

TOWARDS IMPROVED MANAGEMENT OF INDUSTRIAL ESTATES
Exploring New Perspectives

INDUSTRIAL DISTRICTS MANAGEMENT LTD.
BALAJU, KATHMANDU

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A STRATEGY PAPER ON IMPROVING MANAGEMENT OF INDUSTRIAL DISTRICTS

ADOPTION OF DOSH STRATEGY

Despite its deficiencies and the general clamour for change, there is no doubt that IDM still bears its relevance. IDM must adopt the DOSH (develop, operate, sustain and handover) strategy as a process to contribute to positive industrialization in the country.

IDM (and its predecessors) has developed and operationalized most of the existing industrial estates within its own limitations. The district at Dhankuta is yet to be operationalized and still in the process of development. Some of the industrial districts are even considered to be sustainable in their operations. IDM must identify sustainable estates among the existing 11 districts and gradually handover their management to the private sector after assessing their competency and institutionalizing the management of the infrastructure.

An analogy can be drawn from the father–son relationship. When the son grows to be competent enough to survive and grow, the father should handover the responsibility to look after the family to him. The government and IDM must change their mindset and not be averse to the idea of handing over especially when the industries are demanding for this.

IDM should identify new potential areas, develop/adopt new industrial cluster concepts and operate them till sustainable again along the DOSH concept. The industrial clustering process shall be a continuous process.

FORMATION OF A TASKFORCE

A taskforce shall be immediately constituted with an objective of improving management of industrial districts and facilitating privatization of industrial districts to promote sound industrial development in the country.

The taskforce shall have the mandate of formulating time-bound action plans, implementing and monitoring the smooth transfer of capital assets to industrialists and management of the estate infrastructure with wider participation of the private sector/industrialists. It shall also restructure the present Industrial Districts Management Limited with new direction.

The taskforce may carry out the following activities within the mandate provided to it to attain its objectives:

- Assessing industrial estates in terms of their sustainability and potential for handover.
- Preparation of procedures to handover buildings and land to lessees, and other utilities and facilities/infrastructures to users groups.
- Evaluate and recommend for amendment of regulatory mechanism wherever necessary.
- Valuation of capital assets including land and building.
- Time-bound handover of building and land to lessees.
- Formation of users groups (associations of industries in industrial estates). FINIE to serve as the apex body of all such users groups in different industrial districts.
- Establishment of office for management of industrial estates by users groups
- Handover of management of water, electricity and other facilities and infrastructure to users groups.
- Evaluating and restructuring the present IDM Ltd. into a lean organization to carryout the development and operation of the districts which still needs support for sustainability.
- Other necessary activities to facilitate the privatization of industrial districts

The composition of the task force shall be as follows:

- | | |
|---|------------------|
| ▪ Secretary, Ministry of Industry, Commerce and Supplies | Chairman |
| ▪ Chairman, Industrial Districts Management Limited | Member |
| ▪ President, Federation of Industries in Nepal Industrial Estates | Member |
| ▪ Joint Secretary, Privatization Cell, Ministry of Finance | Member |
| ▪ Joint Secretary, Corporation Coordination Division, MoICS | Member |
| ▪ Legal expert | Member |
| ▪ Industrial management expert | Member |
| ▪ Financial management expert | Member |
| ▪ Representatives, FINIE (2) | Member |
| ▪ General Manager, IDM Ltd. | Member Secretary |

TOWARDS IMPROVED MANAGEMENT OF INDUSTRIAL ESTATES

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I. INTRODUCTION

1. The first democratic government of Nepal emerged with a vision of economic development of the nation through industrialization. The establishment of the Balaju Industrial Estate with American assistance in 1959 AD was a major step toward this. The concept of providing integrated physical facilities such as land, building, road access, sewerage, electricity, water etc. required by industries in one cluster area attracted a number of potential entrepreneurs to establish industries in Balaju although many had to be convinced and lured through personal contacts of the then authorities. These physical facilities together with complementary services such as mechanical workshop, training centre, commercial bank, health clinic etc. augmented the integration of facilities and services required for providing the thrust in the process of industrialization at that time.
2. In those early days, Nepal had only a handful of industries which were mostly situated in the Terai cities of Biratnagar, Birgunj, Bhairahawa and Nepalganj. The industrial sector was in general characterized by very small scale of operation; low investment, homework based micro enterprises, and possessing low risk factors. Organized labour culture was lacking. Strong domestic commodity markets were not in place, and trading depended largely on India-Tibet trade deflection. Agriculture was pervasive in the country's overall economic, socio-cultural and political environment. Entrepreneurship among the people was very low. Since initiative from the private sector was virtually non-existent, the state took it upon itself to establish a number of large industries like Janakpur Cigarette Factory, Birgunj Sugar Mills, Bansbari Leather and Shoes Factory etc. with the assistance of different countries.
3. Starting with the Balaju Industrial Estate in 1959 AD, other 10 industrial estates have been established in various parts of the country over a period of 30 years by His Majesty's Government through its own resources as well as assistance of friendly countries such as USA, India, Germany and the Netherlands. These were established with the purpose of promoting industrial development by providing basic physical infrastructure and utility services required by industries so as to contribute to reducing imports, increasing exports, creating employment, promoting local skills and human resources etc.

The existing 11 industrial estates are under the umbrella of Industrial Districts Management Ltd. (IDM) set up only in 1988 AD with the expressed objective of establishment, development, management and promotion of industrial estates to facilitate balanced regional development in the country. Among the 435 industries established in these industrial estates, only 77% are in operation, while 13% have closed down due to various reasons. These industries fall under category groups like textile and garment, rolling mill and metal, electrical and electronics, food and beverage, furniture, pulp, paper and stationery, poultry and hatchery, machinery and equipment, construction material, rubber, plastic and allied, pharmaceutical and chemical, handicraft and curio, energy and miscellaneous. Most of the industries are private enterprises including some multinational companies (MNC) and public limited companies, and some are state-owned. On the basis of employment size, one-fourth have less than 10 employees, more than half employ between 10 to 50 people, while one-fifth have more than 50 employees.

