THE STATE OF STATE ENTERPRISES IN SRI LANKA

Published on 05th May 2016 by The Advocata Institute
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PREFACE

The state in Sri Lanka has a large, and until recently, growing footprint in the economy. How large exactly is the state's presence? We wanted to find out. We soon discovered that this type of data was difficult to assemble. According to the Treasury, Sri Lanka has 245 State Owned Enterprises (SOEs), yet there is no single document from which information on their size or performance can be extracted.

The most comprehensive information we could get was in the Treasury Annual report *(http://www.treasury.gov.lk/images/depts/fpd/docs/reports/annualreport/2014/full/annualReport-2014E.pdf),* which summarised financial information of only 55 SOEs; those which the General Treasury classifies as strategically important.

In the above context, the representatives of the Advocata Institute felt that providing a concise snapshot of the status of the state owned enterprises is a worthy project. The result is the inaugural edition of "The State of State Enterprise in Sri Lanka", which we hope to continue as an annual exercise. The Institute will compile the best known publicly available data in a concise format to present a clearer picture of the state of state enterprises.

We have tabulated the profits or losses of the SOEs for the period of 2006-2015 with the data extracted from individual treasury reports for each year. The information disclosed in the Treasury reports is not consistent, with information on 21 entities including the Janatha Estates Development Board (JEDB), Sri Lanka State Plantation Corporation (SLSPC), and Development Lotteries Board being unavailable prior to 2010.

Suffice to say that the published data on the SOE performance is woefully inadequate with the performance of around 190 enterprises remaining unknown. We urge the government to take steps to publish this data in an accessible format and we ask our friends in civil society to join hands with us in this effort. We must collectively call upon the Government to publish a comprehensive summary of the performance of all SOEs. SOEs are run with public funds and supposedly for the benefit of the public; therefore, their performance should be open to scrutiny.

Going simply by the incomplete published data, the loss-making SOEs cost the taxpayer a colossal Rs.636bn between 2006 and 2015, while the profitable SOEs contributed Rs.530bn. It is tempting to look at the net position; offsetting the losses against the profits and conclude that the problem is small. This can only give rise to a false sense of security, as discussed in a separate article "SOEs in Sri Lanka: Beyond Profit & Losses" in this publication.

Further, the full impact of SOEs on the Sri Lankan economy and the true cost to the taxpayer is not reflected in the published SOE accounts because of hidden subsidies.

In our accompanying articles, we have attempted to explore both the problems of state of SOEs as well as possible remedies. Reforming SOEs has been a matter of spirited debate, but powerful vested interests within SOE's have been a stumbling block to reform.

Whilst the present government has announced that it is serious about reforming the SOEs, one obvious remedy – the Privatisation option – appears to have been ignored. This we believe is a mistake. We call upon the government and the politicians to engage in an open discussion that at least keeps privatisation in the mix of policy options.

The Advocata Institute
www.advocata.org
05th May, 2016

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This project would not have been possible without the gracious support of many people who contributed their time, offered advice and helped in innumerable ways.

In particular we wish to thank Amal Sandaratne, Ashini Samarasinghe and he team at Frontier Research for helping us compile the relevant data. Rohan Samarajiva, Sarasali Fonseka, Cris Lingle, Dinike Jayamaha and Rangani Ranasinghe for their valuable input into this report. We wish to thank our advisors, both the official and the unofficial, for their time, guidance and encouragement. Finally, we would like to thank Shamindra Kulamannage, Indika Sriyan Gammudali and our friends at Capital Media (Pvt) Ltd for helping us with the layout and style.

We are truly indebted to their kind voluntary contributions.

STATE OWNED ENTERPRISES IN SRI LANKA: IMPORTANT FACTS

Total number of SOE's

245

Percentage of SOE's where financial information is available

22%

Number of strategically important SOE's as classified by treasury

55

LKR - 636 Billion

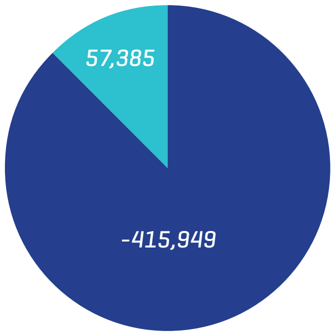
Cumulative losses of loss-making SOE's amongst the 55 Strategically Important SOE's from 2006-2015

LKR - 530* Billion

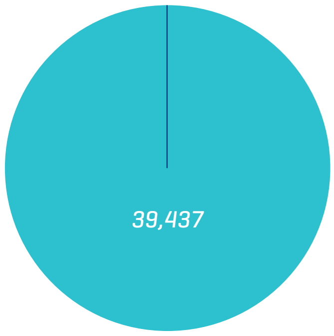
Cumulative profits of profitable SOE's amongst the 55 Strategically Important SOE's from 2006-2015

