usually focused more on the interests of workers considering their vulnerability. Over-emphasis on the rights of labor may force entrepreneurs to look more towards informal workforce that lack statutory protection. Therefore, government policy should maintain reasonable balance between the vulnerability of labor and business interests.

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e) **Cost of doing business and associated risks** – Incentive to investment also depends on the possibility of saving cost for doing business, making the investment productive or beneficial. A number of factors such as inadequate and underdeveloped infrastructure, corruption, criminal activities, legal and regulatory requirements and excessive red tape reduces profit, discourages investment and creates disincentive to move business firms from informality to formality. Risks are the integral element of businesses. Entrepreneurs are prepared to take risks that caused by the responses from customers and competitors as integral part of business life. There are other risks caused by policy uncertainty, macroeconomic instability and arbitrary regulations and administrative procedures. Such risks should be minimized or even eliminated to encourage investment.

f) **Providing direct support to firms** – Business enterprises need support mainly on market information, business management skills and the understanding of business environment at the initial stage of business set-up to integrate to business community. In addition, government support to promote industrial products in international market encourages investors.

3. **Improve the access to knowledge resource** – Modern economy is turning to be knowledge economy. Ownership of ideas has become increasingly important than capital. Knowledge to combine the factors of production to produce goods and services more efficiently has been considered the fourth factor of production. Knowledge resource is comprised of data, information and knowledge. Modern business must have sufficient data and information not only about own product but human and non-human elements that affect business prospects. ‘Technological innovations and the shift towards knowledge-based economies make human capital investment a prerequisite for sustained economic growth and central to start-up, growth and productivity of firms.’25 Small and medium scale enterprises in developing countries are seriously constrained by the access to knowledge resources, which impact on modernizing products and enhancing their capacity to respond changes in technology and market.

4. **Developing and maintaining business management capacity** – Developing the capacity of people, organizations and society is a central and crosscutting element of all development efforts. Business management has become more critical and challenging than before for some obvious reasons i.e., trade liberalization, globalization and the development of technology. The capacity of management must be built and constantly updated to enhance the ability to overcome constraints, to adopt the changes in business environment and new technologies, to promote innovation and to expand entrepreneurial skills.

5. **Promoting public and private sector dialogue** – Dialogue between public and private sector can support a great extent in promoting professional cooperation, reducing any misgivings and promoting complementarities for the overall development. ‘An effective consultative mechanism can help promote and sustain public-private partnerships in the DMCs

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25 Unleashing Entrepreneurship, p. 19
to balance social and development goals with commercial interests.\textsuperscript{26} Therefore, government should organize formal and informal consultations periodically to understand the issues, challenges and prospects of mutual cooperation.

The World Bank has been publishing Doing Business reports annually investigating the regulations that enhance business activity and those that constrain it.\textsuperscript{27} In its 2006 report, it has assessed doing business environment in 155 countries that impact on the followings:

- Starting a business.
- Dealing with licenses
- Hiring and firing workers
- Registering property
- Getting credit
- Protecting investors
- Paying taxes
- Trading across borders
- Enforcing contracts
- Closing a business

Government can contribute in all these factors directly or indirectly.

**Role of the key players**

Development of private sector is an ongoing and collaborative process. The major players in the development of private sector and their roles and responsibilities are discussed briefly as follows:

1. **Government** – There are a number of factors related to government that encourage development of private sector or vice versa. The plans, policies, strategies and procedures adopted by government and the approaches and behavior of its officials substantially influence private investment and entrepreneurship. Enthusiasm of doing business boils down if the policies and procedures of government are restrictive and cumbersome. Governments have to make a strong and unambiguous policy commitment for the sustainable development of private sector – and combine that with a genuine commitment to reform the regulatory environment, elimination of artificial and policy-induced constraints and monopolies. Macro-economic stability is most critical to create a favorable investment climate and government has to play

\textsuperscript{26} Private Sector Development Strategy, Asian Development Bank, March 2000, p. 25

main role in stabilizing economy by adopting monetary and fiscal policies and regulatory measures.

Business is affected by government’s policy especially on trade, tax, competition, wage, labor and investment. Lack of coordination between these policies and agencies implementing them may be counter productive to investment and growth although those policies may be attractive on their own right. Therefore, establishing policy coherence is critical for the development of private sector. Competition provides opportunity to innovate, to learn and to adapt solutions and to respond customer demands.

As regulations have direct impact on business, operations, resources and profitability, government can encourage business investment by minimizing the concentration of power, oligarchy, monopoly, and other distortions that make efforts to help poor people ineffective. Regulations should minimize administrative procedures; promote open market policy to defeat the entrenched privilege that perpetuates poverty. Strengthen procedures for contract enforcement and dispute settlement.

Formalizing business is a major challenge to governments. ‘The informal economy forms a large part of the economies in developing countries. It provides employment and income to many poor households, including those who lose or cannot find work in the formal economy. It includes a disproportionate number of women and people from disadvantaged groups.’ As not enough, secure, safe and adequately paid jobs being created in the formal economy and process to formalize business is cumbersome, entrepreneurs are not motivated to formalize their business. Informality provides some benefits in certain circumstances. ‘If the formal rules, enforcement systems and cultural conditions in a country are so restrictive that most entrepreneurs cannot use their talents, the economy may benefit if they operate informally.’ Informality provides a great deal of flexibility to businessmen but it has certain limitations in seeking financial and legal support. In addition, it is detrimental from the perspective of economy and protection of labor rights. Government should consider minimizing regulatory and administrative barriers, fees and financial requirements and improving business services to encourage entrepreneurs to formalize their businesses.

Efficiency and ways of functioning of regulatory institutions have been a matter of serious concern in developing countries. In many cases, these institutions are prone to corruption because of ambiguity in rules and regulations and lack of systematic approach. There is a need of change in the mindset of government officials to encourage private investment.

It has been widely recognized that public policies cannot gain wide acceptance and support if stakeholders are not consulted during its formulation and development process. Engage the

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28 Promoting Private Investment for Development: The Role of ODA, OECD, 2006, p. 18
29 Unleashing Entrepreneurship, p. 12
private sector in policy development process. Wide consultation is definitely not an easy task. But to win potential barriers in implementation, consultation is the most appropriate way out.

2. **External partners (donors, development institutions and foreign investors)** – Realizing meaningful contribution of private enterprises in sustaining development, growth and poverty reduction, external partners are focusing on the effective strategy to promote private sector. These partners can extend their support mainly in three ways i.e., (a) encouraging governments in adopting appropriate policies, (b) providing financial support, and (c) providing support to build capacity of private enterprises. The World Bank Group (WBG) has announced its PSD strategy. The fundamental thrust of the PSD strategy of the WBG is to bring the benefits of markets to help poor people. It focuses on the following areas:

- Extending the reach of markets – (a) fostering sound investment climate, and (b) direct support for private firms.
- Improving basic service delivery – (a) private participation in infrastructure, (b) private provision of social services, and (c) output based aid – tapping private initiative for public services.

Creating enabling conditions, generating business opportunities, and catalyzing private investments are the ADB’s three strategic thrusts for the PSD. ‘As a multilateral development institution, ADB does not finance private sector projects based solely on their financial viability. Projects must have clear development impact and/or demonstration effects that go beyond the benefits captured in the financial rate of return.’ The key premises for ADB’s work towards strengthening the private sector in its developing member countries are: (a) private sector development is crucial to economic growth, (b) sustainable economic growth creates jobs and can reduce poverty, and (c) expanding the private sector increases the tax base for the delivery of social services.

The United Nations Industrial Development Organization (UNIDO) is the specialized agency of the UN, which is mandated to support industrial development. The UNIDO had developed eight service modules to support industrial development in developing and transition economies. It aims to support micro, small and medium enterprises through four main support programs as follows:

- Business partnerships – targeted more to the medium enterprises.
- SME cluster and networking development – targeted to small enterprises.
- Rural and women entrepreneurship development – focused to the micro enterprises.
- Information services – focused to all three enterprises.

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30 PSD Strategy – Directions for the WBG, p. 45
The key objectives of the DFID’s private sector programs are: (a) improve the business and investment environment, and (b) strengthen business capacity.

The objective of the Canadian International Development Agency’s PSD policy is to create more, better and decent jobs and sustainable livelihoods by helping markets to function well and by stimulating the growth of local private sector in developing countries and countries in transition.32

The OECD had observes some critical deficiencies in the past strategies and approaches of donors in supporting PSD. The major deficiencies were (a) insufficient attention given to enterprise and supply-side capacity development, (b) over-emphasis on assisting specific types of firms which could lead to market distortions and poor sustainability. It has made some important recommendations to donor agencies to help developing countries mobilize more productive investment, and improve the effectiveness of interventions:

- Be more strategic, and their interventions need to be harmonized and guided by more systematic learning of lessons.
- Focus on helping to lower the costs of investment, reduce risks, improve competition and develop human and institutional capacities in developing countries.
- Give high priority to economic infrastructure investment and financial market development, as key areas for mobilizing investment in the near term.
- Pay greater attention to the determinants of domestic investment, both formal and informal, and to strengthening the capacities of local firms to respond to new investment opportunities and to expand business relationships with foreign investors.
- Enhance the contribution of investment to pro-poor growth (i.e., increase the impact of growth on poverty reduction) by making labor, land and other markets offer better for the poor, tackling constraints to women’s entrepreneurship, reducing barriers to formalization, promoting environmental sustainability, expanding access to knowledge and technology and unleashing the economic potential in rural areas.
- Encourage entrepreneurship and innovation by supporting education and vocational training, research and development activities and technology transfer.
- Promote responsible business practices in such areas as labor relations, the environment and anti-corruption.
- Build on analyses of country and sector-specific constraints, at national and local levels, to private sector development and encourage publication and public debate about the results. Help build-up the capacities of developing countries to carry out such assessments.

32 Private Sector Development Policy, CIDA, July 2003, p. 1
- Seek out reliable, representative and accountable domestic partners who can drive reform programmes and help catalyst change.
- Use market-based approaches to supporting firms. Targeted assistance should avoid distortions and firms receiving direct support should be selected based on their expected capacity to innovate, create jobs and provide services at local market conditions.
- Promote structured and inclusive public-private dialogue, at national and local levels, so as to bring micro and small entrepreneurs and informal firms and workers into consultation and decision-making processes. This will help to build demand for reform and for investments that will improve the investment climate.
- Evaluate the cumulative impact of their interventions on mobilizing investments and share examples of successful and unsuccessful practices.

Multinational corporations (MNCs) can also contribute in promoting private sector in developing countries through two major processes i.e., (a) transfer of technology, and (2) establishing partnerships with businesses and industries. ‘As a result of increasing globalization of commerce, many corporations are increasingly producing, sourcing or distributing from developing countries. Greater engagement with small enterprises by the corporate sector can lead to: (a) reduce costs, (b) increased market access, (c) greater security over raw materials, (d) improved quality of supply, (e) compliance with environmental regulations, (f) compliance with government regulations, (g) closer relations with governments, (h) branding benefits, and (i) a more vibrant and diverse local economy.’

MNCs and SMEs can both benefit from partnership.

3. Business and professional organizations – As these organizations have in-depth knowledge and understanding of the issues, challenges and prospects of industry and trade, they can contribute in the development of private sector in a number of ways including: (a) building effective coalition for the meaningful advocacy for appropriate policy and regulatory framework with government, (b) encouraging mutual support and exchange of information, and (c) promoting integrity and ethical business practices. Development of private sector is substantially influenced by the policy adopted by government for industry, trade, investment and banking etc. Creating conducive environment for investment and business development is the primary responsibility of government. However, government needs support from professional associations to identify policy options and to ensure policy coherence. These organizations can offer policy advice and advocate for right policy and regulatory framework for the advancement of businesses. The second important role of these organizations is to encourage mutual support between businesses and to facilitate exchange of information and experience. Growth of business depends on healthy competition, mutual support and the relation with ancillary businesses. These organizations have the critical role of promoting

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integrity and ethical business practices. Corruption has been one of the worldwide phenomenon challenging to the promotion of good governance. Private sector has to play a meaningful role in combating corruption. As business is guided by profit motive, its owners may be tempted to adopt corrupt practices for immediate gain. Corrupt, fraudulent, collusive and coercive practices may be adopted to win contracts, secure licenses and permits and eventually make profit. However, such practices do not contribute to the interests of larger community because they foster unhealthy traditions and eventually erode confidence on systems and procedures. These organizations can contribute in promoting integrity and ethical business practices by developing code of conduct and developing effective monitoring mechanisms.