4. The professed goal of economic development through industrialization seems distant since industrial development since the 1990s has not been gaining momentum as envisaged before. The estate management, viz IDM has had to face a number of problems, which if analyzed in the correct perspective, points at conflict of interest among various stakeholders namely the shareholders, beneficiary industries and the affected social communities. Today, IDM is simply reduced to collecting insignificant amount of rent on its land and few buildings, and sustaining on the 10% rebate granted by Nepal Electricity Authority (NEA). Besides this, no development activities are being pursued and displeasures of industries are mounting.

Although 13 new areas have been identified as potential areas for industrial district development, IDM has not been able to take up the task of developing any of these areas. It neither has the financial resources to acquire the required land nor does the government acquire the land for them.

II. STUDY RATIONALE AND OBJECTIVE

5. It has therefore become necessary to revisit the business environment 40 years then and today, and also to identify the measures for improved management of the industrial districts especially in the present form. Organizations are analogous to bio-organisms – once born, they grow and decay as time goes by. Factors in the dynamic business environment affect these organizations, and organizations that cannot adopt appropriate strategies to cope with the changes in the environment simply decay and die out.

The environment and the context that led to the establishment of industrial districts 40 years ago are much different from what they are today. The state-led measures taken then were necessary to initiate industrialization process in the country and diversify the economy from the traditional agri-based economy. The 80s saw gradual departure of state intervention, and adoption of economic reforms. The 90s have seen the reinstatement of democracy and even vigorous move toward liberalization extended to globalization. This has resulted in unprecedented development of labour and commodity markets, development in infrastructures required by industries, growth in entrepreneurship and strengthened capability of investors. These have led to growth of the private sector and more industries being set up outside than inside designated industrial districts. Today highly influential pressure groups and the society are voicing concerns and raising issues on industrial pollution. Trade unionism is stronger. In such changed context, it is time to rethink the very significance of creating and operating industrial estates, and in doing so, to seriously reorient the role and management of existing industrial districts. It demands changing the mindset of the stakeholders – the shareholders, the industries and the present IDM itself.

6. Despite such changes taking place, IDM has not changed. It needs to shed its regulatory nature and pursue a more active and effective role in promoting sustainable growth of industries in the districts by working together with the industrialists, government agencies and other stakeholders. It needs a sense of purpose and a new direction. Hence, this study on reorienting the role of IDM to improve the management of industrial districts and, toward this, exploring new perspectives was carried out during June/July 2002. The study tries to assess the role and purpose of IDM and reorient its management in the present environment. It also tries to assess concurrent practices and possible approaches for institutional reforms and effective management of industrial districts in the Nepalese context.

The study has been conducted in close interaction with a number of stakeholders to match the development objectives of the government with a focus on the concept of managing the development in the present environment.

III. METHODOLOGY

7. The primary information for the study has been gathered through three methods, viz survey questionnaires, individual interviews and focused group discussions. A total of 102 industries were selected randomly for a general survey from a list of industries in all the 10 operating industrial districts (ANNEX 1). The sample group was stratified into three groups based on the employment size, i.e., large (50 or more employees), medium (10 to 49 employees) and micro/small (less than 10 employees). Questionnaires (ANNEX 2) were used to gather information regarding business status, problems faced while operating within the industrial estates, suggestions for improvement etc. Altogether 61 percent of the total samples responded.

Strategic issues regarding ownership, policy toward the industrial districts and future plans, and key problem areas were discussed through interviews with some key players at the policy level representing Ministry of Industry, Commerce and Supplies (MoICS), Ministry of Finance (MoF), Nepal Industrial Development Corporation (NIDC), NEA.

Likewise, three FGD sessions were held with three separate stakeholder groups namely the office bearers of FINIE, senior management officials of IDM, and representatives of MoICS, MoF, NEA, Nepal Bank Ltd. (NBL), Department of Industry (DoI)/MoICS, Department of Cottage and Small Industries/MoICS (DCSI). All the three groups (ANNEX 3) discussed on common subjects – significance of creating and operating industrial estates then and now; constraints being faced presently; and management challenges and future prospects.

Besides, policy and legal reference to industrial districts, documented procedures, rules and regulations of IDM, progress reports and other relevant secondary information were also reviewed.

A 2-day national consultative workshop was held with the participation of all stakeholders concerned with the management of industrial estates, i.e. government, IDM officials and representatives of industries (ANNEX 4). The workshop was jointly organized by IDM and Federation of Industries in Nepal Industrial Estates (FINIE). The objective of the workshop was to initiate a healthy interaction among the stakeholders on the findings of the study and arrive at an appropriate strategy to improve the management of industrial districts. A strategy paper on improvement of industrial districts was adopted through consensus in the workshop.

IV. IDM AT A GLANCE

8. At present, there are 11 industrial estates established in Balaju, Patan, Bhaktapur, Hetauda, Dharan, Dhankuta, Rajbiraj, Pokhara, Butwal, Nepalganj and Birendranagar. While some estates like Balaju, Patan and Pokhara are well occupied, spaces in Rajbiraj and Birendranagar are grossly underutilized. The industrial district in Dhankuta is yet to come into operation. Out of the 435 established in these different industrial estates, only 332 are in operation, while 60 have shut down and 43 are under construction. While majority of

the industries within the estates are local private enterprises, a number of multi-national companies like Bottlers Nepal, Colgate-Palmolive, Asian Paints, Jenson and Nicholson, etc. and public sector enterprises like Kathmandu Milk Supply Scheme and Hetauda Milk Supply Scheme also exist. In terms of employment, 25% of the industries can be categorized as micro enterprises employing less than 10 workers, 56% medium scale employing between 10 to 49 employees, and 19% as large industries employing 50 and more. In total, more than 14 thousand people are employed in the industries within the estates. [Source: IDM Souvenir, 2057 BS]

Among the IDM shareholders, MoICS and the Office of Comptroller General each possess 45.27 % share, while NIDC possesses 9.46 %. The institution is governed by a board comprising of a Chairperson, and representatives of MoICS, MoF, Ministry of Water Resources (MoWR), NIDC, FINIE and the General Manager of IDM as the General Secretary. The board chairperson and the general manager are normally government appointees. The newly appointed Chairperson is the Director-General of Department of Commerce/MoICS.