** excluding the ETF*

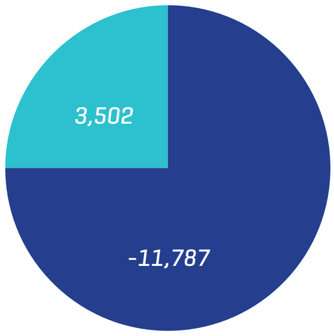
Energy
Net Loss
LKR -358,564 Mn



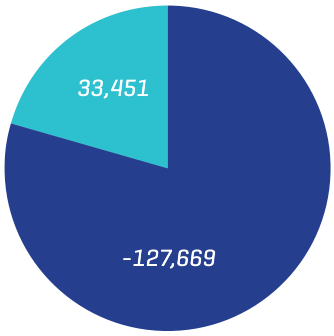
Ports
Net Profit
LKR 39,437 Mn



Water
Net Loss
LKR -8,245Mn

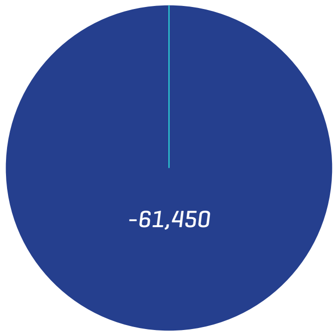


Aviation
Net Loss
LKR -94,218Mn

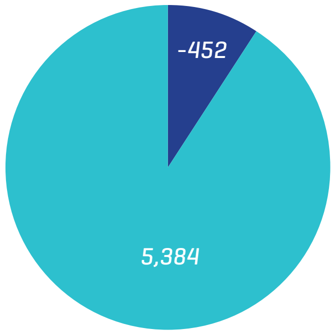


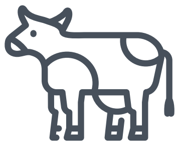
Cumulative Loss   Cumulative Profit

Transport
Net Loss
LKR -61,450Mn

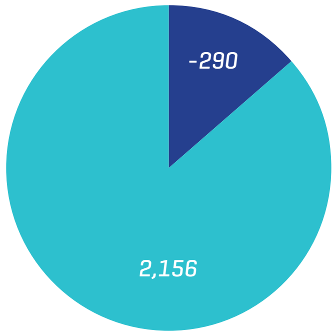


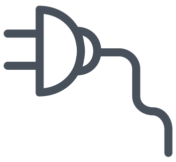
Construction
Net Profit
LKR 4,932Mn



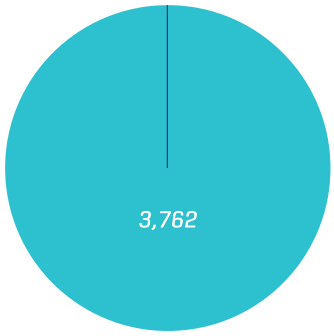


Livestock
Net Profit
LKR 1,886 Mn



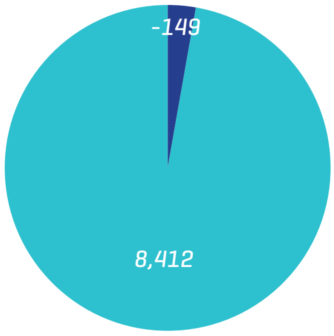


Non renewable resources
Net Profit
LKR 3,762Mn

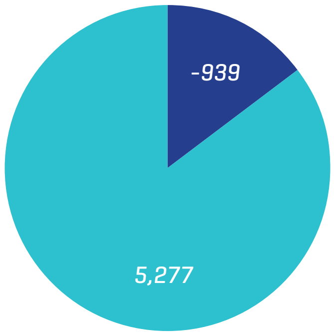


Cumulative Loss   Cumulative Profit

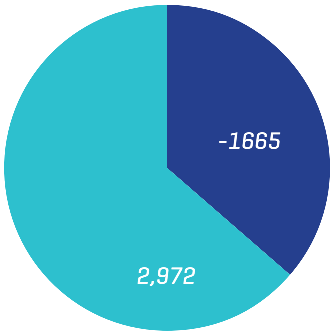
Health
Net Profit
LKR 8,263 Mn



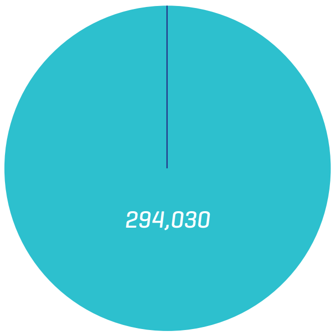
Media
Net Profit
LKR 4,338 Mn



Plantations
Net Profit
LKR 1,307 Mn

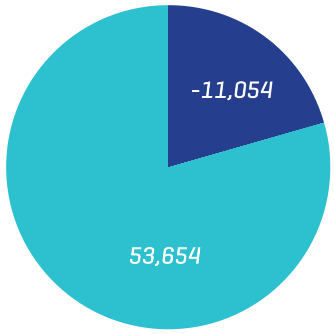


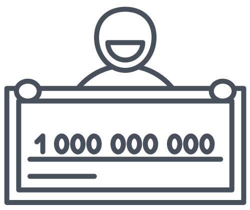
Banking & Finance
Net Profit
LKR 293,936Mn



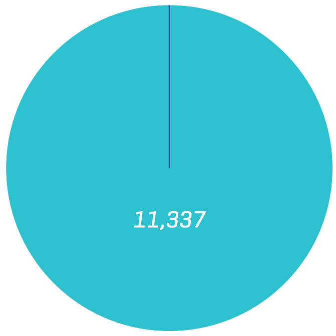
Cumulative Loss   Cumulative Profit

Insurance
Net Profit
LKR 42,600 Mn

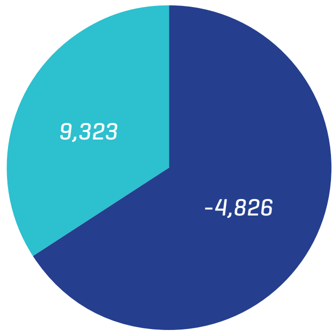




Lotteries
Net Profit
LKR 11,337 Mn



Others
Net Profit
LKR 4,497 Mn



Cumulative Loss   Cumulative Profit

Total number of Employees in the public sector 2015

1,278,696

Total number of Employees in Sri Lanka

8,552,359

Public sector employees as a %

15%

	2009	2014
Number of SOE's	107	245
Employees of SOE's	140,500	261,683

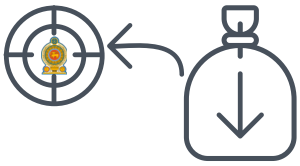
Name of the state own enterprise	Ceylon Petroleum Corporation	Ceylon Electricity Board	Sri Lankan Airlines	Mihin Air Ltd	Sri Lanka Transport Board	5 out of **55** SOE's
Cumulative losses 2006- 2015	**LKR 244** Billion	**LKR 172** Billion	**LKR 128** Billion		**LKR 61** Billion	**605** Billion
As a Percentage of cumulative losses*	**38%**	**27%**	**21%**		**09%**	**95%**