1. **Education and training institutions** – One of reasons of the underdevelopment of private sector is the quality and focus of education and training. The purpose of education is not just to make people capable to read and write but also to contribute in improving the standards of living. It requires building of knowledge and skills that have practical values. This will be possible only when education support innovation and entrepreneurship. Training is a process of enhancing skills to support improving performance and making people capable to deliver their current and future responsibilities. In modern age of changing technology, skill gained once may not be sufficiently helpful to remain effective. Therefore, it is critical to review skill requirements and encourage people to update their skills. Educational and training institutions should constantly review the changed needs and update materials and methodologies to develop human skills.

2. **Civil society** – Developing countries are constrained by a number of socio-economic and cultural factors in development. Civil society can support in overcoming some of these constraints. Civil society articulates the interests of the various sections of societies including business sector. It contributes in maintaining the critical balance between the aspirations of people and the ways of handling them by government and public agencies. Civil society can contribute in the development by helping to bridge the gap of expectations and capacity to deliver. It can also make private enterprises aware of their social responsibilities. A good partnership between civil society and business organizations can help in building socially responsive business culture.

**Assessment of the effectiveness of the PSD strategies and initiatives**

Development community should periodically assess the effectiveness of the strategies and initiatives to make them relevant and improve efficiency in their implementation. Some of the parameters that can be applied in assessing the effectiveness of the PSD strategies and initiatives:

- Contribution of private enterprises in gross national product and national revenue.
- Improvement in productive capacities, including greater control by women over productive assets.
• The quality and coverage of legal, administrative and legal frameworks governing private sector.
• Success in bringing informal sector to formal sector.
• Sustainable expansion of private enterprises and the creation of more and better jobs equitably.
• Increase in the number of socially and environmentally responsive enterprises supporting well functioning and competitive local and national markets.
• An enabling business climate conducive to national savings and investment.
• Increased participation in regional and international markets and institutions by developing countries and countries in transition.

Concluding remarks

Private investment is a powerful catalyst for innovation, economic growth and poverty reduction. A vibrant and robust private sector is fundamental to sustainable development of national economy. Development of private sector is critical to provide productive employment to growing population, promote equitable distribution of opportunities. As development of private sector requires concerted and integrated effort of all sections of society and institutions, they should review their role objectively and work cohesively for the interest of the nation.

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Perspectives on Development Administration: Problems and Prospects

Dr. Rajib B. Rana

Abstract

This article is based on author’s experiences, studies and observations on the subject matter. According to his experiences and observations, he has nicely dealt on perspectives on development administration in the context of developing countries like Nepal. Also, Rana stresses that numerous factors may be directly or indirectly accountable for the problem of achieving desired change in the name of development. Also he has stressed that chakari, chaplusi and chukli cultures are often prevailing in organization due to that environment; bureaucratic frustrations are emerged in the administration.

Introduction

Development administration was initially conceived as an organized effort from the part of the government to influence the environment in a positive way. The basic spirit of the concept of development administration lies on the realization of changes in the various fronts of the society that would ultimately result in the solution to the practical problems of the society. Any administration responsible for managing a development situation requires a positive perspective on several underlying principles. Achieving the basic thrust of change as conceived in the efforts made in the name of development administration is vital to support and realize the acceptances of the same. Difficulties prevail due to the nature and type of activities that require rigorous efforts to manage them and also due to the situations that largely seem inconsistent with and unsupportive to initiate and apply efforts conducive to upgrading life change opportunities particularly at the grassroots. The challenges can be explained on the basis of broad, experiential and external perspectives. Development administration has its own orientations, acceptances and principles which are distinct in the sense that these constitute the basic foundations of the concept. Regarding the prospect, the prospect signifies an overall process that puts value on solving the practical problems of the society through recognition and implementation of the basic foundations of the concept. The process of adjusting the basic foundations of the concept should be considered in view of the development of an increasing number of management standards or norms that are critical to make the development management effective.
Overall Perspective

The intellectual foundation of the concept of development administration was laid down in 1952 when the first formal and organized conference on comparative public administration was held at Princeton University in the US. It is here to note that the role of comparative Administration Group was prominent in forwarding the concept of development administration. Edward W. Weidner, F.W. Riggs and George Gant were the pioneers in using the concept of development administration. Development administration was initially conceived as an organized effort from the part of the government to influence the environment in a positive way. However, the concept emerged as a distinct administrative reform initiative to induce and manage change processes in the developing nations.

Development administration practices of today have to be able to reflect the changes as felt desired by the members of the society at large. This realization is obvious in most of the developing nations having still traditional looks and outlooks. The basic spirit of the concept of development administration lies on the realization of changes in the various fronts of the society that would ultimately result in the solution to the practical problems of the society. It is in this regard that the administrative system should be able to internalize the basic acceptances of development administration. The state of administrative system in terms of its capability is that vital aspect which deserves a great significance in the sense that the ability of the system to internalize the basic acceptances of development administration greatly determines the effectiveness of the efforts made to bring about socio-economic changes in the society including the orientation of the system itself toward such administrative standards and principles that facilitate the basic values of development administration. It is in this context that the fundamental principles of development administration given by F.W. Riggs appear prominent. Riggs clearly stated that development administration should be considered in terms of two interrelated senses namely administration of development and development of administration. These principles deserve a great significance if one needs to take a positive perspective on the basic orientation of the concept of development administration. Hence, it is here pertinent to consider that the changes in the administrative system cannot be realized as expected unless and until there are constraints in the environment, and overcoming such constraints needs effective administration of development. This sort of acceptance clearly indicates that the efforts to bring about changes in the society and administrative reform efforts should go side by side. Any administration responsible for managing a development situation requires a positive perspective on the following underlying principles:

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1. Changes in society largely result from systematic induced change efforts. The true spirit of change can be achieved through induced or injected change.
2. Change efforts should be initiated at the grassroots. The efforts to induce change must begin from the bottom level of the community.

3. Change efforts can be engineered or reengineered. Social engineering deserves a great significance.

4. Appropriateness of change in relation to time and situation, and the value of time bound change should be considered as basic norms in carrying out development activities by the organizations involved in inducing changes in the society. The role expectation of such organizations must reflect commitment to this value.

5. The commitment of the administrative system should continuously reflect positive, persuasive and innovative attitudes toward change.

6. Environments conducive to facilitate citizen’s participation should be established and nurtured from the part of the government, and the system to institutionalize the practice of considering the responses of citizens should be established. The commitment of the society for this should be realized.

Challenges Ahead

Achieving the basic thrust of change as conceived in the efforts made in the name of development administration is vital to support and realize the acceptances of the same but it is equally valid here to note that the efforts in this regard constitute a hard part and the possibility that such efforts will be able to achieve the spirit of change appears constrained by so many factors. Hence, many factors may be directly or indirectly responsible for the problem of achieving desired change that helps solve the practical problems of the society. Difficulties prevail due to the nature and type of activities that require rigorous efforts to manage them and also due to the situations that largely seem inconsistent with and unsupportive to initiate and apply efforts conducive to upgrade life change opportunities particularly at the grassroots. There are such factors and situations that present an overall challenge relating to smooth translation of developmental efforts into meaningful endeavor. The challenges can be explained on the following basic perspectives:

(I) Broad Perspective

Under this perspective, the challenge can be considered in terms of two distinct fronts namely administrative and political. Administratively, the lack of administrative capability constitutes an important impending factor representing a challenge pertaining to the realization of rapid socio-economic changes and specific programmatic results within a stipulated time. Administrative capability is largely understood in terms of the overall management capacity of the government but it is widely acknowledged that the administrative capability is a scarce resource in the developing nations. It is here pertinent to examine the situation of developing nations regarding the prevalence of the dysfunctional tendencies in the administrative system.
Various studies and the prevailing practices clearly indicate the existence of dysfunctional tendencies within the administrative system of developing nations like ours. The examples of some of the notable practices indicating organizational pathologies include: buck passing; unnecessary growth of organizations; persistence of organizations without their existential relevancy; red tapism; practice of nepotism and favoritism; corruption, boss oriented attitude; conservatism as indicated by chakari, chaplusi and chukli culture; lack of trust and confidence on subordinates, bureaucratic frustration and the like.

Hence, if we compare the basic acceptances of development administration with that of such practices, then it is obvious that the administrative culture showing dysfunctional tendencies outweighs the basic acceptances of development administration.

Politically, the capabilities of the polity deserve a great significance in realizing meaningful changes in the society. The capabilities of the polity constitute a basic requirement to initiate and attain specific programmatic results out of the overall developmental endeavor. The capabilities represent the operational variable of the polity. It is, however, to note that the difficulties pertaining to the following five dimensions are likely to present challenges to the overall efforts to forward and make result oriented programs meaningful:

1. extracting resources from domestic and international environments;
2. regulating the behavior of individuals, groups and institutions in the society;
3. distributing all sorts of opportunities in the society;
4. responding to the needs of almost all the sections of the society; and
5. distributing effective symbols from the polity to the society.

(II) Experiential Perspective

The experiences relating to developmental efforts particularly practiced in the name of development administration in the developing nations as ours constitute an important source to delineate some of the notable problems, these include:

(a) Problem relating to identification of proper development goals and policies.
This problem seems to have the following causal factors:

- the practice or trend to define problems in the relative terms rather than in absolute terms,
- the lack of need to consider or catch the policy spirit in relation to time and situation,
- the practice of political interferences in developmental efforts,
- the practice of donors' influence in developmental efforts.
(b) Problem relating to priority setting

The basic factors leading to difficulties in this regard are:

- the existence of a tendency in the society to achieve almost everything as early as possible,
- the nature of problem showing cause and effect relations particularly at the grassroots,
- the constraint of resources of all sorts,
- the practice of political interferences in developmental efforts,
- the practice or donors' influence in developmental efforts.

(c) Problem relating to rational planning

It is here to be noted particularly that the processes of induced change have to be initiated at the grassroots. Difficulties still prevail on the following aspects:

- tendency to pursue repeatedly same sort of goals or tendency to represent the goals of an area or a community have been represented by unrelated actors or authorities,
- the need to take a pragmatic approach to the mechanism for implementing policy goals seems neglected,
- the need relating to take developmental activities in different time perspective is still a notable one.

(d) Problem relating to the weak evaluation of results.

Some of the notable factors' include:

- the lack of and/or weak practice of a continuous monitoring system,
- the lack of and/or weak practice of explicit evaluation,
- the lack of and/or weak concern for feedback as corrective measure.

(e) Problem relating to setting of progressive goals.

The influential causal factors include:

- the practice of weak evaluation of results,
- the practice or trend to define problems in relative terms,
- the lack of a clear vision to consider that the organizations are not only the consequence of development but also cause for further development.

(f) Problem relating to resource allocation.

The casual factors constitute:

- the weak distributive capability of the system,
- the practice of political interferences in developmental efforts,
• the practice of donors' influence in developmental efforts,
• the lack of a clear vision to take that the organizations can also enhance change mobilizing knowledge, skills and other unused resources.

(III) External Perspective

Some of the notable external factors that are likely to create difficulties in forwarding and realizing desired socio-economic changes in line with the spirit of development administration are:

(a) Population growth

The important consequences that the system needs to consider are:
• the need to invest more on social services rather than on capital goods,
• the problem of migration leading to over urbanization followed by the possibility of social deviant behavior,
• the possibility of the fragmentation of land particularly at the local level.

(b) Geographic Condition

The notable consequences in this regard are:
• difficulties in developing infrastructures,
• difficulties in establishing effective distributive system,
• the possibility of fragmented economies leading to the lack of economic inter penetration.