	Industrial District	District	Year of Establishment	Established by
1	Balaju Industrial District	Kathmandu	2016 BS	USA
2	Patan Industrial District	Lalitpur	2020 BS	India
3	Hetauda Industrial District	Makawanpur	2020 BS	USA
4	Dharan Industrial District	Sunsari	2029 BS	India
5	Nepalganj Industrial District	Banke	2030 BS	India
6	Pokhara Industrial District	Kaski	2031 BS	Nepal
7	Butwal Industrial District	Rupandehi	2032 BS	Nepal
8	Bhaktapur Industrial District	Bhaktapur	2035 BS	Germany
9	Birendranagar Industrial District	Surkhet	2038 BS	Netherlands
10	Dhankuta Industrial District	Dhankuta	2041 BS	Nepal
11	Rajbiraj Industrial District	Saptari	2044 BS	India

9. The management of industrial districts has changed hands a number of times. Earlier, the industrial districts in Balaju and Hetauda were managed by NIDC while DoI/HMGN managed those in Patan, Nepalganj and Pokhara. Later, the responsibility of management and development of the industrial districts was given to Industrial Services Center. Finally, in 1988 AD, IDM Ltd. was formed as an undertaking of the government to bring all IDs under its umbrella. The IDM as a company has an authorized capital of Rs. 150 million and paid up capital of Rs. 140 million.

A total of 267 personnel with 34 at the central office at Balaju man these industrial estates. IDM has professionals trained in different fields like engineering, economics, management, commerce etc. and experience in planning, evaluation and providing technical support to industries. IDM operates under the IDM Employee Service Regulations, 2054 BS and IDM Financial Regulations, 2050 BS.

V. MACRO-ENVIRONMENTAL FACTORS AFFECTING NEPALESE BUSINESS

10. **The economic environment:** A look into the economic environment indicates growth in the service sector especially tourism and travel trade, banking and financial institutions, education, consultancies in recent times, the IT sector. Likewise, a few export-oriented products such as carpet, garment, and Pashmina have made a distinct mark. The exports of the latter products have lately deteriorated in the international market due to a number of factors. Till recently, tourism was hailed as a very promising source of foreign exchange. Manufacturing sector's contribution to the total GDP is estimated at only 10%. The country adopted stringent reform policies steering the country towards the path of economic liberalization since the 1980s. After some positive results in the initial stages boosted by the restoration of the democracy, the economic scenario now is not so optimistic.

The overall economy is not improving and major economic indicators point at that. Competitiveness of industries is diminishing due to open border with India, cheaper competitive goods coming from India as well as from China, particularly the Tibet autonomous region of China, and to a large extent, due to the anomalies in the government's reform policy. The fallout in competition has resulted in the closure or on the verge of closure of a number of industries in the industrial districts, thus resulting in loss of revenue to IDM. As far as promotion of industries by providing integrated services and scope for broad linkages is concerned, new concepts such as industrial zoning, EPZ, IT Park etc. have emerged. It is believed that the forthcoming industrial perspective plan of the government is promoting these concepts for industrial development. In this context, it becomes imperative for the present industrial districts to assume a more proactive and sustainable role by ensuring that the industries they serve operate smoothly with a certain niche in their products compared to others outside the industrial districts.

11. **The political environment:** The reinstatement of parliamentary democracy has established a constitutional monarchy in the country and a continuation of socialistic pattern government. In their zeal to exercise their newfound franchise, none of the elected party has served a full term in government. Instability of the governments and lack of political commitment have resulted in weak stances on crucial policies. The Maoist insurgency is hampering business and industries posing serious threats to the country's economy. The rise in political activities has affected all walks of life and the business community is no exception. The right to association as a fundamental principle enshrined in the constitution has brought about a proliferation of associations of all forms and at various levels including the industrialists and the workers. Both are getting stronger as smaller associations form federations. Trade unions have political affiliations, and they are more persistent on their rights and welfare. The concentration and proximity of numerous industries make industrial districts hotbeds for union activity. The public and the consumers have developed increased awareness about many issues of their concern largely due to active civil society.
12. **The legal environment:** Industries today operate in a strong regulatory regime. Many new laws related to business and industries have been enacted while old ones amended to make them more progressive in the context of liberalization and democratic norms. Some important acts such as Industrial Enterprise Act, Foreign Investment and Technology Transfer Act, Labour Act, Trade Union Act, Commercial Bank Act, and Nepal Industrial Development Bank Act have direct impacts on industrial development and management of industrial districts. The judiciary system provides opportunities for recourse to disputes

and discriminations. Therefore, today discriminations in facilities of tax rebates, in the application of labour laws, in government purchase procedures etc. are not tolerated by the people. A grievant, irrespective of his/her status and socio-cultural background has recourse to the law.

13. **The social environment:** A growing section of the Nepalese society in urban centers such as the Kathmandu Valley, Pokhara, Butwal, Narayangarh, Hetauda, Birgunj and Biratnagar are investing in manufacturing industries, and establishing industries outside industrial districts. The literacy rate in the country is on the rise. More and more women are being educated and are getting engaged in various economic activities and taking up responsibilities which not so far ago were in the domain of the men. There is growing unemployment among the educated youth. Mobility among the population is on the rise largely due to economic considerations. Many young people are migrating outside the country for employment, and economic opportunities have lured many including women in the urban cities resulting in a demographic shift and cross-cultural assimilation in the urban and semi urban centers throughout the country. The Maoist insurgency has also been responsible for the in-migration of many people from the rural and remote parts of the country.
14. **The technological environment:** Nepal is not a technologically advanced country in the modern sense and almost all technology has to be brought from outside. There is a lot of concern for maintaining and generating cheap indigenous technology mostly at the farm level and herb processing and in rural areas. Apart from that, most industries depend on outside technology including training and management programs. Although there are a few research and development institutions like RONAST and RECAST, there is no institution involved in industrial research and thus provides very low scope for its technological development. The country has a number of colleges producing engineers and a number of vocational institutions providing short-term diploma courses on various technical subjects. Nepal has shown promises of reaping benefits in the IT sector in which Nepal has potential infrastructure and manpower in place to meet the rapid growth in the domestic and international market.
15. The overall factors in the macro-environment point at increasing intrinsic and extrinsic competition on the one hand, and less favorable investment opportunity on the other hand, particularly in the manufacturing sector. The mismatch in the demand and supply situation in the HRD efforts in the country has created less skilled manpower and abundance of unskilled labour. Industries have to make the best out of this unskilled labour force and, at the same time, deal with growing trade unionism dominated in industrial districts. These along with rigid laws that mar the growth of industry make it very difficult for industries to operate within industrial districts.