[*Cumulative losses of 55 strategically important State owned enterprises (SOE) as per treasury]

> 605 Billion = 18% of 2015 GDP in Sri Lanka = 81% of the current budget deficit in Sri Lanka

LKR 49,654

Loss per year per employee in public sector only from 55 strategically important SOE's (2006-2015)



LKR - 636 Billion

Cumulative losses of 55 strategically important SOE's from 2006- 2015

LKR - 31,750

Loss per citizen from 55 strategically important SOE's (2006-2015)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SOE'S IN SRI LANKA: BEYOND "PROFIT & LOSSES"

By Ravi Ratnasabapathy

The state has a long history of involvement in the economy in Sri Lanka; state ownership of utilities dates back to the colonial era. Post-independence experiments with socialism saw the expansion of the state into many new areas of business. Despite some reforms in the 1977-2005 era, state enterprises still account for a significant share of the economy. The 2005-2015 period saw a halt to the privatisation process and a renewed wave of expansion in state businesses. Between 2009 and 2014 the number of SOEs grew from 107 to 245 while the number employed grew from 140,500 to a staggering 261,683.

Although the Department of Public Enterprises is supposed to improve governance in Public Enterprises (Commercial Corporations, Government Owned Companies and Statutory Boards), by its own admission only 55 SOEs come under its purview. The last available performance report (2014) indicates the 55 SOEs that were considered strategically important obtained budgetary support of Rs.126bn and treasury guarantees of Rs.47.6bn that year. Bank borrowings by these SOEs stood at Rs.471.2bn as at end 2014.

The size of the SOEs and the breadth of their activity make it an important determinant of the overall productivity of the economy. Consequently, the governance of SOEs will be critical to ensure their positive contribution to a country's overall economic efficiency and competitiveness.

Ensuring that – whether held nationally, regionally or locally – the state's investments to actually deliver the societal outcomes desired is extremely difficult due to certain inherent problems.

1) Governments are run by politicians, not businessmen. Politicians can only make political decisions, not economic ones and these decisions will tend to be focused on short term publicity and benefits, ignoring long term consequences. An example is the launch of a company called Polipto Lanka to convert rubber and polythene waste to diesel. It was launched in 2009 amidst much fanfare but despite regular grants from the treasury it is yet to show any commercial results or even demonstrate that the process is economically feasible. Coincidentally, the launch took place a week before a general election. Polipto Lanka receives regular budget support from the Treasury; support for the last three years amounting to Rs.120m.

2) Governments use other people's money, businesses must risk their own money. If a business does not earn a profit, the owner will need to keep infusing funds and this provides a powerful incentive to improve efficiency. The general public, whose money is effectively at risk in a state venture do not have the wherewithal or knowledge to hold managers or politicians to account. Politicians would prefer to postpone hard decisions than risk personal unpopularity, which is why state enterprises can keep running losses year after year.

The Janatha Estates Development Board (JEDB) and Sri Lanka State Plantation Corporation (SLSPC) have not reported a profit in the last five years, Mihin Lanka has barely made a profit since its inception, yet they continue to operate, the losses being paid by taxpayers because politicians will not risk bad publicity that may follow any attempts to reform them.

The Director General of Public Enterprises admitted as much in his report of 2009:

"We have found some boards take affairs of the enterprise very lightly regardless of their strategic importance even in a situation where PE [Public Enterprise] faces very difficult time. Since there is no formal procedure to hold the chairman and the board of directors accountable, for their weak performance or unacceptable practices, some boards act with sheer indifference in discharging their responsibility."

3) State enterprises tend to be monopolies or restrict competition from the private sector. A business that faces no competition will find it easier to report profits. Where state businesses face competition the Government may grant SOEs preferential tax or other benefits that hinder the ability of the private sector to compete, causing a deterioration in service or increasing costs to consumers. A few years ago VAT was imposed on large supermarkets but LakSathosa was exempted from this. The previously unprofitable LakSathosa started to make profits, while the efficient local supermarkets which were penalised.

SOEs which operate as monopolies may not deliver an adequate level of service or charge excessive prices, which may lower the productivity/efficiency of the wider economy.

When Telecom was in state hands, obtaining a telephone connection, essential for business was a luxury that required a wait of several years. Thanks to liberalisation of phone connections, now they are available over the counter but businesses still struggle to obtain power connections and may have to invest in standby generators due to unreliability.

Energy costs (fuel and electricity) do not reflect the decline in global oil prices partly due to inefficiencies within the CPC/CEB (Ceylon Petroleum Corporation/ Ceylon Electricity Board), impacting on the competitiveness of business.

Inefficiencies in the state managed port terminals are a drag on trade but fortunately throughput at the privately managed SAGT (South Asia Gateway Terminal) Queen Elizabeth Quay is far greater and a boon to business. The SAGT terminal has been ranked number one for terminal productivity in South Asia by the Journal of Commerce in the USA, and ranked it number 4 in the world. Because of the faster turnaround time the ships prefer to dock at the Port Queen Elisabeth Quay.

SOEs, especially those that lose money are partly funded by banks. When a large chunk of bank lending is directed towards SOEs, the private sector will find it harder to obtain funds and higher interest rates could lead to a phenomenon referred to as "crowding out".

4) Governments cannot boost overall employment by hiring workers for the state sector. Giving people state-sector jobs may appear to create employment but this causes a problem because each new position brings with it a tax obligation that imposes a burden on the private sector, where wealth is generated and taxes paid. Effectively, since the salary of a public-sector employee reduces the amount of funds available to private employers, a job created in the public sector causes an offsetting loss in the private sector.