(c) Political instability

The frequent changes of the cabinet are likely to have the following consequences:
• the possibility of unnecessary expenses
• the possibility of inconsistency in decisions
• the possibility of delay in taking decisions

(d) Political commitment

The poor political commitment as a whole needs to be considered in terms of the following aspects.
• difficulties in ensuring commitment to internalize the problems rightly from the grassroots,
• difficulties in ensuring commitment to solve the problems of the society at large through timely adoption of policy measures,
• Difficulties in ensuring commitment to take evaluation of developmental policies and programs and also to learn from experiences.

(e) Resource Constraint

The following aspects may well present difficulties:

• development of skills of the population
• management of natural resources
• management of funds
• establishment of a system based information
• development of rational approach to technological development and application
• development of the spirit of entrepreneurship.

(f) Donors’ influence

The notable consequences in this regard include:

• the possibility of distortion in the agreed and established policy spirit of the system,
• the possibility of the imposition of ties or condition in the assistance programs,
• the possibility of delay in pursuing timely actions in pursuing needed programmes.

Prospect

Development administration has its own orientations, acceptances and principles which are distinct in the sense that these constitute the basic foundations of the concept. Regarding the prospect, it is essential to take an approach based on the following steps:

• Identify and recognize the basic foundations or bases of the concept in the context of the country concerned,
• Incorporate such bases within the administrative system,
• Make administrative system responsive and capable to bring about changes that are vital to solve the practical problems of the society.

Hence, the prospect signifies an overall process that puts value on solving the practical problems of the society through recognition and implementation of the basic foundations of the concept.

Basic to prospect of development administration is the need to undertake those studies that are capable of establishing role expectations of organizations within the administrative system that
are vital in meeting the basic orientations of the concept. It is equally acknowledged that the prospect of development administration is likely to improve:

- when the society exhibits ability to control or influence its environments,
- when the society develops an optimistic value system particularly about the change process,
- when the institutions within the society develop and become functional in relation to time and situations,
- when the society becomes aware of utilizing the contributions of scientific community and also of modern fruitful practices exercised on the several fronts within the society.

Explaining and understanding the prospect should take notice of the following facts:

- Organizations involved in developmental activities and particularly workings at the grassroots tend to be structurally flexible and behaviorally dynamic.
- A career bureaucracy without a strong political guidance and direction tends to become less inclined to provide services rather the bureaucrats' inclinations largely remain on protecting their bureaucratic interests.
- Realizing the spirit of development administration in a social setting where semifeudalism, caste domination, illiteracy and traditional looks and outlooks prevail, demands rigorous efforts to initiate and change the difficult and time consuming task of cultural change.

Concluding remarks

The process of adjusting the basic foundations of the concept should be considered in view of the development of an increasing number of management standards or norms that are critical to make development management effective. An equally important aspect that must be considered by the system is to learn from the experiences and make timely efforts to correct the failings.

Reference:

360-Degree Performance Appraisal: An Overview

Ram Bahadur Ghimire*

Abstract

The 360-degree performance appraisal concept has been gaining popularity in the private sector companies of the world. By virtue of its multiple sources feedback mechanism such as from superior, peer, self, subordinate and customer as well as its anonymous rating provision, people believe this appraisal system to be more effective and honest in comparison to the traditional appraisal system of appraising only by supervisor. In this context, this article covers introduction, objectives, basic concept, sources, five paradoxes, advantages and disadvantages of the 360-degree appraisal method and gives recommendations for effective 360-degree performance appraisal. The article also includes a short conclusion as well as references in the end.

1. Introduction

Today, many firms are of the opinion in favour of 360-degree feedback through which performance information is collected ‘all around’ of an employee, from his/her supervisors, subordinates, peers, and internal and external customers. Such feedback is generally used for training and development, rather than for pay increase (Dessler, 1997). Halogen Software has described that the applications of 360-degree feedback have grown into five general areas such as individual development, appraisal, performance-related pay, recruitment & selection and organizational development.

The 360-degree feedback has gained popularity in the corporate world to the point of being nearly universal among Fortune 500 companies. Moreover, the current users of 360-degree feedback include leaders of corporate sector such as AT&T, Exxon, GE, Amoco, IBM, caterpillar, Levi Strauss and Shell Oil (Ghorpade, 2000).

In this article, an attempt is made to incorporate the objectives, basic concept and sources along with five paradoxes of 360-degree performance appraisal. In addition, advantages and disadvantages of 360-degree performance appraisal and some recommendations for making this appraisal method more effective are also included in this article.

2. The Objectives of 360-Degree Performance Appraisal

The primary objective of 360-degree feedback is to develop rather than to appraise the participating organizational members. The key purpose of using 360-degree feedback is to

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further management or leadership development for providing feedback to managers about how they are viewed by direct subordinates, peers, and customers/clients. At least three other reasons for its growth are as follows (Waldman; Atwater; Antonioni, 1998):

Firstly, institutional theory says that organizations imitate their competition or other firms in an organizational network in response of environmental pressures to ensure their external legitimacy. The choice of 360-degree feedback is its one of the examples and quality circle, TQM and teams in organizations are few other examples of such imitations. Moreover, in the context of increasing uncertainty, rapid change and increasing competition, managers feel it wise to adopt the innovation and drop if unsuccessful rather than spending additional time and money testing the usefulness of such innovations prior to full implementation.

The second reason of promulgating 360-degree feedback is to expand formal appraisal processes by making such feedback evaluative linking directly with a manager’s or an employee’s performance appraisal. However, there exist problems such as high rating in exchange for high rating while using 360-degree feedback for evaluative purpose. Similarly, although ratings are collected anonymously to make ratings more genuine, such ratings have also potential drawbacks. Moreover, there are mixed reactions as some believe that 360-degree appraisal is an improvement over traditional appraisal. So, adequate caution is necessary while adopting 360-degree feedback in order to make it more effective.

Thirdly, companies use 360-degree feedback for political purpose as there is often competition among individuals and groups over ideas and both of them try to impress higher level management with their innovative ideas and plans. In case when the innovations themselves may not be very successful, the political gains from impression management may be important.

According to Halogen Software, common uses of 360-degree feedback are as follows:

- Enhance teamwork and collaboration among different departments and functions
- Building customer skills among frontline or service-oriented employees
- Communicating behaviors consistent with new organizational values or principles
- Developing consulting skills among traditional human resource personnel
- Aligning middle manager behavior with corporate strategy promoting a shared global mind set
- Changing the behavior of senior leadership
- Assessing development needs for future leaders
- Creating a more positive and empowering work group climate
3. The Basic Concept of 360-Degree Performance Appraisal

The basic concept of the 360-degree appraisal method is to collect feedback from the full circle of sources, which includes not only supervisor but also includes subordinate, peer, self and internal and external customer. The 360-degree performance appraisal is also known as multi-source feedback, multi-rater feedback, multi-rater assessment, full-circle appraisal, upward feedback, and peer evaluation etc.

In general term, performance appraisal has been limited to a feedback process between employees and supervisors. However, with the increased focus on teamwork, employee development, and customer service, the emphasis has shifted to employee feedback from the full circle of sources i.e. from superior, peer, self, subordinate, internal customer and external customer. This multiple-input approach to performance feedback is sometimes called “360-degree assessment” to connote that full circle (USOPM: PMIAD, 1997).

As research has shown assessment approaches with multiple rating sources provide more accurate, reliable, and credible information, the U.S. Office of Personnel Management supports the use of multiple rating sources as an effective method of assessing performance for formal appraisal and other evaluative and developmental purposes. It is believed that subordinate assessments of a supervisor’s performance can provide valuable developmental guidance, peer feedback can be the heart of excellence in teamwork, and customer service feedback focuses on the quality of the team’s or agency’s results (USOPM: PMIAD, 1997).

The 360-degree feedback programs can involve feedback for a targeted employee or manager from the target’s supervisor, subordinates, peers/co-workers and the target himself. Studies show that about 12 percent American organisations are using full 360-degree programs and the trend is growing simply because organisations want to enhance management development, employee involvement, communication and culture change. Unlike traditional survey/feedback, 360-degree feedback programs are targeted toward supplying information to supervisors and managers about their work behaviours heavily relying on upward feedback by gathering peer, supervisor, and/or customer feedback (Waldman; Atwater; Antonioni, 1998).

The 360-degree evaluation is a common tool in human resource management. It is a mechanism for evaluating someone’s performance based on feedback from everyone with whom the individual comes in contact, which includes supervisors, co-workers, partners, subordinates, the general public and it is a method of collecting input from many sources in an employee's environment.

Thus, the 360-degree feedback refers to the process that is intended to improve individual and work unit performance and productivity by collecting feedback from a range of people (subordinates, peers, customers/clients and managers) and making that performance
information available to the individual to be used to learn to be a better performance at work (Sparks, 2000).

4. Sources of 360-Degree Performance Appraisal

The 360-degree performance appraisal is such appraisal where information is collected from various sources including superior, self, peer, subordinate and customer. Sources of 360-degree performance appraisal are briefly discussed below:

4.1. Evaluations by Superiors

Superiors’ evaluations include both the ratings of individuals by supervisors on elements in an employee’s performance plan and the evaluation of programs and teams by senior managers. The first-line supervisor is often in the best position to effectively perform the full cycle of performance management: Planning, Monitoring, Developing, Appraising, and Rewarding. The supervisor may also have the broadest viewpoint on the work requirements and be able to take into account shifts in those requirements. The superiors (both the first-line supervisor and the senior managers) have the authority to redesign and reassign an employee’s work based on their assessment of individual and team performance.

Research demonstrates that appraisal programs that rely solely on the ratings of superiors are less reliable and valid than programs that use a variety of other rating sources to supplement the supervisor’s evaluation (USOPM: PMIAD, 1997).

4.2. Self-Assessment

Such form of performance information is actually quite common but usually used only as an informal part of the supervisor-employee appraisal feedback session. Supervisors often open the discussion with: “How do you feel you have performed?” In a fairly more formal approach, supervisors ask employees to identify the key activities they feel best represent their performance in critical and non-critical performance elements. In a 360-degree approach, if self-ratings are going to be included, structured forms and formal procedures are recommended (USOPM: PMIAD, 1997).

The value of self-ratings is widely accepted. Approximately half of the Federal employees of the USA in a large survey felt that self-ratings would contribute “to a great or very great extent” to fair and well-rounded performance appraisal. Of the survey respondents who received ratings below Fully Successful, over 75 percent felt self-ratings should be used. Similarly, a research shows low correlations between self-ratings and all other sources of ratings, particularly supervisor ratings, the self-ratings tend to be consistently higher (USOPM: PMIAD, 1997).
Employees usually rate themselves higher than they are rated by superiors or peers. For example, in a study, it was found that when asked for self rating of their job performance, 40 percent of the employees in jobs of all types placed themselves in the top 10 percent (“one of the best”), while virtually all remaining employees rated themselves either in the top 25 percent (“well above average”), or at least in the top 50 percent i.e. “above average” (Dessler, 1997).

Thus, it can be said that self rating of job performance is not totally free from self-centered bias, so, care must be taken while taking into account such feedback in the decision-making process.

**Peer Rating**

In organizations, with downsizing and reduced hierarchies, as well as the increasing use of teams and group accountability, peers are often the most relevant evaluators of their colleagues’ performance. Also, peers have a unique perspective on a co-worker’s job performance and employees are generally very interested to the concept of rating each other. Peer ratings can be used when the employee’s expertise is known or the performance and results can be observed. There are both significant contributions and serious drawbacks that must be carefully considered before including this type of feedback in a multifaceted appraisal program. Peer ratings are remarkably valid and reliable in rating behaviors and “manner of performance,” but may be limited in rating outcomes that often require the perspective of the supervisor (USOPM: PMIAD, 1997). A study of military officers showed that peer ratings were quite accurate in predicting which officers would be promoted and which would not (Hill, International Business, p.507 cited in Dessler, 1997)

In a study of peer appraisal in an individual company, McEvoy and Buller (1987) found more favorable attitude. Of the 218 respondents, while 16 per cent favored outright elimination of peer review, only 17 per cent favored continuation of the scheme without change. The majority (67 per cent) favored continuation of the concept provided some revisions were made. Respondents in the survey were generally more favorably willing to the use of peers as appraisers for developmental purpose rather than evaluation purpose and they also stressed the importance of maintaining the confidentiality of peer ratings (Anderson, 1993). In this way, peer rating can be the most effective method of performance appraisal in 36-degree performance appraisal approach.