VI. ADVANTAGES AND DISADVANTAGES OF INDUSTRIAL CLUSTERS AND ESTATES

16. From the logistics point of view, there is no doubt that industrial clustering has a lot of benefits for the support service providers. Development of physical facilities and planning, distribution and monitoring required for electricity, water, telecommunications etc. becomes easier. Such clusters generate growth of auxiliary and ancillary industries and a lot of small peripheral business and service units; provide employment giving a boost to local economy. On the other hand, industrial clustering is a way of bringing regional

balance by promoting industrial development in priority areas where infrastructure is not adequate and allows strategic cost reduction.

Industrial districts have demonstration effect to show case positive features, facilities and progressive programs. They provide opportunities to establish industries with low investment. Besides, complementary support among different industries within the districts also facilitates investment. Such clusters provide an environment of healthy industrial culture through cooperation and complementary relationship among the industries, good management practices and positive market image of products produced in the estates. These features coupled with good utility services and availability of business development services lead to enhancement of efficiency and productivity of industries.

Industrial clustering is ideal for effective land use planning including arresting chances of depleting fertile land otherwise ideal for agriculture. Even without proper strategic planning, some forms of clusters are bound to emerge because of various restrictions of the government regarding locations of industries. Investors may face lower bureaucratic hurdles associated during establishing and operating industries outside. They provide the possibility of promoting sub-sectoral growth by earmarking specific locations for specific industry sub-sector instead of haphazard entry of any and all kinds of industries. They are beneficiaries of priority policies of the government and are centers for priority development programs such as Cleaner Production program initiated in Hetauda Industrial District.

17. One important perceived problem associated with industrial clusters is the strong trade union activity within them and chances of inter organizational influence related to union activities. The recent case of labour agitation at Hetauda Textile Industry shows how vulnerable the whole industrial district is to the blackmailing tactics of the union of one industry.

In the absence of strict regulatory mechanism, industrial districts are notorious for industrial pollution emanating in the form of smoke, hazardous fumes, effluents, noise, etc., and thus are hotbeds for conflict with the local community around them. Besides, growth of settlements around the industrial districts and rapid urbanization, limits the scope for expansion of such districts and extension of individual industries. Bhaktapur Industrial District, for example, is under pressure from the public as well as the municipality to relocate the district elsewhere. The reason is its location within the lately declared Bhaktapur heritage site.

Industrial clusters are the obvious potential sites for the introduction and implementation of new policies, rules and regulations of the government regarding revenue collection, industrial standards, labour standards, environment standards etc. and are under close focus of various regulatory bodies. They are convenient targets for harassment by donation collectors and miscreants.

Enterprises in such industrial clusters would be at a major disadvantage if adequate and regular utility services and maintenance of infrastructure cannot be managed properly. Such a situation would undermine the relevance of operating in such estates. Besides, industries operating under land lease are deprived of collateral value of those assets, as commercial banks show no willingness to lend to such industries. Obviously, banks seek financial security for their loans, and find it difficult to finance projects to industries under IDM agreement, unless they can provide some alternative collateral.

Strong industrial policy and progressive policies regarding industrial clusters or zones would be contributory to the promotion of industrial growth as well as the growth of the

nation's economy. The usual lassitude of the government and lack of responsibility to play a supportive role would definitely be the biggest disadvantage.

VII. FINDINGS AND DISCUSSIONS

18. At present, there are 10 operational industrial districts out of existing 11 estates under the management of IDM. The industrial districts vary in size and composition; and apart from the operational problems faced by individual industrial districts, their sustainability seems to be critical. Their very existence comes under question. This question assumes even more relevance in the present context of economic liberalization and changed socio-political environment in the country. The industrial districts have been operating simply on the mode and basis of their establishment in the 1960s and 70s at the expense of efficiency and effectiveness to fulfill the objectives and carry out various stated activities.

19. **Policy context:** IDM has not geared itself up to meet the current requirements of the industries and has failed to live up to its stated objectives set 30 to 40 years back during its establishment. The government on its part has shied away from its responsibility to ensure that IDM remain a strong and dynamic institution capable of playing a positive role in promoting industrialization in the country. Thus, IDM's function is restricted to mere operation and maintenance of the limited facilities in the existing industrial districts, whereas it should also be focusing on developing new industrial districts and expanding facilities in the existing industrial districts. IDM lacks internal resources to purchase necessary land to develop new industrial districts in potential areas already identified. The government is reluctant to provide the land, and in its absence, the donor agencies cannot support infrastructure building. Even the local governments requesting feasibility studies for industrial district development in their districts fail to lobby government support. On the other hand, IDM is responsible for sustaining financially non-performing industrial districts (Surkhet, Rajbiraj, and Dhankuta).

The government lacks concerted plans and policy toward this end since it seems confused about the role of IDM. It is, however, believed that some policy toward industrial estates is on the offing in the planned industrial development perspective plan. There isn't a specific department or unit in the concerned ministries that deal with IDM issues. With its commitment toward reforms, the government seems less inclined to get bogged down with state owned enterprises and is more interested in facilitating the private sector assume a bigger role in the industrial development. This means IDM can expect less direct intervention from the government in the management of industrial districts. It is up to IDM to come up with workable strategies of collaboration with the private sector.

20. **Structural context:** As a government undertaking, the government appoints both the board chairman and the general manager. Recently one representative of the private sector, the President of FINIE, has been inducted in its 7-member apex body. Lack of proper institutionalization of IDM management and weak delineation of authority in the organization hierarchy has led to the general manager playing the central role in decision-making. Ambiguity in the responsibility and authority of the chief executive in some areas has resulted in discriminative administration of punitive measures to ensure timely payments of dues, and also biased interventions and pressure in favour of certain defaulting industries. Most of the senior staff members long serving the institution seem to have resigned to obscurity.

IDM is grossly overstaffed – a result of carryover effect after the liquidation of Industrial Services Centre – and has maintained unrealistic number of personnel in different industrial districts. For example, industrial districts in Rajbiraj with only 8 industries and Birendranagar with 5 industries have 16 and 9 IDM staffs respectively. Human resource management is done haphazardly with mismatch in a lot of aspects. Basic management functions like planning and evaluation and monitoring are very weak. Research activity is totally neglected. Financial administration is maintained at daily operational level and IDM barely managed to come out with its combined audited report for the fiscal years 2051/52, 2052/53 and 2053/54 in 2057 BS only.