5) State-owned enterprises may enjoy hidden subsidies in a variety of forms including preferential borrowing costs, lower rents or taxes. Thus the actual costs will be higher than reported in the accounts and very difficult to quantify without detailed analysis. For example, imagine if ministries or SOEs had to pay market rents for the space in Government buildings that they utilise. Few would occupy the highly-valued areas they do now and would probably occupy less office space.

Indeed, there is a massive opportunity cost of state-owned property in that they do not generate a net tax income for the state. If these properties were utilised by the private sector they would generate taxes as well as rents. Secondly, government office buildings in city centres create additional congestion. Given the current state of information technology, most government offices could and should be moved far from city centres. Hence, it is clear that the problems with SOEs are not limited to losses, their inefficiencies also can be a serious drag on the wider economy.

A more worrying issue is that the public is unaware of the full extent of the problem. The Treasury and other bodies that are supposed to monitor SOEs do so only partially and by all accounts ineffectively. Hence the question is - how much of public resources are being drained away in this financial black hole? The tax payers and citizens surely deserve better.

At a minimum, the Government needs to publish regular, comprehensive performance report giving the investments, outstanding debts and profits/losses of all SOEs. The question of reform needs to be urgently addressed and privatisation should remain an option.

THE 'P WORD' AND COMPETITION; SOLVING THE SOE PROBLEM IN SRI LANKA

IN CONVERSATION WITH RAZEEN SALLY

In this interview Razeen Sally, a professor at the London School of Economics who is now with the National University of Singapore, talks about the experience of state owned enterprises in South Asia and East Asia.

While privatisation is the first-best option to reduce the burden of state enterprises on society, improving their performance, subjecting them to competition, and shielding them from politicisation can also give benefits.

Q: There seems to have been an epidemic of state enterprises after World War II, especially in newly independent countries like Sri Lanka. When did state enterprises start to emerge in the world and in Sri Lanka? What is the historical background to State Owned Enterprises?

A: In Sri Lanka as in India many state enterprises date back to mid-1950s when government policies took a turn towards to more intervention, more protection and using the state to promote investments in heavy industry and other areas. In this respect the SWRD Bandaranaike government was following what the Nehru government was doing in India. So state owned enterprises was intended to be the spearhead of economic development. And of course in Sri Lanka this was really ratcheted up under Mrs. Bandaranaike's government in 1970, when the state intended to take control of the commanding heights of the economy.

What were the intentions of the architects of SOEs? Has these objectives been met?

A: The answer is clearly no. The idea was to use state owned enterprises as a part of an alternative model of economic development. The model people had in mind was Soviet Union and its 5-year plan

And here there is a contrast with what was done in the East Asian countries and what was done in South Asia. South Asia went for heavy state-led investment, nationalisation, for various government internal controls, and external protection - import substitution. And this model clearly failed, which lead to later market reforms. From 1977 in Sri Lanka and from 1991 in India. The East Asian countries - some of them actually had state owned enterprises - like Taiwan. But on the whole they didn't nationalise rampantly and they relied much more on the private sector to be the engine of economic development. It was part of a different model which was more open to international trade, which had fewer domestic controls, which had macroeconomic stability and so on. I would argue that the old model, which had nationalisation and SOEs controlling significant parts of the economy, definitely failed. And you see the costs of failure of SOEs in Sri Lanka.

There are 250 or more state owned enterprises some that are hugely loss-making, that are a drain on an already depleted exchequer, that are heavily politicised, that crowd out private investment and that constrain consumer choice. So it is a bad deal all around.

Q: Why do so many state enterprises get into trouble and end up becoming burdens on the tax payer? Is there some inherent problem in the incentives or structure behind SOEs that leads them on this path?

A: The answer is, yes. In most parts of the world state enterprises fail because there are disincentives to competition. They are shielded from competition. They have a close link to the state. They are highly politicized. Appointments are not made on merit. The market is rigged in their favour, on prices and on production. Often they are protective from international competition as well as domestic competition. For all those reasons they fail. And they are a drag on the economy, on the exchequer and on consumers - they limit competition.

There are of course, exceptions. One can point to a minority of state owned enterprises in a few countries in the world that have not prevented fast and successful economic development.

One thinks in particular of the government linked companies in Singapore. The GLC's. Singapore which is a fantastic and successful economy still has large companies that are majority state-owned, that are grouped under Temasek - the state holding company - and are commercially viable. Some of them have done very well competing internationally. Singapore Airlines is perhaps the best example.

That they have been subjected to competition is the basic answer. And in a small economy like Singapore which is highly open to the world. It is the most open economy of any size in the world with trade at close to 400 percent of GDP.

The GLCs that play in the international market place are subject to fierce international competition in the market place. That's true of Singapore Airlines, that's true of the port services authority and that's true of state owned banks and so on.

Over the decades the government has put in place the mechanisms to separate ownership - that is to say by the state - from the management, of commercial enterprises. In other words, they've been depoliticised to a large extent. It would be wrong to say that all state owned enterprises in all countries have failed. That's not true. For the most part it is true. But there are handful of exceptions. Singapore is the one that really stands out for exceptional pieces.

But it's very difficult to try and replicate in a country like Sri Lanka, what Singapore has done. In a country where politics is much more extrusive, where it is much more difficult to de-politicise the running of state own enterprises and also much more difficult to subject them to competition from domestic players and also from international players.

Malaysia has a holding company called Khazanah, which is similar in some ways to Temasek in Singapore. This holding company houses a number of leading state owned enterprises in Malaysia which accounts for about one third of Malaysian output. At least one of them is a big player in Sri Lanka.

The Malaysian GLCs don't perform nearly as well as Singapore GLC's - for two reasons. Firstly, they are less subject to competition and secondly, they are much more politicized. However, some of them are actually not too bad or are reasonably good because they have been shielded more than the others from politics.

Q: Question: What can be done?

A:The first best solution to the running of state owned enterprises in Sri Lanka is to have a timetable to privatise.

So yes, I would use the 'P' word without feeling embarrassed about it.