**Appraisal by Subordinates**

An upward-appraisal process or feedback survey (sometimes known as a SAM-Subordinates Appraising Managers) is among the most significant and up till now controversial features of a “full circle” performance evaluation program. The subordinate ratings provide particularly valuable data on performance elements concerning managerial and supervisory behaviors. However, there is usually great unwillingness, even fear, concerning implementation of this
rating dimension (USOPM: PMIAD, 1997). Although supervisors may feel threatened and recognize that their authority has been undermined when they must take into consideration that their subordinates will be formally evaluating them, research suggests that supervisors who are more responsive to their subordinates, based on the feedback they receive, are more effective managers (USOPM: PMIAD, 1997).

More firms these days let subordinates anonymously evaluate their supervisors’ performance, a process many call upward feedback. If we conduct it throughout the firm, the process helps top managers diagnose management styles, identify potential ‘people’ problems and take corrective action with individual managers as required (Dessler, 1997).

Subordinate appraisal refers to the situation where organizations operate systems of performance appraisal which provide employees a formal opportunity to make an assessment of the person to whom they report in the organization as one element in the system (Anderson, 1993). Such appraisal empowers subordinates by making them an integral part of performance evaluation of their supervisors. This also develops a sense of responsiveness and self esteem towards their role and also alerts supervisors to be more careful in performing their tasks as a supervisor.

Customers’ Feedback

In the United States, Executive Order 12862 has set Customer Service Standards, which requires agencies to survey internal and external customers, publish customer service standards, and measure agency performance against these standards. Internal customers are defined as users of products or services supplied by another employee or group within the agency or organization. External customers are outside the organization and include, but are not limited to, the general public. Customers, by definition, are better at evaluating outputs (products and services) as opposed to processes and working relationships. They generally do not see or particularly care about the work processes, and often do not have knowledge of how the actions of employees are limited by regulations, policies, and resources (USOPM: PMIAD, 1997).

In 360-degree performance appraisal, internal and external customers are expected to give their feedback on the quality and standard of products and services supplied to them by the agency or organization so that such feedback can be used as a basis of performance appraisal of the employees of the agency or organization.

5. Five Paradoxes of 360-Degree Performance Appraisal and Suggestions for their Management

Although the 360-degree approach is widely used, its application is not free from paradoxes. The 360-degree concept has serious problems relating to privacy, validity, and effectiveness. Ghorpade (2000) has identified five paradoxes of 360-degree feedback program and offered suggestions for managing them, which are as follows:
(i) **Employee Development Paradox**

This paradox is related to the conflict between the developmental and appraisal objective. For example, the primary objective of 360-degree feedback is to develop than to appraise, however, in practice it get entrapped with the appraisal process by creating the potential for uncertainty and erosion of usefulness as a developmental tool. The first reason of this is information leakage from feedback providers as well as from raters themselves. And the second reason of this is the economic and political realities of organization.

In order to manage the conflict between the developmental and appraisal objectives, the first solution can be if possible, keep the 360-degree program as a developmental tool, and formulate clear rules for information sharing. One way to encourage constructive information sharing is to allow feedback receivers to ask for additional information on specific issues that concern them. To protect the providers’ identity, the information can be given in writing. And the second way to promote useful information sharing is to encourage peers and other co-workers to share and make clear their views with the feedback receivers on a voluntary basis and under the guidance of their supervisors, This can be done face-to-face, or indirectly through the supervisor.

The second solution of the above conflict is to gradually combine 360-degree feedback with performance appraisal as part of a wider performance management plan. Alternatively, traditional performance appraisal programs can gradually widen the base of appraisals by including raters other than superiors.

(ii) **Multiple Constituents Paradox**

Multiple constituents’ involvement in 360-degree feedback process broadens the scope of information provided to the receiver; however, more information does not necessarily generate better feedback.

(iii) **Anonymous Ratings Paradox**

Anonymous ratings are more honest than signed ratings. However, honest ratings may not necessarily be more valid. Because, inaccurate, biased and even self-serving information can make its way into 360-degree feedback because of informational, cognitive, and affective causes.

At the informational level, discrepancies in evaluation among multiple sources may arise due to lack of clear idea what is expected of ratee's roles, clear criteria according to which they are judged and no opportunities for observation.
At the cognition level, problem arises in coping with complexity of the task. Because, appraising a person in a role is a complex activity which requires the evaluator to rationally acquire, store, retrieve, and integrate complex sets of information about the person, the job, the outputs, and time frames and then use this information in making judgment.

Affective constraints, the third general cause of evaluation discrepancies, stem from psychological and political factors. For example, individuals may distort ratings, unconsciously or consciously, to protect their self-concept or to serve other personal ends.

In order to control multiple constituents' paradox and anonymous ratings paradox, managers have considered the following suggestions which are relevant only if it can be assumed the raters are in fact willing to act in good faith.

Firstly, effective feedback, regardless of source, should focus on the job as the incumbent performs it within the context of the organization, rather than on a role in an abstract sense; should focus on concrete behaviors that are linked to specific events, rather than on personal traits; should be free of racial, sexual, and other biases; and should provide concrete recommendations for change.

Secondly, provide the raters with guidance and training including a description of the major competencies expected of the role.

Thirdly, provide potential raters with opportunities to identify their own rating biases, if any, before they actually rate an organizational member.

(iv) Structured Feedback Paradox

Quantitative and structured feedback based on generic behaviors is easy to acquire, score, and disseminate, however, such data may not have much relevance to a particular workplace and may even yield misleading results. Despite being inexpensive and easy to administer, the combination of quantitative rating acquired through a structured questionnaire containing generic role behavior information can raise very serious problems with regard to fairness and accuracy. For example, quantitative data to generic type can be difficult to interpret. Also, there is the problem of controlling for the rater tendencies.

The problem of balancing the quantitative and qualitative information can be handled by asking the raters to provide both forms of information on the performance dimensions included in the feedback instrument. Thus, for each rating item on the instrument, scope would be provided for qualitative comments.
Similarly, the conflict stemming from the second continuum-context-specific versus generic feedback can be managed by combining both types of items in the instrument.

(v) Managerial Involvement Paradox

Managerial involvement in gathering and processing 360-degree feedback data is legitimate and inevitable. However, involving persons in authority may spoil the process and reduce its credibility. Given this possibility, managers need to make the program appear as impartial and fair as possible.

For the solution of the above problem, it is necessary to assign the administrative tasks to a managerial role such as manager, HR director or supervisor. And the second solution is to assign the administrative tasks to a person whose involvement in the process can enhance trust. If a 360-degree administrator cannot be found internally, outside consultants can be hired.

6. The Advantages and Disadvantages of 360-Degree Performance Appraisal

6.1. Advantages:

The 360-degree performance appraisal system has several advantages which are briefly discussed in the following paragraphs.

According to USOPM: PMIAD (1997), the 360-degree performance appraisal system has following advantages:

- The most significant contribution of self-ratings is the improved communication between supervisors and subordinates. Self-ratings are particularly useful if the entire cycle of performance management involves the employee in a self-assessment. For example, the employee should keep notes of task accomplishments and failures throughout the performance monitoring period.
- Peer influence through peer approval and peer pressure is often more effective than the traditional emphasis to please the boss. Employees report dislike when they believe that their extra efforts are required to “make the boss look good” as opposed to meeting the unit’s goals.
- Peer ratings have proven to be excellent predictors of future performance. Therefore, they are particularly useful as input for employee development.
- The increased use of self-directed teams makes the contribution of peer evaluations the central input to the formal appraisal because by definition the supervisor is not directly involved in the day-to-day activities of the team.
• The addition of peer feedback can help move the supervisor into a coaching role rather than a purely judging role.

• A formalized subordinate feedback program gives supervisors a more comprehensive picture of employee issues and needs.

• The feedback from subordinates is particularly effective in evaluating the supervisor’s interpersonal skills. However, it may not be as appropriate or valid for evaluating task-oriented skills.

• Subordinate feedback is most beneficial when used for developmental purposes. It also can be used in arriving at the performance rating of record, but precautions should be taken to ensure that subordinates are appraising elements of which they have knowledge.

• Including a range of customers in the 360-degree performance assessment program expands the focus of performance feedback in a manner considered absolutely critical to reinventing Government.

Sparks (2000) has mentioned the following advantages of the 360-degree performance appraisal system:

• The 360-degree evaluation is an excellent source of motivation for employees, because it provides a truly honest assessment of how the employee and his/her performance are viewed by a variety of constituents.

• The 360-degree method uses confidential input from many people who can truly respond to how an employee performs on the job and the supervisor and employee meet to discuss the feedback received. Such feedback helps employees see themselves as others see them and allows them to seriously examine their behavior. Also, it reveals areas in which employees are performing particularly well and those areas in which there is room for improvement so that specific input allows employees to adjust their performance.

• The 360-degree evaluation will help employees identify their strengths so that they can build on them at the same time it addresses their skill gaps. It is a process that leads to continuous learning, team building, growing confidence and improved productivity.

The ultimate benefits of the 360-degree appraisal are targeted toward organizational change and improvement (Waldman; Atwater; Antonioni, 1998).

By means of multiple appraisers and through direct experience of the performance being appraised increases the credibility of the system in the eyes of employees (Macky & Johnson, 2000).

A 360-degree feedback program enables organizational members to obtain feedback on their performance, usually anonymously, from all the major constituencies they serve. Also, the 360-
degree feedback concept does not rely solely on the supervisor as the only information source rather it enlists superiors, peers, subordinates, suppliers, and customers in providing individuals with feedback on different aspects of their performance. In addition, feedback recipients can also rate their performance and compare it with feedback provided by others (Ghorpade, 2000).

360-degree feedback provides multi-source information making the feedback potentially richer. It allows the correct people to rate the various things (DeNisi and Kluger (2000) cited in Sasse (leaderpoint).

The 360-degree feedback has both individual and organizational benefits. Using 360-degree feedback provides a more realistic assessment of individual performance. Individual benefits of 360-degree feedback are to provide participant with an opportunity to learn how different colleagues perceive them, leading to increased self-awareness, encourage self-development and increase understanding of the behaviors required to improve personal and organizational effectiveness. Similarly, organizational benefits of 360-degree feedback are to promote a more open culture where giving and receiving feedback is an accepted norm, enable the organization to identify overall strengths and development needs within the workforce, increase communication within the organization where information is shared upwards, sideways and downwards and be a powerful trigger for change (Halogen Software).

Finally, from the above discussion, it is clear that on the one hand, multiple sources in 360-degree feedback widen the scope of information, on the other hand, anonymous ratings yield feedback that is more honest and valid.

6.2. Disadvantages:

Some of the disadvantages of the 360-degree concept are as follows:

Employees, typically, only concentrate on satisfying the standards and expectations of the person who has the most control over their work conditions and compensation. This person is generally their supervisor. Service to the broader range of customers often suffers if is neglected in the feedback process (USOPM: PMIAD, 1997).

Ghorpade (2000) has mentioned some disadvantages of the 360-degree concept which are as follows:

- The 360-degree concept has also some confusing and disappointing stories. It has been said that many of the 360-degree programs are carried out in the absence of a strategic context, and fail to focus on contributions that they can make to a firm's competitive advantage.
• Many organizations adopt 360-degree feedback without clearly defining the mission and the scope of the program. Consequently, employees who receive the feedback are left to figure out for themselves how to cope with the results and tend not to develop goals and action plans following 360-degree applications.

• There is discouraging evidence about the effectiveness of feedback intervention programs as tools in bringing about improvements in performance. In this context, a review of over 600 feedback studies found that only one-third reported improvements in performance, whereas, another third reported negative changes in performance and the final third reported no impact.