Institutional networking and coordination with different institutions like NIDC, NEA, commercial banks, and different ministries is quite weak considering that IDM needs to liaison with these stakeholders very closely. IDM's bureaucratic posture is partly responsible for its inefficiency in the changed environment. Both IDM and FINIE see each other maintaining a narrow and retrogressive attitude – the former accused of 'rent collector and feudalist' behaviour, while the latter is seen as 'selfish and making unreasonable demands'. IDM is powerless against NIDC and other commercial banks that impose their own authority and preferred norms regarding recovery of loans from defaulting or sick industries vis-à-vis dispensation of dues IDM, especially the dues on electricity. Agreement regarding proportionate distribution of amount recovered by NIDC is unfavorable for IDM who always ends up losing on what has already been paid to, say, NEA to obtain benefit of rebate accorded by the latter. IDM has not been able to influence commercial banks to lend to industries in the industrial districts based on the project rather than on land and building collateral that the industries do not possess.

21. **Infrastructure and services:** Most of the existing industrial districts were established between 20 to 40 years ago, Balaju Industrial District being the oldest and Rajbiraj Industrial District being the youngest. The old buildings and other infrastructure lack proper and timely maintenance. Maintenance of IDM leased buildings is one major bone of contention of the industrialists. The agreement on building lease specifies that the lessee carry out minor maintenance, whereas maintenance concerning the structure of the building will be the responsibility of IDM. IDM cites lack of resources to carry out maintenance works of buildings, roads, and transmission structures etc. They complain that the rent is too low to allow maintenance and development works.

Some industrial districts still have underutilized facilities and have not been able to attract investors. Others have good occupancy, and Nepalganj Industrial District is in fact facing expansion problem due to lack of empty land. There are also complaints that IDM has unlawfully resorted to reclaiming land leased to one party to lease out to another party.

IDM also has not been able to provide adequate and regular supply of electricity and water. Industrial security is a big concern for all these days especially in the aftermath of terrorist attacks in a number of large and multinational companies in different industrial districts. IDM does not have the resources to provide effective security and a host of other services required for smooth operation of industries. Many large industries have had to install their own generators and water pumps and security personnel to cater to their needs. The issue of service charge on electricity and line loss charges has drawn IDM into prolonged conflicts with some industries. The Electricity Regulations, 1993 AD, which is applicable to industrial districts need to be reviewed to streamline issues of penalties, late fees, disconnections etc. IDM has not been able to take significant measures to mitigate the pollution caused by its industries, besides a wastewater treatment plant being constructed recently under the Cleaner Production project by Environment Sector Program Support (ESPS) in Hetauda Industrial District.

22. **Operational context:** Most of the functions of IDM regarding employee services and financial matters are governed by the rules, regulations and procedures inscribed in the financial and service regulations. Besides these, there are no other standard sets of rules and procedures for carrying out its different works. Faulty rules regarding expansion and maintenance by industries have subjected industries to a lot of procedural hassles. Likewise, an investor wanting to set up an industry in an industrial district has to produce a number of documents already submitted to DoI/MoICS before being allotted necessary land in the industrial district. Thus IDM is accused of indolence, highly bureaucratic and being less customer-oriented.

IDM's sources of earning are the rent on leased land and building and recently, the increased rebate accorded by NEA for bulk consumption. Therefore, its major activity is concerned with collecting these two types of revenues, and here too, its rent collecting capability is quite weak. Discrimination is shown while levying penalties for late payment or non-payment of rent and service charges. IDM is finding it difficult to deal with the sick and closed industries that are creating loss of its earning. Presently, IDM neither possesses the ability to advise nor to provide other forms of support to revive these sick units. Apart from this, a quick review of IDM objectives shows that IDM has been quite ineffective in a number of other activities to facilitate promotion of industries within its jurisdiction.

23. Besides, there is a growing tendency toward non-adherence to the mutual agreements on lease by both IDM and industrialists in a number of issues. One accuses the other of lacking sincerity and commitment to fair business practices and healthy industrial environment. The general manager of the IDM being government appointed for a specific period of time has a lot of limitations, and his/her disposition toward the objective of the institution will depend on the cooperation and relationship at the concerned ministries. IDM is at a phase where most of the senior and middle level managers have lost the motivation and the urge to perform to well because of the mere 'rent collecting' operations that the institution is engaged in. The vision, leadership and resources required to pursue development works seems to lacking.

The mismanagement of industrial districts has tarnished the image of the management and lack of confidence among the staff of IDM as well as the industries. The industrialists reminisce of the earlier better days (prior to the formation of IDM) when the officials of the Balaju Industrial District management showed better understanding of the concerns of the industries. The older industries set up in BID in the earlier years were given assurances that ownership of the land and building would be granted to the respective industries after 20 years. Since this has not come about, the industrialists does not bode positive attitude toward IDM. They are ready to buy off the land and building at prevailing market rate with necessary appropriations, and doing so, they believe, would solve a number of problems related to maintenance, development of physical assets and use of the assets as collateral for bank loans. IDM cannot respond to this nor are the concerned government authorities willing to take up the noose.

Patan Industrial District and Bhaktapur Industrial District were developed with the concept of promoting Nepalese handicraft and cottage industries, but today they both house industries of varying sizes in terms of investment, infrastructure and employment, producing diverse products, and with diverse requirements. Likewise, Hetauda Industrial District came up to house large industries. Some specific industries have specific requirements and cause specific problems such as the carpet dyeing or washing industry, the leather industry or chemical industry. These have to be addressed through specific measures like relocating industries by nature and size of industry, by product or target

market etc. From the traditional thinking of industry as comprising of manufacturing enterprises, the definition now encompasses a wider range of economic activities. These and a host of other contemporary issues can be addressed only with clear vision of the policy makers, dynamic and committed leadership and institution with motivated and capable people.