The obvious economically efficient solution is to privatize as many of the state owned enterprises as possible over a realistic period of time. We know that politically this is not on the cards at the moment. So the 'P' is word is not used.

As a matter of expediency that's understandable. But I think as a medium to long term objective, privatisation should be the way to go.

However, now we have to get second-best scenarios and the second-best solutions.

If large scale privatisation is not feasible, what can be done in the short term, over the next one or two parliamentary terms, to improve the current dismal situation of state own enterprises that won't be as good as and as efficient as full privatisation, but might deliver a better result than what we have at the moment?'

In other words, improve the running of the enterprises, make them more commercially viable, more productive. In this scenario we have look at other countries that have better practices.

So Singapore comes to mind and so does Malaysia. So we should look at Temasek and the Khazanah models of having a state holding company for state own enterprises.

The lesson I would draw from the best example which is Temasek, is that first you subject them to all round competition including international competition. And second, you put in place mechanism to depoliticise them as much as possible. In other words separate ownership from management. That's the starting point.

Then we can ask ourselves 'What should be the criteria for making these principles real? I was at a conference in Goa to discuss Indian reforms and I was a part of a group that looked at this Temasek - Khazanah type of a model. And local participants were interested in what lessons could there be for India, which is also not in the game of big privatisations.

As a first step there is no point setting up a state owned holding company and calling it something that's done on the Temasek or Khazanah model if you're not going to change current operating procedures. So the point is to have serious reforms even if you can't do privatisation.

So what can you do? Firstly, identify enterprises that essentially operates in a commercial sphere, where there is some competition already or where there could be more competition.

If you have a state run monopoly or oligopoly then don't put it in such a holding company. Keep it separate. Because that's probably going to be more politicized anyway there may be other public policy objectives that will get involved in the running of that enterprise. So keep that to one side.

Rather, put in this basket enterprises that are commercial. So that would include SriLankan Airlines, Mihin Air and Sri Lanka Transport Board (SLTB). But not the Ceylon Electricity Board.

So in other words don't put all SOEs in this holding company, only put some of them that operate in a commercial sphere. These should be corporatised with initially majority state's ownership.

Then you should start introducing minority equity participation. And Temasek is interesting because, in the key enterprises the government still retains majority equity, therefore control. But they have actually gradually beefed up minority equity in most of the Temasek enterprises. That's also a boost for the stock exchange or financial markets. And in some cases with non-priority enterprises they have actually taken the private sector stakes to a majority of equity and the government has retained only a minority of equity. And in some cases actually exited altogether.

But in the meantime the government could be with minority equity up to 49%. Maybe when the time is right politically, move into majority private ownership. But the holding company should include airlines, buses, telcos and whatever is commercially viable and subject to competition.

***Q:* We talk of loss-making state enterprises hurting the people. Are there other fallouts of badly managed SOEs? What's a reasonable way of counting the total costs of SOEs on the economy?**

A: Losses are the tip of the iceberg. And of course there are other SOEs in other countries that are hugely profitable. But that's not an indication of overall economic efficiency. They are profitable because they have monopoly rents. They are not subject to normal competition.

So I think the cost of SOEs that operate in rigged markets is the costs that fall on the consumer because of lack of competition. These might be difficult to quantify. We are talking of usually higher than normal prices, restricted product variety, often restricted supply of the product or service in question. I think probably the biggest losses to the economy are the losses that come from lack of competition.

Q: When the Public Utilities Commission was set up here by Prof Rohan Samarajiva the law provided that you cannot replace the entire board in one go. Two or few members can be appointed for one year. What is your opinion on a procedure of that nature?

A: You could try to introduce independent directors. Having independent anybody in Sri Lanka is very difficult at the moment. Some of the Temasek companies have had foreign CEOs. Mind you SriLankan had a foreign CEO when it tied up with Emirates. What happened to him? You could try to maybe have a regulation that there should be minimum number of independently appointed directors to the boards of these companies and to the boards of the holding company as well. So the government appointees would be restricted to a certain number and there would be some mechanism to appoint some of the rest.

But of course they would have to be qualified. There is no point appointing a lawyer who leads someone's political campaign without prior commercial experience to be an independent director of a commercial enterprise. That's one thing to play around with that.

Q: We have seen companies like Temasek advertise globally. So do you suggest that some people could also be hired globally?

A: Yes. Target the diaspora as well. See whether you could attract some of the qualified people from the diaspora to be directors of these companies, CEOs or the senior management.

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SRI LANKA'S SOE'S BURN PEOPLE'S CASH, BURDEN BUDGETS, UNDERMINE NATIONAL SAVINGS

Sri Lanka's state owned enterprises are consuming hundreds of billions of rupees in capital, weakening government finances, burdening the people, running up large losses and are undermining national savings, analysis of available data shows.

Following reforms and governance improvements that started under the Chandrika Kumaratunga administration, the larger state banks are no longer showing losses, though they are still lending to loss making state enterprises against Treasury guarantees.

However, smaller lenders remained dens of corruption and a route for political henchmen to steal public funds by defaulting on loans.

SME Bank and Lankaputhra Bank, the last two state banks set up in Sri Lanka, collapsed so fast under the weight of bad loans that questions have been raised whether they were built specifically to enable lending to politically connected borrowers who could no longer borrow and default on state-run People's Bank and Bank of Ceylon following reforms.

The Agriculture and Agrarian Insurance Board, continue to draw budget support. In the case of Sri Lanka Insurance, which was returned to the government after a brief period of private management, there have been allegations of fraud in related entities, although the parent firm constinues to report profits.

Fiscal Drag

The situation with non-financial public enterprises is worse. Many continue to be a big burden on the tax payer and also help de-stabilize the economy hurting ordinary people.

In the three years to 2014, of the 55 state entities monitored by the Public Enterprises Department of the Treasury, 42 state entities received a total of 215 billion rupees in budget support. Budget support climbed from 26.7 billion rupees in 2012 and 65.9 billion rupees in 2013 to 123.2 billion rupees in 2014.