It can be noticed from the above discussion that the 360-degree feedback concept has many advantages and few disadvantages also. So, adequate attention should be taken to mitigate its disadvantages while making use of this system for performance appraisal of employees in any agency or organization.

7. Recommendations for Effective 360-Degree Performance Appraisal

In order to make 360-degree performance appraisal system more effective, the following recommendations can be made.

In this context, Waldman; Atwater; Antonioni (1998) have said that in order to understand more systematic knowledge concerning ways to ensure the effectiveness of 360-degree feedback programs, the following recommendations can be presented which should apply equally fit to other organizational innovations, like TQM and teams.

• As pilot studies can identify the risk and problems, organizations should take the benefits of pilot study before its full-scale implementation.

• It is necessary to create focus group to identify effectiveness criteria measures. Such measures should focus on activity levels as well as results preferably including ratee and rater reactions to the program; response rates; grievance rates; customer satisfaction; employee satisfaction; absenteeism/turnover; recruiting success; work behaviours; work performance and positive image with clients, customers, competitors and suppliers. One way to identify criteria is to set up focus groups and ask them to give suggestions to make improvement in such measuring criteria.

• It is crucial to ensure evaluation is aiding in the achievement of organization's goals, and working as planned. So, at least in the early stages, the organizations should adopt a pre-post control group for assessing the impact of the process.

• In order to avoid different types of rating errors of raters such as rating too leniently or too harshly, central tendency errors, halo effects and regency effects, raters need training in how to complete forms and how to avoid rating errors.
Similarly, USOPM: PMIAD (1997) has given following recommendations for making 360-degree performance appraisal system more effective.

- Supervisors need training on how to conduct performance appraisals. They should be capable of coaching and developing employees as well as planning and evaluating their performance. Self-ratings should focus on the appraisal of performance elements.
- Peer evaluations are almost always appropriate for developmental purposes, but attempting to emphasize them for pay, promotion, or job retention purposes (i.e., the rating of record) may not be prudent. Peer input can be effectively used for recognition and awards.
- There is a difference of opinion about the need for anonymity of the peer evaluators. Generally, it is advised that the identities of the raters be kept confidential to assure honest feedback.
- It is essential that the peer evaluators be very familiar with the team member’s tasks and responsibilities.
- Employees and their representatives need to be involved in every aspect of the design of appraisal systems that involve peer ratings.
- The need for anonymity is essential when using subordinate ratings as a source of performance feedback data. Subordinates simply will not participate, or they will give gratuitous, dishonest feedback, if they fear reprisal from their supervisors. If there are fewer than four subordinates in the rating pool for a particular manager, the ratings (even though they are averaged) should not be given to the supervisor.
- Only subordinates with a sufficient length of assignment under the manager (at least 1 year is the most common standard) should be included in the pool of assessors. Subordinates currently involved in a disciplinary action or a formal performance improvement period should be excluded from the rating group.
- Organizations currently undergoing downsizing and/or reorganization should carefully balance the benefits of subordinate appraisals against the likelihood of fueling an already tense situation with distrust and paranoia.
- With few exceptions, customers should not be asked to assess an individual employee’s performance. The value of customer service feedback is most appropriate for evaluating team or organizational output and outcomes. This feedback can then be used as part of the appraisal for each member of the team. The possible exceptions are evaluations of senior officials directly accountable for customer satisfaction and evaluations of individual employees in key “front line” jobs personally serving internal or external customers.

It is believed that if the above mentioned recommendations are taken into consideration during the time of using 360-degree performance appraisal method, such appraisal will be more effective and the expected results through this appraisal method can be realized.
8. Conclusion

From the above discussion, it is obvious that the 360-degree performance appraisal method can be most effective and widely accepted method of performance appraisal if it is used with adequate care. However, there is the need to analytically decide how 360-degree feedback will be used and what outcomes can be expected. It is also equally important to take adequate attention on how the process needs to be adapted as per the needs of the organization.

The 360-degree feedback or other innovations may also be viewed more and more as just another management fad in many organizations. However, at the same time, it is possible to keep such initiatives from running amok and to realize levels of success.

Employees find 360-degree feedback method to be fair. When they consider this process as opposed to being evaluated by an individual supervisor who has limited knowledge of what they do, they will begin to see the value in this type of evaluation. They conclude that the 360-degree feedback is more accurate and equitable than other traditional approaches. In addition, this feedback not only provides a more accurate assessment of an employee’s performance and help eliminate accusation of favoritism but also provides greater objectivity.

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Privatization and good governance

Bishnu Bahadur G.C.

Abstract

With the growth of globalization, privatization has become a matter of popular interest for the last few years in Nepal. Although privatization touched all most all sectors of life in Nepal, its practice could not be equally effective as in other societies. It means that the same model of privatization may not equally be practical to all societies. Moreover, there remains a vital role of the government to make private sectors more viable by means of good governance. Likewise in order to function the system well, civil service should be intact, update and effective and this is possible if employees attached with it are committed and motivated.

Concept of privatization

Privatization, a doctrine implanted by Adam Smith stands upon the shoulders of free market and is guided by the self-interest of individuals. The book of Adam Smith “Wealth of Nations, 1776” became famous for its distinct and clear perception on achieving economic prosperity which is guided by the self-interest of the individuals. The theory Smith propounded was highly admired and implemented elsewhere in Britain and later in other parts of the world. Commerce was greatly extended. And along with these, there was a remarkable development of individual initiative, which marked a vital change in social and economic life. Smith believed that the economy of a society flourishes with the invisible hands of the market. More precisely, his philosophy Laissez-faire is based on the assumption of the “natural”, self-interest basis and its let alone policy.

Privatization of this time, which restarted in mid seventies that expanded throughout 1980s and 1990s, is an advanced form of the Smithian thought. The new incarnation of the old ideas and the ascendant economic policies is generally called neo-liberalism. The ideas and economic policies of neo-liberalism calls for reducing the economic roles of the government in managing economic activity at the aggregate and sectoral levels, and in regulating international commerce. Neo-liberalism promotes unregulated free market, which believes in superiority of the market and opposes the state control. For neo-liberals, unrestricted global market is the ultimate symbol of social progress. Privatization enables individuals to exercise their private choices more freely. For neo-liberals, the world in essence is a vast supermarket.

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Privatization Practice

The understanding of privatization theory as it differs from people to people, its practice, success and intensity also differs from a society to another society. Even within one society also it differs a lot. For example, in our neighboring country, China, the privatization policy is different from one province to another. They have developed different policies of privatization even within the short distance. Looking at the practice of privatization in different societies, the success differs from one to another; in some societies it is more successful, whereas it is less successful in other societies. The success of privatization in these societies is based on its tradition, practice, socio-economic conditions, government policy & implementation, people's opinion and interest etc.

In Denmark Government takes the whole responsibility of education, where private schools have negligible role. Some eighty percent of the colleges and schools are run by the government and private run colleges and schools are also funded by the government. There is not any controversy on whether they are run by public or the private sector. In countries like the United States and the United Kingdom, privatization is more dominant. Whatever the case is, the researches and experiences have shown that government policy and its commitment, direction and implementation value much more than any philosophy alone.

Privatization in Nepal

Nepal also could not remain untouched by the worldwide wave of privatization. With the help of International Monetary Fund and World Bank, Structural Adjustment Program and other institutional improvement programs were seen in 1985 in the country that helped sow the seed of privatization of the modern time. After the restoration of the democracy in the country in 1990, all doors of the privatization were opened.

Private entrepreneurs joined their hands with the government in this endeavor of privatization. They started to operate private airlines, commercial banks, nursing homes, colleges, schools etc. Similarly, in line with the government's foreign employment policy, manpower companies started their business by sending Nepalese youth to the international labor market. Similarly, in connection with privatizing public corporation, twenty-four government owned public corporations were privatized and others are under the process of privatization. Public Private Partnership concept has also emerged in the society with the establishment of Nepal Tourism Board, Nepal Road Board etc.

What can be inferred from the above statement is that privatization efforts are the government's main agendas. Besides the efforts of both public and private sector, no such changes have been experienced in the real life situation. Nepalese society has experienced more problems than the relief especially by those people who have no access to power and resources. While examining
the performance of those corporations, which were transferred to private entrepreneurs, their performance have been experienced very low. Out of 24 privatized enterprises, assets and business of 4 public enterprises and equity of 10 public enterprises were sold. Ten such enterprises were either liquidated or dissolved. Of the 14, four enterprises have already been returned to the Government. Other enterprises also do not have commendable performance.

Similarly, we can review the situation of private airlines, private schools, private nursing homes, private banks, manpower companies and so many other activities. Due to uncontrolled and unregulated growth of privatization, the country has encountered severe problems that we had bitter experiences in the past. For example, there are evidence that some children studying in the private school were forced to be left out from taking part in the SLC, because school was illegally operated and had not fulfilled the requirements. Another example that shocked the country was due to the killings of 12 Nepalese in Iraq, because they were sent illegally. It led to an agitation against manpower companies which caused the destruction worth billions Rupees in the country. A number of banks were run improperly and government had to intervene them recently. These are only the few problems that have been stated here.

**Good Governance**

Woodrow Wilson known as the father of Public Administration, had separated the responsibilities of Public Sector from other disciplines. Since then, much theoretical development has been experienced in this field and especially in the latter days its development has taken jet speed. Osborne and Gaebler propounded the concept of "Reinventing Government" that envisaged cost less and work better. Osborne and Gaebler, who introduced Reinventing government in 1992, have emphasized the following subjects:

6. Customer Oriented: Meeting the needs of customers not of the bureaucracy.
7. Decentralized Government: Changing from hierarchy to participative and team work.
10. Market Oriented: Leverage changes through market.
11. Result Oriented: Funding outcomes not inputs.
Looking at the responsibilities of government as mentioned above, government has more responsibilities with a great deal of competency and accountability than it used to be in the past. This is why also good governance is a demand of the time, which has to happen in the modern society. According to UNDP, "Good Governance is an exercise of political, economic, social resources for managing the affairs of the nation." Here managing indicates to the mechanism, process and institutions. Good governance, a buzz word of the time, does not much emphasize whether less or more governance by the state but better governance. In good governance, government, civil society and private sector are equally responsible and accountable. However government is more responsible, which has to play model role in order to influence other sectors.

Good governance also assures that public policies are not arbitrary, bureaucracy is accountable, the executive power is not abused, legal system is just, and corruption is discouraged. Similarly, government is pro-change or it adapts changes taken in the contemporary society and encourages others to realize and practice change. This is only possible if government has dedication and commitment.

Conclusion

Private sector activities are expanding in Nepal and so are their efforts continued. However, all private entrepreneurs have not succeeded to promote their images and professions. That is why most of the people in the society are not satisfied with their activities and performance. Whether privatization is good or not, is not a big question, rather its practice is more valuable. It is also meant that privatization should be looked at from the point of the country's own indigenous characteristics. Nepal has her own problems and has her own logistics and infrastructures. Most of the people are undernourished, poor, uneducated and live with hardships. People especially in remote areas are living with half meal. Education is far distant to them. People in the urban areas are seen in better situation than the rural people, but they are also struggling with their hand to mouth problems. Privatization, a policy of sink or swim; a let alone policy may not function very well in our society, because private sector is more oriented to serving its own purpose than of the people.

Therefore, government is dedicated to fulfilling the aspiration of the people especially in those societies where people are uneducated and poor. In the process of fulfilling the aspiration of people, government has to take the help of other sectors such as private, civil society. Government as the apex body to mobilize other sectors has to take accountability if other sectors are doing good or becoming failure. In Nepal, private sector is not effective, because government is not effective, meaning that there is a lack of good governance.

Though government is political entity, it is supported by a vast and uninterrupted mechanism, known as bureaucracy or civil service that supports to formulate the policies and implements
the programs and decisions of the political decisions. It is said that there is no better
government than its bureaucracy. Therefore, a government supported by bureaucracy should be
intact and efficient in order to fulfill the aspiration of the people. Privatization and good
governance has strong relation like mind and body (psychosomatic). Privatization may serve
the needs of the people well that is backed by a good government policy and implementation.
This is possible through committed, impartial employees who are backed by empowerment and
motivational aspects.