VIII. MANAGEMENT CHALLENGES AND OPTIONS FOR FUTURE DIRECTION

24. In the above context, urgent change has to be brought about to improve the management of existing industrial districts in the country. Given the present situation, the foremost question that arises is what to do with IDM and the existing industrial districts located at 10 different districts. What kinds of changes are possible in the Nepalese context? What is to be done regarding expansion of new industrial estates? There are challenges in rationalizing the existence of industrial districts in the present context of liberalization and globalization. Privatization poses a challenge although it is not a panacea to the prevailing condition of industrial districts and IDM's weak role. But it is still a better way of ensuring efficient services. To begin with, privatization of certain services may need to be considered. Another big challenge lies in changing the mindset of the governmental agencies and bureaucrats, and those with affinity for status quo. Ensuring a supportive policy structure and complementary legislative framework is difficult, but bringing them into effect is even more difficult. The truth is that bureaucracy lacks accountability towards state owned enterprises, and as some bureaucrat pointed out, a general attitude of *'risk is individual, benefit is public'* prevails.

A number of new ideas and concepts have emerged for better management of services and infrastructure and embark on activities to facilitate the development of industries in the industrial districts. There could emerge other unique and successful models or a combination of features of different forms. Whatever the model, the strengths and weaknesses of each should be properly evaluated in the Nepalese context. Each of these options needs detailed study and interaction on its suitability, effectiveness, efficiency and sustainability before consideration. It is, however, not to suggest that IDM should cease to exist per se. IDM has a greater role to fulfill in the larger interest of industrial development in the country. It is IDM that should facilitate the transition of potential industrial districts into the appropriate option, while IDM itself moves ahead to develop newer areas and ensures sustainability of existing ones. The rationale, mode and advantage of each option are presented here to initiate discussion in the seminar.

25. PRIVATIZATION THROUGH SALE OR LEASE OF LAND AND BUILDING

Rationale: IDM is already restricted to collecting rents only, and there is no sense in maintaining a large institution only for that purpose. IDM should sell off or lease out the land and building to the concerned industry occupying them. As it is, IDM has not acquired the land through its own resources. IDM should utilize the earnings from the sale or long term lease of its assets to establish or develop industrial districts in new potential areas in less developed regions of the country. Many industrialists have expressed their willingness to buy up the land and building occupied by them. This should begin with select developed industrial districts; say Balaju, Patan, Hetauda, and Pokhara. The industrialists will take up the responsibility of management of utility and common infrastructure through some suitable mode.

IDM should be involved in more development-oriented works as mandated by its organizational objectives rather than mere operation of the industrial districts. The major

constraint to do this is lack of resources. The government, in principle, prefers larger private sector role in the industrialization process, and is not inclined to pump in money for this. IDM could utilize the earnings from the sale of assets to carry out its development activities by following the 'Develop, Operate, Sustain and Handover' (DOSH) concept.

Mode: IDM should form a task force to make preparations for its closure and transfer of assets. The committee will supervise consolidation of IDM assets and finances, their evaluation, legal preparations for privatization, phasing out/repatriation of present personnel, and preparation of documents and procedures for sale or long-term lease of land and building occupied by industries. The Land Acquisition Act, 2044 BS will have to be amended to clear the path for sale of nationalized (government acquired) land to industries. The committee will also administer the sale or lease. In case of lease, industrialists will pay annual lease rent to a separate account in the Land Revenue Department or some other convenient agency of HMG. IDM will have to devise an attractive golden handshake scheme for its staff and maintain only a lean staff for its development activities.

As for the service infrastructure like electrical feeder stations and distribution system, water distribution system, the internal public roads, and others, these should be handed over for management to a committee formed by the industries. The committee will administer the collection of service charges for electricity, water, telephone etc. and bulk payment to respective service providers. The rebates on bulk payment and/or additional investment could be utilized for the maintenance of roads, service support facilities etc.

Alternatively, responsibility for managing the utility services in the industrial districts could be transferred to concerned service providers: for example, the electricity supply to NEA, water supply to NWSC, the roads to concerned agency, etc. Individual industries will deal with each service provider directly for respective services and pay for the services as per their prevailing rules and norms. The service providers could decide to maintain small offices in the industrial districts to dispense prompt services, otherwise, industries may deal with the service providers just as any industry outside the industrial districts would do.

Advantage: IDM gets resources required for developing new industrial districts. It can engage itself in more important activities to facilitate the promotion of industries and other activities as expected of it. It can assume a more dynamic and key role in the industrial development of the country in the changed context.

The industrialists assume ownership of land. Physical expansion of the assets becomes possible. These assets add capital value to the business, assume collateral value for bank loans, and provide scope for covering liabilities. The attitude of 'provider and taker' of services can be eliminated as the industrialists themselves manage the common service facilities. They can decide to invest on new facilities for their collective benefits. Maintenance activities will be carried regularly. The HMG/local government gets additional revenue in the form of land and building tax.

26. **PUBLIC-PRIVATE PARTNERSHIP (PPP)**

Rationale: This is another form of privatization in which the local government represented by the local municipality or village development committee along with industrialists jointly manages the industrial district situated in the jurisdiction of the local government. PPP is a popular mode of implementing development programs.

Decentralization in the governance is complementary to economic reforms. The local government can have an effective and meaningful role in the development of industries in its area. The interrelationship of the industrialists as members of the local community and the local bodies representing the community facilitates better understanding of their mutual needs. The local municipality assumes responsibility to promote industrial development and in the process, benefits through capacity strengthening and resources for development activities and community service.

Mode: The ownership of land and building in the industrial districts will be transferred to the local government. The existing common utility services including public lights, roads, etc. will be managed jointly by the two parties. Additional facilities such as internal power generation, communication technology, and pollution control systems, quality assurance system, recreation and health facility etc. may be introduced in gradual phases. The land occupied by industries should be leased out for long term to the respective industries. The rent from the lease land will go to the local government body.

Advantage: PPP promotes closer cooperation and understanding between the municipality/ VDC and the industrialist community. The latter's cooperation can facilitate good governance and contribute to community development at large. The local body gets strengthened. The industries can avail smooth services and can concentrate more on the development of their business. Corporate social responsibility gets enhanced.

27. USERS GROUP OR COOPERATIVE

Rationale: User group concept has proved to be quite successful in Nepal especially in the management of community forests and forest resources, community drinking water schemes, irrigation projects etc. Such programs are normally initiated by some external support and the responsibility of sustainable management is transferred to the actual users of the facility or resources. A similar concept can be applied to the management of services and facilities in the industrial districts if one were to consider the industries themselves as the actual users of those services and facilities.