The budget funds given to state enterprises in 2014 is equivalent to every household paying 24,100 rupees to keep the non-financial state entities afloat. To put this in perspective, around 40 percent of Sri Lanka's 5.1 million households earn less than 24,000 rupees a month.

Despite hundreds of billions of rupees being pumped into these enterprises, they bring hardly any return to the budget. In 2012, non-financial public enterprises got 67.46 billion rupees in budget support of which 7.7 billion rupees was for current spending.

Only five enterprises paid dividends and levies totalling 1.89 billion rupees in that year. In 2013, people injected 65.9 billion rupees from the budget to these entities of which 5.0 billion rupees were for current expensive. Only five enterprises paid 700 million rupees

Budget support and returns from Non-Financial SOEs

	2012	2013	2014	Total
BUDGET SUPPORT	26,745	65,966	123,245	215,956
CAPITAL	19,005	60,886	113,910	193,801
RECURRENT	7,740	5,080	9,335	22,155
LEVY/DIVIDEND	1,892	700	10,673	13,265

Note: In 2014, a levy of Rs10 billion came from CPC which got Rs30.6bn in budget support. Sri Jayewardene Hospital excluded
Source: Public Enterprise Dept

Levy/Dividend Income from SOBEs Rs Mn

	2008	2009	2010	2011	2012	2013	2014
LEVY	**115**	**80**	**95**	**2,134**	**70**	**70**	**10,050**
STATE TIMBER CORPORATION	75	50	10	75	50	50	25
STATE PHARMACEUTICALS							
MANUFACTURING CORPORATION	40	30	85	59	20	20	25
SRI LANKA PORTS AUTHORITY	-	-	-	-	-	-	-
CEYLON PETROLEUM CORPORATION	-	-	-	-	-	-	10,000
CEYLON ELECTRICITY BOARD	-	-	-	2,000	-	-	-
DIVIDENDS	**65**	**291**	**366**	**2,937**	**1,822**	**630**	**623**
LANKA MINERAL SANDS LTD	34	60	35	500	1,700	-	43
LANKA INDUSTRIAL ESTATES LTD	31	31	31	31	47	55	55
AIRPORT AND AVIATION SERVICES LTD	-	200	-	2,406	-	500	500
LANKA ELECTRICITY COMPANY LTD	-	-	300	-	75	75	25
TOTAL	180	371	461	5,071	1,892	700	10,673

Source: PED

in levies and dividends.

In 2014 an unprecedented 123.2 billion rupees were injected from the budget of which 9.3 billion rupees was to cover routine, recurrent spending. Dividends and levies were only 10.673 billion rupees. Out of that, 10 billion came from Ceylon Petroleum Corporation (CPC) which was making profits due to falling crude prices. But in the same year CPC got 30.6 billion rupees in budget support to cover earlier losses and strengthen its balance sheet.

The dismal performance of Sri Lankan state enterprises is in sharp contrast to about two billion Singapore dollars paid into the budget each year for the last three years by Temasek Holdings, which owns major public enterprises in that country. State enterprises perform well in Singapore. Electricity prices are also adjusted monthly and there is competition in generation.

For the purpose of statistics, non-commercial state enterprises are classified as 'private sector' when national savings are computed, giving the erroneous idea that Sri Lanka's ordinary citizens do not save as much as other Asian peers. Their losses therefore drag down Sri Lanka's private savings rate and therefore the domestic and national savings rate, giving misleading information to policy makers and analysts.

Domestic private savings fell from 21.4 percent in 2010 to 16.5 percent of gross domestic product in 2011. In 2011 for example losses of two state energy enterprises alone totalled over 1.5 percent of gross domestic product.

Circular Debt and Economic Vulnerabilities

State energy enterprises and the state banks together form a nexus of vulnerability for Sri Lanka's economy and the stability of the currency which is related to the same phenomenon.

To win votes politicians control the tariffs of energy utilities when world market prices rise. The energy utilities are forced to sell at a loss, the losses being funded by banks.

Large losses in the Ceylon Electricity Board (CEB) and Ceylon Petroleum Corporation (CPC) has helped trigger balance of payments crises in 1999/2000, 2009, and 2011/2012.

During the 2011 crisis, bank-financed cash flow deficits at CPC totalled 117.5 billion rupees. At Ceylon Electricity Board, it was 10.8 billion rupees.

These numbers understate the actual impact of losses at the CEB, because through a circular process, its losses accumulate as debt elsewhere.

CPC's large losses in 2011 partly came from selling fuel at a loss to the CEB. The CPC in turn is effectively used by other state agencies to finance their losses, as fuel bills remain unpaid for extended periods. SriLankan Airlines and Mihin Air are notorious for delaying payments to the CPC. In 2011, in addition to selling fuel at a loss, the CPC also extended 8.8 billion rupees in credit to the CEB.

When state banks are compelled to finance losses at state enterprises, investible funds collected from the public are misused for consumption.

Economic analysts have pointed out that when bank credit surges and the loans are re-financed by the central bank credit (printed money) or through discount window operations, and not with deposits raised from the public, balance of payments problems occur leading to currency collapses.

Because some banks are state-owned, they finance the CPC and CEB disregarding prudential rules such as single borrower limits, or the likelihood of default. To safeguard themselves Treasury guarantees backed by the future earnings and taxes of ordinary people are given.

However, if the banks or the energy utilities were private entities; with pricing freedom for energy utilities and freedom for bank management to extend credit under standard prudential rules; this nexus of vulnerability cannot continue.

It can be seen that Lanka IOC, an Indian state firm, took steps to minimise losses by refusing to sell kerosene at all in one instance and unilaterally raising diesel prices on another occasion without taking more loans to fund losses and de-stabilize the credit system.