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Abstract

F.W. Taylor's idea created a new dimension to industrial development around the world. It was mainly Taylor's idea of scientific management that generated industrial revolution all over the world. He advocated replacing rule of thumb by scientific methods and using piece rate system in production process and many more. Taylor always believed that there is one best way to conduct any industrial activity that could save time and effort and consequently increase the profit. This idea encouraged contemporary industrial scientists to invent new machines and methodologies that could apply the "one best way" idea. Though, strongly criticized later by behavioral science movement, Taylors' scientific management is applicable even today. The basic aspects of scientific management (Taylorism) are discussed in brief in this article.

General Introduction

Frederick Winslow Taylor (1856-1915) is renowned as founding father of the principle of scientific management in industrial and production field. He advocated the idea that the conditions of the workers and output in an industrial sector can be improved by introducing certain scientific systematic procedures. In his early life, Taylor was pursuing to make engineering his career, but weak-eye sight forced him to give up his studies in 1848. He entered as a worker in Midvale Steel Company and rose to the position of Chief Engineer by dint of hard work and intelligent pursuit of his avocation. Later on, he took up the chair of General Manager in Manufacturing Investment Company in Philadelphia and served there for three years. Here he coined the concept of Scientific Management. He had also been associated with the Bethlehem Steel Company for three years (1818-1901). The later period of his life was totally devoted to improving upon the techniques of Scientific Management.

Taylor, being basically a researcher and innovator was very much frustrated at the then existing production practices-the crude equipment employed, the way the workers were graded to increase output, the multifunctional supervisors(i.e. one supervisor handling varied and often unrelated activities) and the pervasive atmosphere of suspicion under which industrial production was carried on. In short, Taylor found, as to speak, an aimlessly drifting industrial systems in which the components tended to contradict to each other. For Taylor, a robust empiricist himself, the best way to initiate corrective measures was to start inductively from the bottom of hierarchy. If he has succeeded in establishing scientific relationship between the two main instruments of production viz., the machine and man (here worker), his task of reconstructing the edifice would be a logical extension of the very same principle and that

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much easier. Taylor’s approach was that increasing production and profits necessarily implies increasing the per worker productivity. And an enduring policy towards sustained worker productivity is inescapably linked up with corresponding wage incentives—what he called the fair day’s salary for a fair days work.

Taylor felt that worker’s efficiency is conditioned by the type of equipment with which he works. He, therefore, initiated a series of experiments, especially with the shovels to shovel coal into wheel barrows for transporting coal to the furnaces. His experiments revealed that different type of shovels were to be used for efficiently loading different types of materials. As he designed suitable shovels it was found that a worker could now shovel twice the quantity of coal in one shift. Interestingly, scientific equipment designing, not only minimized wastage of energy and increased output but also led to the establishment of objective standards for determining a fair days work. These and other experiments and researches have led to the progressive expansion of the scientific management approach in to a self consistent body of knowledge on early industrial management. Taylor’s papers on Scientific Management first appeared in the proceedings of the American Society of Mechanical Engineers. His books “Shop Management and Principles of Scientific Management appeared in 1903, 1911, respectively.

The Taylor society, which was formed round about this limit, subsequently emerged as the “Society for Advancement.” in 1936. (Taylor, 1947)

**Concept of Scientific Management and its Essentials:**

The application of Scientific method in the Management of Industrial affairs is called Scientific Management. In Taylor’s view, Scientific Management leads a systematic and optimal work situation in a productive organization. Scientific Management is a device by which maximum utility is obtained from man and machine to achieve the goal in a given situation, in an industry.

Scientific Management was one of the most outstanding movements of the early twentieth century to introduce systematic management and production practices in industry. The movement was reaction to ‘Rule of Thumb’ approach of the manager and engineers to industrial management and production. In other words, management was taken to mean individual skill and discretion, in which process each manager marked out his own best way of managing industrial administration.

The origin of scientific management movement started with three major corrective approaches viz., to introduce:

(a) Systematic and objective criteria in the management practices,

(b) To design and develop instrument and equipment most conducive for enhancing labor productivity and

(c) To bring about the much needed worker cooperation.
Scientific Management has taken the shape of a movement all over the Western world and it in the fitness of things that numerous thinkers have played varied roles in perfecting its methods and content. Scientific Management—its approach and philosophy and, above all, its pervasive massage became the absorbing pre-occupations for most outstanding industrial Engineers of the United States of America and Europe of early 20th Century. Among the galaxy of industrial Engineers and Management specialists who have contributed to the movement. (Taylor, 1947)

Taylor thought of cooperation between the management and workers through the application of Scientific method. He believed that Scientific methods should be applied in selecting workers, in determining their job, and in creating an understanding between management and the workers that would improve the overall industrial efficiency. Taylor observed that if the output of the worker achieved a level excellence under the given conditions, the worker should be rewarded but conversely, if he fails in increasing his output, penalty should be imposed on him. Taylor’s concept of management involved a ‘mental revolution’ both on the part of the management and the workers. It needs a radical change in the output of both sides towards their respective duties and mutual relationships. (Taylor, 1947)

Taylor listed four principles as a guide for the best type of management. These are:

1. **Daily Defined Task:** Each man is the organization high or low, should have a clearly defined task before him every day, so that he may work with a set aim. He should know what he is expected to do.

2. **Standardized working conditions:** The working conditions should be standardized in such a way that the workers and management may accomplish their task in an environment of certainty.

3. **Reward for Success:** The work man should be given high pay if he accomplishes his task successfully and efficiently.

4. **Penalty for Failure:** If the worker fails to achieve the task entrusted to him, he should be given a penalty for it.

**Taylor’s Work**

Taylor’s first paper in the field of the management was ‘A Piece Rate System.’ Although, the paper was outstanding it had a narrow focus, as it discussed only the principles used for wage payment. Later, in 1903, Taylor presented another paper on ‘Shop Management’ before and American Society of Mechanical Engineers. In this paper, he considered these points:-

(a) The goal good management should be either higher productivity or lower unit cost; to achieve this goal, management must pay high wages, only then increased industrial efficiency could be achieved.

(b) It is important to promote the application of method of science to the problems of management.
Standardization of working conditions by scientifically placing workers on job is crucially important.

In order to increase workers’ output, they should be imparted scientific training.

Later, in the year 1906, Taylor published another paper entitled, ‘on the Art of Cutting Metals’ and this work influenced and impressed the engineers and experts engaged in this field to a commendable extent. And soon (1911) came out his well known book Principles of Scientific Management. (Taylor, 1905)

Scientific Management was developed by Taylor and his illustrious associates embodied rigorous application of scientific methods to industrial management and work processes. The knowledge obtained through scientific investigations was analyzed and systematized into a body of principles and rules. This approach meant a systematic examination of all phases of human and mechanical activities that go about in an industry.

Secondly, it was the investigator’s purpose to discover the best possible combination of man-machine integration which would yield conservation of energy and elimination of waste. Thirdly, it was necessary to formulate the related principles rules and laws which could be applied on a recurrent basis. Fourthly, maximization of output meant the evolving of ‘automatic coordination’ of all elements of production. Finally it was necessary to organize and interrelate the components of the production system such as the man, process, equipment and material into perfect harmony and cooperation so as to ensure collective effort. Taylor, in order to achieve these objectives, designed a management system which he described as ‘Functionalized Foremanship’. This meant the division of work processes into specific functional areas, each to be managed by specialist boss. The gang boss deal general supervision of the work in the ship, the speed boss to control the setting up of machines, the inspection to inspect the work at the beginning and at the end and the repair boss. The remaining four bosses- the order of work and route clerk, instruction and card clerk, time and cost clerk, and the shop disciplinarian were to constitute the planning cell and they were to function in a specially arranged ‘Planning Room’. The governing principle behind this work organization was that there should be division of labor and specialization throughout the production system, including the management (Taylor, 1905).

**Mechanism of Management:**

Taylor made a distinction between the ‘Principles of Management and ‘Mechanisms’ of management. He studied following mechanisms:

1. He used the stop watch, essentially for the technique of time study.
2. The concept of functional foremanship should take place of single foremanship. He himself had been a foreman at some time and thus realized this malady, he advocated for eight types of functional foreman guiding the functioning of a worker.
3. Standardization of all tools and techniques used.
Planning for daily task should be charted so as to enhance industrial efficiency. Further, he added that there should be a separate planning cell in each industrial unit.

Time study for the use of time saving devices, e.g. slide rules.

The use of instruction card system to record what to do and how to do the particular task.

Adoption of proper classification pattern for products as well as implements used in manufacturing process.

Use of the bonus system for the successful performance of the task.

Application of the ‘rule of exception’ under which Taylor called for setting up a large daily task, with reward for meeting it penalty for not attaining the targets.

Encouraging modern costing system.

Objectives:

Taylor laid down five original objectives of the Scientific Management which were modified and expanded by the Taylor’s society. These are:

1. To help in developing higher standard of living by increasing the income of workers;
2. To avoid wastage of human and material resources in order to get larger income from expenditure. This income should be shared between the management and the workers.
3. Management should assure a happier environment to the worker by removing disagreeable factors.
4. Individually and socially, healthy working condition should be provided to the members of the organization.
5. Maximum opportunities should be provided for the highest development of individuals’ capacity through scientific method of work assignment and selection training, transfer and promotion.
6. Training should be imparted to workers so that they may develop better capabilities and at the same time become eligible for promotion.
7. Efforts should be raised for the development of self-confidence and self-respect among workers.
8. An atmosphere of research should be created where workers could develop the capacity to express and understand the aims and objectives of the organization.
9. Discrimination in wages should be avoided in order to promote justice.
10. Factors causing conflict should be eliminated from the environment.
Assumption

The basic assumption of scientific management relate to the nature of worker and his motivation, and the nature of work organization. Firstly, the implicit assumption of scientific management regarding the workers motivation is that, he is selfish, affected with basic inertia towards work, that is lowly endowed and that the essential driving force in his motivation is economic gains. That is why Taylor called that man is an economic man, give more money and have a good amount of work. If this is the assumption of worker motivation, it follows that the worker is not to be trusted that he is not capable of any higher order work and that he should be constantly good into work. Secondly, it is assumed that a worker, working individually is capable of involved effort and does a good job but in group, his effort perceptibly reduced. The best way to organize work, there, is to emphasize on individual worker and discourage all group formations. Third, assumption was that the detachment of planning tasks and entrusting them to a specialist group would yield greater efficiency. Finally, it is assumed that the interests of the workers and the management are not antagonistic but are inter-dependent and identical in nature. That way, maximization of production should necessarily bring more profit and better wages to workers. (D.S.Pugh.1977)

Taylor mentioned following points in connection of scientific management work:

1. Man is an economic man (Monetary Incentives).
2. Efficiency and Economy in organization.
3. Rule of thumb practices-owners may not necessarily be good managers in all cases.
4. One best way of doing one job- This involved the Time and motion studies and also the work study to find out one best style of doing one work.
5. Work study and work management.
6. Differential wage rate or piece rate for the workers-More pay for more work.
7. Official Technology-use of office tools to assist the job of management
10. Rule of Exception-Full utilization of the capacity and capabilities of the workers and managers for achieving organizational goals.
11. No place for trade unions and collective bargaining.

Criticism

Despite his best efforts to evolve new principles of management in the field of industry based upon practical research experiments and studies, Taylor was criticized from many platforms.
His assumptions and pronouncements about different aspects of industrial management have been subjected to severe criticism. Taylor’s assumptions about the motivation of the workers are perhaps the most fiercely attacked idea. His contempt for the low mental endowment of the worker has been a subject of criticism of equal strength. He even compared the mental caliber of the worker to that of an ox (Luthans, 1977, P.26)

Although, he argued for a better wages to the workers, he assumed that the worker is incapable of any creative talent. This has been his most erroneous assumption. That the worker is equally motivated, under certain conditions by non-monetary. Human and social consideration was amply demonstrated in subsequent researches. Thus, his concept of an economic man was misleading and incomplete.