Starting with cooperatives of farmers and women in the rural and semi urban areas, cooperative form of companies has emerged in the urban cities in modern business as well. Alternatively, industries could invest according to their individual capacity to form a cooperative company to manage the industrial districts in which they operate their industry. This way, all the industries would be shareholders of the cooperative operating as a self-sustainable company. A large proportion of industrialists surveyed found this as a good idea.

Mode: A management committee will be formed with representatives of all user industries themselves to manage all the services and facilities. Individual associate associations of FINIE should take the lead role to mobilize opinion and develop consensus of all industries in the respective estates regarding this. Fair representation should be ensured, and the tenure should be imposed to allow others also to participate in the management. A small office will be set up in each industrial district with a minimum number of staff to deal with administration of charges/fees for different services and facilities in the respective industrial district. The management committee will meet regularly to discuss and decide on important issues and give necessary instructions to the staff. Major decisions will be made through elaborate interactions with all industries and broad consensus.

A cooperative is formed under the Cooperative Act and entails registration with a minimum of 25 members. The owners of industries in respective industrial districts will invest specific amounts to form cooperatives in those respective areas. Here again, FINIE has a coordinating role to play in mobilizing support from individual industries. They will form a management board, and manage the cooperative with a set of professionals and trained personnel. Financial discipline has to be strictly maintained, and all members regularly informed of important issues.

Advantage: Close interrelationship among the industries in the industrial district develops and fosters mutual respect for each other. The savings generated from the efficient management of the cooperative may be ploughed back to enhance the facilities for the industries or may be shared as income among the shareholders. Besides, the industries are assured smooth services for their operation. They can also expect to gain from savings in the cooperative.

28. **RESTRUCTURING OF IDM**

Rationale: As discussed earlier, IDM has out grown its utility, which was probably the need of the time 30 to 40 years ago to usher industrialization process in the country. IDM has failed to cope with the emerging challenges in the changed context of liberalized economy and globalization. With the present form, composition and mindset, IDM cannot take up the challenges and achieve its objectives. However, there exists a general feeling that an institution like IDM must be there to realize the government's objective of developing industrial districts. Thus, an appropriate restructuring and strengthening of IDM capability is urgently required if it is to achieve this objective. This is also an option to bring about effective and efficient management of existing industrial districts in the country.

Mode: A strategic shift in IDM goals and objectives, major changes in its structure with emphasis on decentralization, leaner operations, and a concerted move toward larger networking is essential. There has to be a turnabout in the mindset of IDM regarding a number of issues and, most importantly, commitment to facilitate qualitative industrial growth in the industrial estates as well as industrial development in priority areas of the country.

Organizational restructuring deals with the structure, process and the technology. It entails reviewing the mission statement, and setting clear objectives to achieve absolute goals. It involves redesigning the organization structure, bringing responsibilities and authorities under perspective, redefining the job descriptions, job specifications, job evaluations and a host of other processes based on detailed job analysis. It also involves drawing up manuals by documenting rules and regulations and work procedures.

IDM has already commissioned a small study toward this and the study recommends restructuring in gradual phases leading to ultimate privatization. Detailed study and positive interactions with policy makers, support of board members, and collaborative effort of the top management is required. External consultants are best suited to do this work, but commitment and collaboration of the stakeholders are of utmost importance to bring about successful restructuring.

Advantage: A revitalized IDM will be in place. IDM will have the capacity to face the contemporary challenges in the national and global environment. It will be forward-looking and development-oriented focusing on facilitating economic growth rather than mere 'industrial' development.

IX. NATIONAL CONSULTATIVE WORKSHOP: CONSENSUS BUILDING TOWARDS IMPROVEMENT

29. It is evident that IDM has not fulfilled many of its objectives to promote industrialization. It has also not succeeded in pursuing positive interrelationship with its stakeholders, notably toward building client confidence among the industrialists in the estates. Instead of inculcating faith, understanding and mutual cooperation, there has been a lot of bad water flowing between IDM and the industries. This has emerged as a matter of great concern for the present IDM management as well as FINIE, and has led the two to work together to explore ways of improving the management of industrial estates, through mutual cooperation and positive alliance so that a healthy growth of industries in the industrial districts is promoted. However, the two alone cannot do much. In this endeavor, the government also has an important role – ensuring progressive policy and legislative structures that facilitate the drive toward a demand-driven and goal-oriented strategy for IDM to adopt.

It has been felt that the three major stakeholders – the government, IDM and forum of industrialists (FINIE) needed to urgently revisit the present situation, develop common understanding of each other's concerns, and to develop consensus for improving the management of existing industrial estates in the context of present macro-environmental factors affecting the business development in the country. FINIE and IDM thus decided to jointly organize consultative workshop for this.

30. A national consultative workshop titled “Towards Improved Management of Industrial Estates: *Exploring New Perspectives*” was held on 14 and 15 December 2002 at Godawari Village Resort, Lalitpur with participants representing the main stakeholders of the industrial district management – the government, the industries in the industrial districts in different parts of the country as well as IDM. The objective of the workshop was to initiate a healthy interaction among the stakeholders to arrive at an appropriate strategy to enhance the management of industrial districts that is contributory to the industrial development of the country.

The workshop was initiated in the presence of Honorable Minister Mr. Mahesh Lal Pradhan, MoICS, Assistant Minister Mr. Jagat Bahadur Gurung, MoICS, and secretaries of the ministry, representative of Nepal Rastra Bank, FNCCI, NIDC, and Ministry of Finance etc. The minister, himself an entrepreneur with industrial units in Patan Industrial District, promised to work out seriously, within the economic constraints that the country is currently facing, on specific recommendations emerging from the workshop.

31. The workshop methodology comprised of a theme paper presentation by the consultants, comments on the theme paper by various experts, floor discussion, group discussion and presentation, and conclusion. Participants numbering 55 were divided into three groups each with representation of the government, IDM and industries (including FINIE). Their presentation based on a common discussion framework is summarized as follows.