If banks refused to give credit under standard prudential rules, the utilities would be selling oil at cost which in turn would have reduced the spending power of consumers and reduced non-oil imports, protecting the rupee and the balance of payments.

SRI LANKA'S STATE BANKS; REFORM AND ROBBERY

The two largest state banks, Bank of Ceylon and People's Bank, at one time a huge drain on the treasury, are no longer making losses after reforms initiated in 1996 that strengthened their governance.

By the mid-1990s the two state commercial banks were insolvent and was bailed out twice with capital injections from the Treasury.

The Public Enterprises Reform Commission, headed by Mano Tittawella, reformed the two banks.

The top management of People's Bank was strengthened with key staff recruited from private and foreign banks and a CEO was hired from overseas, to insulate the banks from politically directed lending.

The Bank of Ceylon recruited a Chief Financial Officer from overseas.

These reforms were continued after a change of administration in 2001. New lending to state enterprises were backed by Treasury guarantees, insulating the two banks from losses, but passing the buck to the tax payer.

Over the last several years Bank of Ceylon and People's Bank have paid steady dividends to the Treasury, contributing more than half the dividends of all state firms.

But over half of the loans of Bank of Ceylon goes to the state or state enterprises, according to Fitch Ratings. National Savings Bank also lends a bulk of its collections to the state to finance a runaway budget deficit, crowding out ordinary citizenry.

Sri Lanka Insurance Corporation, which returned to the government after a period of private ownership is still making profits and paying dividents. In sharp contrast, SriLankan Airlines slipped back into losses immediately after Emirates Airlines, its managing partner, handed over management to the state.

Bank Robbery?

Following reforms made to the two state commercial banks, the listing of National Development Bank on the stock exchange and the tightening of the Credit Information Bureau, politicians called for a new state bank to be established.

A key rallying call during the 2004 and 2005 elections was that the 'development banks' were privatised and a new bank was needed to help local businesses. Following the elections, SME Bank was set up in 2005. Lankaputhra Bank was set up in 2006.

Borrowers with poor credit records who were no longer welcome at the Bank of Ceylon and People's Bank quickly flocked to the new banks. Questions have been raised why these banks were not members of the Credit Information Bureau initially.

In December 2006, less than two years from inception, the SME Bank was in trouble after granting dud loans, and plans were announced to merge it with the existing Regional Rural Development Banks (RRDB). At the time, Fitch Ratings warned that 30 percent of loans at SME Bank had already gone bad and put the RRDB on rating watch. The plan to merge and infect the better performing RRDB's with bad loans was then abandoned.

Shortly after, when Lankaputhra Bank's loans also went bad, the two banks were merged and tax payer funds were infused to recapitalise the entity. In 2015, information about new scams at Lankaputhra Bank emerged.

In one case the bank had given a loan to a gem and jewellery firm taking quartz as security, members of a new board told the media. Land belonging to third parties including a temple as well as leased land had been accepted as collateral, allegedly on the instructions of a senior state official. Hundreds of millions of loans had been given on political direction which had not been paid back.

Question of Accountability

A private company is owned by shareholders who pump their own money in and the board of directors - some of whom are themselves shareholders - keep an eye on the management.

A state enterprise is set up with public money. Though the public and taxpayers are supposed to be shareholders, the management is answerable to politicians, who have no direct stake in the business.

Politicians have no compulsion to save money or make profits. Their natural incentive is to mis-use the resources of state enterprises to win votes or support their friends who helped with the election campaign.

Indeed, it is often the financial backers of politicians who are made directors of state enterprises. Politicians also block management from making optimal decisions, whether in pricing energy or deciding which route to fly, as past experience has shown.

Politicians also routinely make public statements saying state enterprises are supposed to provide a service and justify losses and mismanagement.

In Sri Lanka hardly anyone is held accountable for losses at SOEs, though the parliament's Committee on Public Enterprises has reported on it. The lack of an independent public service makes this worse in Sri Lanka. Therefore, the dice are fundamentally stacked against state enterprises from the start.

This may explain why some enterprises become profitable and start contributing tax revenues to the state after privatisation. A good example are the privatised plantations. Companies that formerly received Treasury handouts to pay salaries started paying annual lease rentals to the public purse despite the vagaries of commodity prices.

Privatisation did not always restore a a company's profitability, some companies went bankrupt after privatisation. Three textile firms which depended on import protection collapsed after import duties were reduced. However the falling textile prices benefitted consumers.

Inefficient firms, protected from competition, being weeded out is also a benefit to the people of the country, quite apart from whether they make profits or losses.

Telecom

One of Sri Lanka's most successful cases of privatisation was Telecom. Telecom was a unionised monopoly. Unions blocked the creation of a duopoly. Tariffs were controlled by the government and people had to wait on a 10 or 15 year waiting list to obtain a phone connection . Politicians or government servants were given priority. Ordinary people got the standard answer: 'no loops', just as Colombo Gas used to say 'no cylinders'.

In the 1990s, the monopoly was broken first by bringing a private partner to run a mobile service. New licenses were issued for mobile services, later two wireless fixed operators were licensed. The regulator allowed prices and connection fees to rise. A large stake in Sri Lanka Telecom, the former state fixed line operator was sold to a foreign company.

Some of the foreign telecom firms that invested in Sri Lanka, including those from Malaysia and Sweden were themselves state enterprises or stock-market listed former state enterprises, which competed with each other in Sri Lanka.

Before private capital was allowed into telecom, a major constraint for investors who wanted to start factories in Sri Lanka was the lack of telephones. But now some people own more than one phone. Prices are among the lowest in the world. Competition has become so intense that private operators successfully lobbied the regulator to stop prices from going down, and imposed floor prices in a blatant move to hamper the effects of free markets and competition.

Over the years unfortunate consumers have had to put up with anything from bad customer service, rusty gas cylinders, routine shortages, 10 year waiting lists and adulterated fuel. Yet vocal and articulate politicians backed by SOE unions are pushing the agenda to build state businesses at the expense of the people.