Robert Hoxy in 1915 presented a research paper before the Industrial Relations Commission (U.S.A) in which he raised following important objections to Taylorism:

1. The term ‘Scientific’ is improper as the concept of Science is used in management and not Science itself.
2. Taylor has attached the relevance of scientific management only with the production (output) while keeping aside some important aspects like finance, marketing etc.
3. In his scientific management the rule of exception is practically impossible for the worker.
4. Taylor has put all the decision authority in management and keeping the workers out of participation, this leads discord in organization.
5. Taylor’s managerial techniques have no room for human relation aspect, which is a main factor in productivity of an organization.

The suggestion given by Taylor was opposed by viz., management and the workers, as they involved painstaking efforts from both sides.

Manager’s Opposition:

1. **Unit for Small Organizations**: The Scientific Management is a complex procedure; it needs huge amount of money, trained manpower and time which is often difficult for small industries.
2. **Lack of Correct Standardization**: It is not possible to have common standards of works and process to all employees of one organization as it differs from persons to persons and it is very difficult to attain standard of some type in all the industries.
3. **Problem of Control and Supervision**: on account of functional supervisions, unity of command is diluted and it is become difficult to established coordination among direction given by several formen. This leads obstruction in work and confusion among the workers.
Opposition by workers:

1. The worker is treated like a machine in scientific management. Taylor expects maximum work and close watch over the worker. This affects the power of initiation and interest adversely causing decline in efficiency. Human relations were not in the mind of Taylor to complement such a situation.
2. Workers find no participation in management and organization goals, thus, they cannot protect their rights and interests against the atrocities of management.
3. Workers have no association or trade union in Taylor’s Scientific Management, thus, they feel themselves helpless, poor and weak, they also cannot realize their collective strength even for right demands and the management can humiliate the workers individually (one by one).
4. Scientific Management led ousting of many workers because of management technology and use of more official tools in industries, thus, rendering them (workers) jobless.
5. The different wage rate policy gave to tension and conflict among the workers, which reduced the quality and homogeneity of products.

Conclusion:

The scientific theory, as propounded by Taylor, despite all its weakness, limitations and criticisms stands fruitful. Taylor laid the theoretical foundations of the principles of scientific Management but behavioral anomalies created the trouble in different industries. It is not his fault if managers and workers do not want to take pain and raise efforts for the well being of the organization. Indeed, Taylor was the first person of his kind to initiate systematic reform in management of industries and in the given conditions he performed experiments and showed the right path to the members of an industry. His work is the landmarks in the history of management, Science and the credit for modern management of industrial organization goes to him to some extent (Luthans, 1977, P.26)

The Scientific Management has given a right turn to the workers as also to the management to achieve the planned targets. It has also provoked the concept of human relations are complementary to each other to achieve the goal and not contradictory only by the intention of being criticizing it. Efforts should be invited to develop, improve and reform the basic tenets of Taylor’s Scientific Management, so as to make its maximum use for the welfare of mankind (Luthans, 1977, P.26)

Reference:
A Systematic Approach to Project Planning

Dinesh Bhattarai

Abstract

Development projects are means to convert the vision of a nation into reality. The degree of perfection in preparing and implementing development projects is one of the major determinants to the speed of economic development of a nation. Government is the prominent authority to shoulder the responsibility of economic development of the nation, at the same time it has to maintain equity and social justice among its people. People's demands are innumerable, multifaceted, and most of the time contradictory to each other. In the light of such demands, a decision-maker faces dilemma in determining a project for implementation. An ad-hoc process to determine a project for implementation gives room for those in power to manipulate according to their benefits and interests. To avoid ad-hocism and to choose the activity that can best ensure the optimum utilization of scarce resource towards the satisfaction of societal needs is essential, especially for developing countries. Through a process called project cycle, nations can manage their scarce resources efficiently in order to achieve their development objectives. A sound project planning incurs cost in terms of time, money and efforts of management consultants and other technicians. However, the early works of project design costs a large amount of resources and no immediate benefits, but it can reduce the chances of investment of relatively very high amount of resource in wrong projects. Following the stages of 'project cycle' the rational and justifiable selection of project is possible. In this article, the process of rational selection of development project and the concept of project cycle is discussed in brief.

Introduction

A project is a discrete activity with definite start and ending points, having clear-cut objectives and defined resources like manpower, equipments and funds. Projects are carried out in order to realize defined goals and objectives through the effective utilization of the scarce resources. Most of the projects aim at distributing the outcomes of the development activities carried out by governments to the mass mainly to the targeted population such as the poor, the deprived and the marginalized especially in developing countries.

After the great depression, J.M. Keynes advocated in favor of the government intervention over the state's economic life through investment in infrastructure and thereby, increasing employment opportunity and income of the people and generating demands of the goods produced. This idea was considerably followed by nations to overcome the adverse effects of depression. On this backdrop, even the capitalist countries started to carry out periodic development plans. To cope with the depression and to accelerate the momentum of the economic growth, nations facing the depression were compelled to follow the prescription

* Associated with Public Service Commission, Central Office.
given by J.M. Keynes. At the same time, 'Wagner's law of increasing states' and Soviet Union's experience of non-influence from the great depression through planned development fuelled the necessity of development plan for every countries. Nowadays, development plans are essential not only for planned development, but for equity and social justice too.

Nations development plans can be viewed as a combination of three different components namely plan, program and projects. These three components constitutes nations development plan as a whole. A plan is the whole of the goals, objectives, priorities of the government as well as policy to be taken, programs to be carried out and projects to be funded and implemented in a certain span of time. A program is a sectoral, spatial or geographical division of the national development plan. A program contributes in achieving the plan objectives. Whereas a project is a distinct activity of implementation for which, necessary budgets are allocated and which contributes in achieving the program objectives and ultimately contributes to achieve the plan objectives. Each project comprises a series of activities to be performed within and through the allocated budgets and other necessary resources provided and must be completed within the given time-frame. The linkages and concept of plan, programme and project can more clearly be understood from the following diagram.

![Diagram of Plan, Program and Project](image)

Fig. 1. Plan, Program and Project.

Development of a nation can be viewed as people working to create a better life by transforming their resources into goods and services necessary to meet human needs. Each development plan, through its implementing activities called "project", aims at accelerating the rate of economic growth and making the lives of its citizens easier and worthy to live in and providing necessary goods and services cheaply and adequately when needed. Food, water, housing, health, education, transport and communication, industry, pleasure/recreation are some of the fruits of economic development and the building blocks of national economic growth. National economic growth depends upon the production of more and better goods and services and like any production process, it requires the availability and efficient management of productive resources such as land, labor and capital.

Productive capital resources such as plants and machinery, tractors and trucks, or the skills of technical experts like engineers, doctors or management consultants are scarce, especially in
developing countries. For this reason, the provision and management of capital resources, through development projects, funded either by public investment or by loans and/or private investment, is critical to the development process. In order to ensure their success, investments require careful planning and analysis before implementation. Through a process called project cycle, nations can manage their scarce resources efficiently in order to achieve their development objectives.

Different organization and scholars have prescribed different process of a project and phases of a project cycle. The United Nations Industrial Development Organization (UNIDO) and The World Bank (WB) are some of the institutions to prescribe the Project cycle among others. In this article, however, the project cycle recommended by the World Bank are taken into consideration. In the first part of this article, we will review the phases of a project cycle. There are mainly seven phases, beginning with the early planning phase of Pre-identification through the concluding phase to the Evaluation of the completed project. In the second part, the techniques and methodologies employed by a project analysts to test the feasibility of projects during the various phases of the cycle is described in brief.

**PART-ONE**

As we know, a project is a discrete activity with definite starting and ending points, a project goes moving through a cycle. As it moves through the cycle, a project is tested and retested in terms of its technical, financial, economic, institutional, and social impact on the nation and its people. Let us first, discuss about the seven phases of a project cycle namely pre-identification, identification, preparation, appraisal, implementation, operations, and evaluation.

![Fig. 2 Project Cycle](image)
1. Pre-identification:

The First phase, pre-identification, involves gathering a broad range of information relevant to the sector. This information serves as a database, which will help to formulate suitable projects. Information may include data on available natural resources, or statistics on social and economic conditions in a specific region. In the agricultural sector for example, pre-identification includes the gathering of information on local geology, climatic condition, and cropping patterns etc. Data may also be required on farmer's income levels, and the availability of transport and communication system as well as the markets for the agricultural products. Collecting and analyzing this kind of information is the first step in identifying and planning the kinds, types, size, number, and magnitude of the project which may be required in a sector or in a region.

2. Identification:

The second phase of the project cycle is the identification phase. This phase consists of formulating specific projects, which are of high priority to national and sectoral goals. During the identification phase, projects objectives, which are specific and measurable, need to be set. Estimated costs and benefits are to be quantified, and a preliminary design of the project needs to be formulated.

Projects are often identified from the national plans, economic reports, or sectoral studies. Such reports and studies may reveal important barriers that impede development in a region or in any specific sector. For example, a study of the agriculture sector may show that a lack of irrigation in a particular region is preventing the development of exportable and high priced crops. A project to develop water resource and irrigation system in that region would increase the production of such crops that would raise the farmer's income level and that would simultaneously improve the health of the rural population by providing safe water for drinking.

During the Identification phase, many questions aroused need to be answered. Specifically questions like, who will benefit from the project? Will the project's benefits be greater than the cost involved or do there any possibility of the existence of other better alternatives to achieve the same objectives, needs to be carefully examined and answered.

3. Preparation

Once a suitable project has been identified, the third phase, preparation, begins. At this phase, the project's objectives are more clearly defined and its components are analyzed in detail. This involves collecting and analyzing additional data to ensure that the objectives are in fact achievable. During the preparation phase, the project needs to be examined rigorously and tested closely in terms of its technical, financial, economic, institutional, and social feasibility. A sound and perfect project preparation requires the skills of technical expert such as economists, engineers, and financial analysts. The use of computers and other automation is
extremely essential at this stage. At the same time, it also needs proper management and coordination of activities among different agencies related to the project. To ensure the successful operation of a project, the project's operation plan needs to be formulated prior to its implementation. For the preparation of a project's operation plan, project analyst uses various management tools and methodologies such as Critical Path Method (CPM), Program Evaluation and Review Techniques (PERT) or the Gantt charts etc. For the smooth supply of materials for the operation, a method of inventory management needs to be determined. The project's logical framework (Log-Frame) also needs to be prepared in this phase. These tools help smooth implementation, monitoring and the evaluation of the project.

In an irrigation project, for example, these experts need to specify the kind, type, size, number, etc. of the system that should be carried out, implemented or constructed and to quantify the benefits of the project that it will provide as well as the cost incurred. The source of materials to be supplied, and the manpower allocation needs to be determined as well. Normally, the results of these analyses should be integrated and summarized in a project report along with a logical frame which can be used by project managers and decision makers, first for the review purpose in decision making and later for the monitoring of the project's progress and finally for the evaluation of the outputs and outcomes.

4. Appraisal

After the project has been prepared, it moves forward to the fourth phase of project cycle called appraisal. Appraisal consists of a final verification that the project is feasible and justifiable and to be implemented by appropriate organization, authority, or any specific unit, which is established to undertake that very project. At this phase, some important issues may need to be resolved on the technical, financial, or legal aspects of the project before it is approved for implementation. Moreover, occasionally, a project may even need to be redesigned in the light of new information or changing economic or social conditions. However, normally if it has been well planed and prepared the chances of problems will be minor and can easily be resolved.

Because the appraisal phase includes both the financial review and the official approval of a project, it usually involves discussions among government agencies, planning authorities, and representatives from international lending agencies. These discussions should result in general agreement among all parties that the project is in fact ready to implement.