Group A: IDM needs to respond to the demand of the changing environment by adopting DOSH strategy which was actually the original concept when the first industrial district was established. Ownership of land and building should be transferred to the industries assigning payments in easy installments. The government should assume the responsibility to protect industries and facilitate their development. It should take immediate measures to implement the suggestions emerging from the workshop. The management of industrial districts should be under the joint aegis of IDM and the private

sector (user group concept). IDM should be structured into an autonomous body managed by a management committee and retaining a lean staff from the existing IDM staff. A task force needs to be formed to deal with the proposed change.

Group B: IDM cannot function under the present set up. The process of privatization has to start as soon as possible to make it more effective. The immediate action plan should involve privatization of IDM to make it more effective. A task force needs to be immediately constituted to initiate the privatization process. This process can start by restructuring IDM with proportionate representation of industrialists in the board, by incorporating the local associates of FINIE, i.e., associations of industries in respective industrial districts in decision making at the local level, and granting autonomy. IDM should also facilitate industries through credit guarantee during capital funding from financial institutions.

The short term plan should include the classification of the industrial estates and phase-wise handover of the buildings and the land to the respective lessees. The management of the industrial districts should be handed over to the association of industries (users groups). The revenue generated on sale in addition to the fund mobilized from donors should be utilized only by IDM and not transferred for other applications. The long term plan should include acquisition of new areas and pursuing the DOSH strategy.

Group C: The government should adopt a protectionist policy once it has developed necessary infrastructure after considering the feasibility in terms of the comparative advantage for the industries to be established there. IDM should adopt the DOSH strategy. The government should facilitate industries by formulating preferential consumer policies and other measures to stop import of low quality products. Among the other stakeholders, the industrialists must ensure that their products conform to quality standards such as NSI, and be able to offer competitive prices. The IDM should dispense quality services and quick decisions, and at the same time assume different roles such as lobbying with banks, the government etc. Likewise, bankers should provide easier financing, uniform interest rate, and importantly, institute separate financial policy for industries in the industries estates quite different from policy for commercial loans.

Differential strategy should be adopted while implementing the concept of users group. It should start with Balaju, Patan, Bhaktapur, Nepalgunj, Butwal and Pokhara in the first phase, and Hetauda and Dharan in the second phase. Alternative strategy should be adopted for the rest. Budgets and programmes of IDM should be transparent and there should be increased participation of industrialists in the restructured IDM. A sizable task force should be established with appropriate representation of different stakeholders.

32. Overall, there was a general consensus on the benefits of industrial clustering. It was felt that a big 'change' was definitely required to make IDM more effective considering the changes in macro-economic environment over the period of 40 years or so. Everybody agreed that IDM should follow the DOSH [Develop, Operate, Sustain and Handover] concept adopting a differential strategy for different estates as per the levels of their operation. The need for restructuring of IDM and joint management was expressed. The participants unanimously demanded that a task force be formed with representation of different stakeholders. This task force should be assigned a mandate with a clear scope to design detailed action plan to be implemented within definite time frame. It was also agreed that the final report with appropriate recommendation would be endorsed by the IDM board and forwarded to His Majesty's Government for immediate action as assured by the Honorable Minister in his inaugural address in the seminar.

X. RECOMMENDATION

33. The following recommendations are made as a strategy paper on improving management of industrial districts which was adopted unanimously by all stakeholders in the workshop.

34. **ADOPTION OF DOSH STRATEGY**

Despite its deficiencies and the general clamour for change, there is no doubt that IDM still bears its relevance. IDM must adopt the DOSH (develop, operate, sustain and handover) strategy as a process to contribute to positive industrialization in the country.

IDM (and its predecessors) has developed and operationalized most of the existing industrial estates within its own limitations. The district at Dhankuta is yet to be operationalized and still in the process of development. Some of the industrial districts are even considered to be sustainable in their operations. IDM must identify sustainable estates among the existing 11 districts and gradually handover their management to the private sector after assessing their competency and institutionalizing the management of services and infrastructure in the estates.

An analogy can be drawn from the father – son relationship. When the son grows to be competent enough to survive and grow, the father should handover the responsibility of looking after the family to him. The government and IDM must be proactive and not be averse to the idea of handover especially when the industries are demanding for this. IDM must look ahead and not be bogged down by operational hassles which could be better handled by the industrialists.

IDM should identify new potential areas, develop/adopt new industrial cluster concepts and operate them till sustainable again along the DOSH concept. In fact, IDM already has a list of identified new areas to begin with. The industrial clustering process shall be a continuous process.

35. **FORMATION OF A TASKFORCE**

A taskforce shall be constituted with an objective of improving management of industrial districts and facilitating privatization of industrial districts to promote sound industrial development in the country.

Mandate of the Taskforce: The taskforce shall formulate time-bound action plans, implement and monitor the smooth transfer of capital assets to industrialists and management of the estate infrastructure with wider participation of the private sector (industrialists). It shall also restructure the present Industrial Districts Management Limited with new direction.

The taskforce may carry out the following activities within the mandate provided to it to attain its objectives:

- Assessing industrial estates in terms of their sustainability and potential for handover.
- Preparation of procedures to handover buildings and land to lessees, and other utilities and facilities/infrastructures to users groups.
- Evaluate and recommend for amendment of regulatory mechanism wherever necessary.
- Valuation of capital assets including land and building.
- Time-bound handover of building and land to lessees.

- Formation of users groups (associations of industries in industrial estates). FINIE to serve as the apex body of all such users groups in different industrial districts.
- Establishment of office for management of industrial estates by users groups
- Handover of management of water, electricity and other facilities and infrastructure to users groups.
- Evaluating and restructuring the present IDM Ltd. into a lean organization to carryout the development and operation of the districts which still needs support for sustainability.
- Other necessary activities to facilitate the privatization of industrial districts.

The composition of the taskforce shall be as follows:

- | | |
|---|------------------|
| ▪ Secretary, Ministry of Industry, Commerce and Supplies | Chairman |
| ▪ Chairman, Industrial Districts Management Limited | Member |
| ▪ President, Federation of Industries in Nepal Industrial Estates | Member |
| ▪ Joint Secretary, Privatization Cell, Ministry of Finance | Member |
| ▪ Joint Secretary, Corporation Coordination Division, MoICS | Member |
| ▪ Legal expert | Member |
| ▪ Industrial management expert | Member |
| ▪ Financial management expert | Member |
| ▪ Representatives, FINIE (2) | Member |
| ▪ General Manager, IDM Ltd. | Member Secretary |