5. Implementation

The fifth phase, Implementation, refers to the period when the project is actually carried out. Implementation normally includes the procurement and construction of facilities, the installation of equipments, the creation of new institutional arrangements, or the training of staffs. During implementation, supervision is extremely important, and should include more than crisis intervention. Supervision requires careful monitoring of construction and review of
new information or unexpected circumstances that could affect a project's timely and proper
completion. These unexpected events may include delays in disbursement of project funds,
delays in procurement of equipment, adverse weather conditions such as floods or earthquakes,
mistakes that could not be seen during the planning phase such as wrong designing, and any
other changes in the project environment. When supervising implementation, project staffs
needs to determine whether construction targets are being met and whether cost budgets are in
line. In addition, the activity of the participating agencies needs to be coordinated. During this
phase, various types of corrective measures may need to be taken.

6. Operation

Once a project has been implemented the operations phase begins. Operation is the phase when
a project begins to yield its expected benefits in the form of goods or services. In order to make
certain that a project will continue to yield its maximum benefits over a time, facilities must
properly be operated and maintained. For this reason, project analysts must ensure that, once
constructed, the project will have sufficient funds and adequate staffing for proper operations
and repair and maintenance.

7. Evaluation

After a project is in operation, the seventh phase of project cycle takes place. This is the final
phase of a project cycle, the evaluation phase. It comprises an assessment that whether the
project has actually achieved its objectives that were set prior to its implementation or not. The
evaluation process involves an analysis of any problems, which may have occurred during the
project cycle. Problems such as cost overruns, delays in construction, technical malfunctions, or
institutional weakness is assessed, examined or evaluated in this phase. Analyzing the causes of
the problems that occurred during the various phases of the project cycle can provide valuable
information for future projects. As a new project is identified, the project cycle begins again.

PART – TWO

As a project cycle, moves on the seven phases of the cycle, in course of each of the phases,
project analyst collects and test information in order to determine whether a project investment
is feasible and justifiable or not. During this process, there are five main aspects of project
feasibility, which need to be evaluated. These are the technical, Financial, economic,
institutional, and social aspects of project analysis. Besides these five aspects, marketing and
environmental aspects of projects may need to be done before implementation. A marketing
analysis of a project is a must for commercial projects; where as, environmental analysis is
compulsory in almost every country nowadays, at least for the large and directly environment
related projects. For this, some of the projects conduct their marketing and environmental
analysis separately. It is not at all necessary that these aspect of project feasibility needs to be
undertaken in a sequential order. We will now discuss about the five main aspects of project's feasibility.

1. Technical Feasibility

Technical feasibility studies compares and evaluates alternative technical designs that will achieve a project's objectives at the lowest possible cost. These studies, would determine, for example, whether a water supply system should provide service inside the home or through public standpipes. In other words, this aspect is to determine the most appropriate technology to be applied in the specific project. This feasibility study also indicates whether construction methods should be labor intensive or capital intensive. In many cases, labor-intensive construction is an efficient solution, because labor is plentiful and its cost is low, compared to the cost of capital equipment, especially in developing countries. Technical evaluation should also consider the designs that are flexible enough to accommodate unexpected changes in the project environment or in income conditions. For example, investing in groundwater systems, where additional shallow tube-wells may be constructed in stages as demand justifies them, may be a more flexible solution than a lumpy investment in expensive surface water reservoirs and complex treatment works. The surface system cannot easily be expanded or reduced in size to fit the growth or decline in demand patterns.

Another important technical consideration is a project's effect on the environment. A solution that incurs high cost in terms of environmental damage is clearly not justifiable. Industrial pollution of water sources, for example, will increase the long-term cost to the society by damaging the population's health and the ecological balance of the nature. Considering the tremendous effects of environment to the society a separate environmental analysis is recommended often. At least for larger projects, environmental analysis needs to be done separately.

The project analysis should also consider how to interrelate the project components. For example, a project to supply additional drinking water to a community may also generate excessive wastewater, which needs to be disposed. In this case, the technical design should also include methods of wastewater disposal, and metering of water use to promote conservation and to reduce the amount of wastewater generation.

Finally, technical feasibility must take into account the operational and repair and maintenance requirement after the completion of the project. No project will yield its intended benefits if it fails into disrepair or does not operated efficiently.

In review, the analysts of a project's technical feasibility should consider alternative technical designs, which will meet the objectives at the lowest cost. The selected design should include the most appropriate technology and the most efficient construction method. A good design will also provide flexibility in order to accommodate changes. In addition, the project should not result in negative or adverse environmental effects. It should analyze how different
components are interrelated both within the project and with other projects in the area. Finally, a good design will take into account the operation and maintenance provisions once the project is complete.

2. Financial Feasibility

The next aspect is the analysis of financial feasibility. Financial analysis seeks to determine whether sufficient funds will be available first for the construction and later for the proper operations and maintenance. The financial analyst need to assess, whether a project's sources of funds will meet its uses over time or not. Sources of funds include such items as operating revenue, loans, and grants. Funds are used for investments, for operations and maintenance, and for debt service.

Assessing a project's financial feasibility, thus, requires making projections about the future. By projecting an undertaking's accounts, the analyst assesses whether the undertaking will be able to meet its financial requirements to complete the project and support it in the long term. An undertaking's ability to meet its financial obligations over time allows it to be financially autonomous. Financial autonomy is important because it allows the enterprise to manage its own operations and remain free from undue external control. Analyzing financial feasibility also involves deciding whether a project is affordable to the beneficiaries who will pay for the goods or services produced or not. To Analyze a project's financial feasibility; analysts use such accounting tools, as Net Present Value (NPV), Internal Rate of Return (IRR), Benefit/Cost ratio (B/C ratio), Pay Back period, Liquidity Position, Project Net Worth, Sensitivity Analysis over possible risks etc. These analyses provide projects financial scenario over its lifetime.

In summary, financial analysis must determine not only what financial benefits will be generated by a project, but also what will be the financial costs that need to be met and by whom the cost will be borne.

3. Economic Feasibility

A third aspect to analyze when assessing a project is the testing of its economic feasibility. The purpose of economic analysis is to measure the project's value to the society as a whole. The task of economic analysis, thus, is to decide how a nation's scarce resources of land, labor, and capital can be used most efficiently so as to meet as many of the society's needs as possible. For this reason, testing a project's economic feasibility requires measuring and comparing its total costs with its total benefits to ensure that the benefits to the society are at least equal to the costs. The task to measure and compare the total social cost over total social benefit is the job of economic feasibility study. Economic analysis therefore, compares the returns from alternative projects in order to ensure that scarce resources will be used most efficiently to yield maximum benefits in the light of resource constraints. For example, the land, labor, and capital resources used up in constructing a water supply system could also be used in an alternative
project to produce food crops. Economic analysis is concerned with determining which of these uses will yield the highest benefits to the society as a whole.

To analyze a project's economic feasibility and its value to the society, project analysts use such tools, as Economic Net Present Value (ENPV), Economic Internal Rate of Return (EIRR), Economic Benefit/Cost ratio (EB/C ratio), Project Net Worth, Sensitivity Analysis over the possible risks etc. These analyses provide a synopsis of the project's economic importance and its contribution to the national development as well as the role it plays to fulfill the priority set by a nation's periodic plan and policies over the life-time of the project. For this, techniques like shadow pricing and opportunity costing and mathematical formula like conversion factor are applied over the market price to determine the economic price. Shadow pricing provides an idea that, how much cost a certain commodity bear in terms of its economic value. For example, most of the governments, through regulations, determine the minimum wage rate, but because of unemployment, a labor could be hired at lower rate than the minimum wage rate. Similarly, the exchange rate of foreign currency in the free market might be higher or lower than the government's official rate, depending upon the magnitude of illegal trade and the foreign currency reserves in the country. In such a case, the price does not represent its economic value, thus, its economic value to the society as a whole, needs to be assessed. It can be obtained by applying shadow-pricing method, which can be determined by multiplying the market price by its conversion factor. A conversion factor is the ratio between the actual price and the shadow price i.e. the value to the society.

4. Institutional Feasibility

Now, that we have looked at the technical, financial, and economic aspects of project analysis, let's discuss about the fourth aspect i.e. institutional feasibility. Any organization, such as ministry, department or agency, which is responsible for carrying out a project, must be adequately managed and staffed. Project investments require solid institutional support if they are to yield maximum benefits. Institutional analysis may reveal that the structure of an agency needs to be strengthened before implementation and operation of a project. Measures to strengthen an institution may include changing of certain policies and procedures concerning the project, for example, the systems of the hiring of personnel or the methods of financial reporting.

Institutional studies may also indicate the need to hire additional staffs with specialized technical, managerial or supervisory qualifications. In addition, training programs for staffs may be felt necessary in such areas as project management. Institutional feasibility should also take into account the existing national policies on economic management. For example, government policies on pricing of goods and services may have an effect on the financial operations of a project enterprise. Policies to keep prices artificially low in relation to costs are self-defeating in the long run and will eventually have to be modified. If marketing analysis is to be done separately, this kind of analysis comes under the marketing feasibility analysis part.
In summary, strong institutions with adequate manpower, policies, procedures, and organization framework and setup are essential to the success of any development projects. If local institutions are weak, projects may fail to yield their intended benefits.

5. Social Feasibility

The final aspect of a project analysis is the study of its social feasibility. The broad objective of development is to improve the well-being of the population. A project may be feasible economically and financially, and yet have adverse effects from the social point of view. For this reason, it is important to evaluate the impact of a project in terms of a nation's social objectives. For example a country may wish to promote equitable distribution of income to the desperately poor, marginalized or disadvantage groups…. or to create employment opportunities in a specific region. Analyzing a project's social feasibility includes evaluating how a project will affect these objectives. For example, a project that introduces new technologies could displace workers in a certain socio-economic groups or construction of road to link any remote place with the cities or market will minimize the porters job formerly involved in carrying goods from the cities or markets to that very remote place, thus, creating problems of unemployment. A project to construct a dam might cause serious environmental damage to wild and water lives or pollution from an industrial project could damage the health of an urban population. A project with negative environmental effects could not socially be feasible, whatever the other feasibilities be.

In summary, careful project analysis seeks to ensure that all five (seven in case of marketing and environmental analysis are done separately) feasibilities have been thoroughly evaluated before the nations scarce resources are committed. Planning and designing, testing and retesting, the project cycle moves forward with assurance at every level that a country's investment in economic and human resource will yield the highest possible return.

Conclusion

For the successful implementation of a project, the project must be technically viable, economically feasible, socially adjustable, politically acceptable, and environment friendly having an effective and efficient institutional arrangements. To ensure whether all these aspects of a project are positive or not, a systematic approach project planning following the project cycle is indispensable. Careful project planning carries a cost in terms of time and money. The planning phases of the project cycle i.e. pre-identification, identification, preparation, and appraisal may require 3 or 4 years involving considerable costs and no benefits. Because, these early stages of project design appear to yield no immediate benefits, thus they are often neglected. In reality, investing resources during the early phase can yield very high return by reducing future costs and maximizing benefits. For example, the cost of preparing feasibility studies during the preparation phase may appear to be high. However, these early studies can results in very large cost saving in the later stage. Typically, the order of cost magnitude increases dramatically as a project progresses from preparation phase to implementation phase.
The cost of implementing a project could be as high as a hundred times of the cost of preparation. Therefore, the relative investment in preparation is small but the cost of faulty or inadequate preparation can be very high in the way that it could even result in a project being abandoned at a cost of hundreds of millions. An abandoned project will yield none of its intended benefits. For this reason, the costs incurred in good project planning are offset by the benefits that a successful project can yield over its useful life.

In general, a sector will benefit from a systematic approach to project planning by ensuring a continuing flow of well-prepared projects over time. If projects are well planned and analyzed, they can be implemented efficiently over its lifetime. A systematic approach to project planning ensures that a sector will always have projects ready for implementation if development priorities shift to favor the sector expansion with increased funding. By continuously identifying and preparing new projects, the project pipeline will remain filled. In addition, a well-established and continuous project planning process should prevent poorly selected ad-hoc investments and disruptions to the development program caused by political swings or untimely turnover of staffs.

To sum up, following the phases of the project cycle when planning, implementing, and evaluating investments will help ensure sound decision making and the efficient management of a country's scarce resources and help to realize the nation's development and social objectives effectively.

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