And so far Sri Lanka's ordinary people who pick up the tab have been listening in silence.

THE RENATIONALISATION OF SRILANKAN AIRLINES AND THE FOLLIES OF STATE ENTERPRISE

By Ravi Ratnasabapathy

SriLankan Airlines provides an excellent example of the problems that arise from state-owned enterprises.

Air Lanka, the state-owned airline was privatised in April 1998. The government of Sri Lanka sold a 40% shareholding to Emirates Airlines, which was also contracted to manage the company for a period of 10 years. The government of Sri Lanka continued to retain the majority shareholding but management was relinquished to Emirates.

Emirates re-branded the airline as 'SriLankan', overhauled the airline's infrastructure and adopted a new approach to its operations. Cost-effective strategies were introduced; new pro-active management teams were put in place; Information technology became the basis of everyday activities. The airline's network was constantly reappraised and product enhancement became a part of the airline's philosophy. The airline was completely re-fleeted with an all-Airbus fleet of A340, A330 and A320 aircraft replacing the ageing Lockheed Tristars.

Although the privatisation and restructuring attracted a lot of criticism at the time, the exercise was eventually deemed a success; indeed in many quarters it was hailed as model for other airlines. At an international seminar on airline restructuring and privatisation, held a couple of years after the divestment; the President of the employees union of SriLankan spoke on how the union rights were protected and working conditions were improved.

At the time of the privatisation all employees were gifted with shares by the government based on the number of years of service. Although a voluntary retirement scheme was also implemented, the President of the union stated that employees were given an excellent deal if they wanted to leave and no-one was made redundant. Collective Agreements signed by the airline with employee unions guaranteed increments to employees. Also, new human resource development programmes were instituted to upgrade employees' skills and a new grade and pay structure was put in place.

Union representatives from other state-owned airlines were also impressed by the manner in which the airline disclosed information to employees; "they had never seen such transparency from an airline's management," said K J L Perera president of the employees union. SriLankan published its quarterly financial results in its staff newsletter.

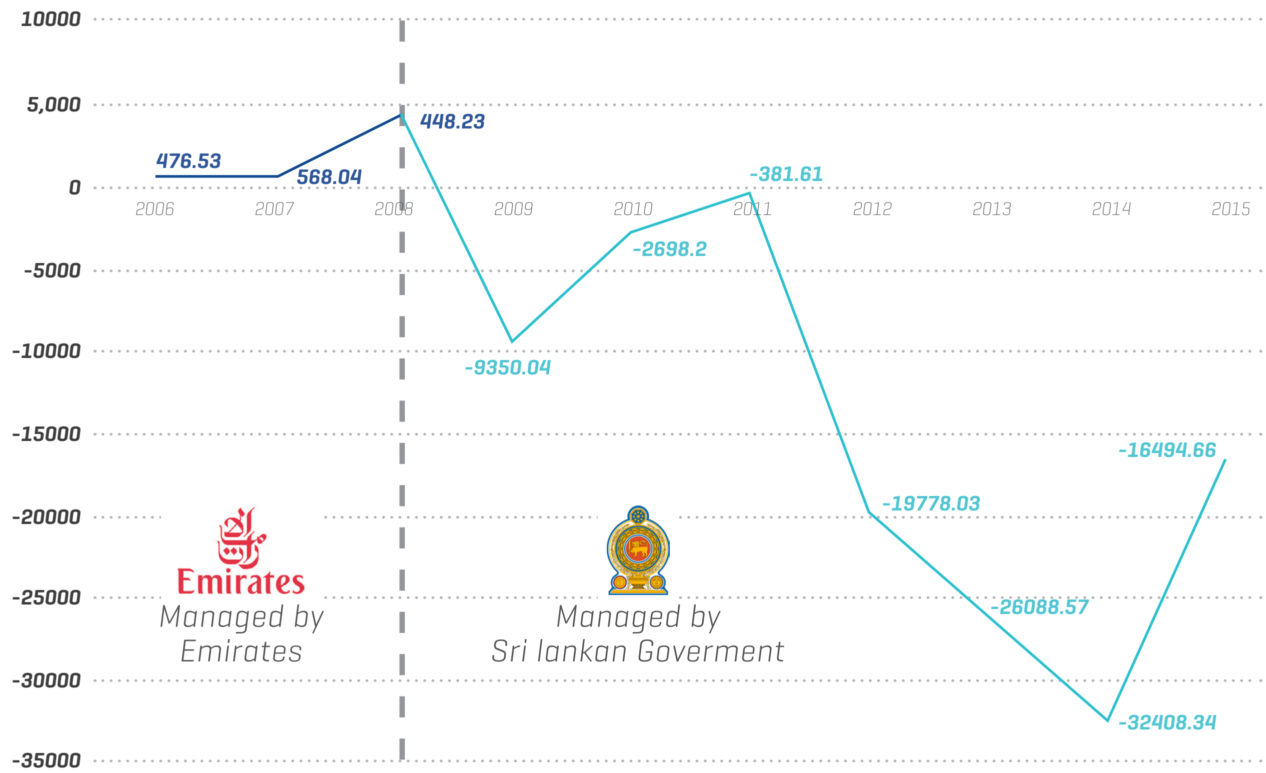
Following a spat in December 2007, the Chief Executive Peter Hill had his work permit revoked.
The dispute began when Hill refused to bump 35 passengers from full London-Colombo flight to make way for Sri Lanka's president and his entourage. The Government cancelled the work permit of the CEO of the airline and in March 2008, Emirates did not renew the management contract.

The airline, which had been consistently profitable under the management of Emirates last reported a profit in 2008; a bumper Rs.4.4bn. Since then the airline has racked up enormous losses. According to the latest published accounts for the year ending at March 2015 accumulated losses stood at 123.26 billion rupees.

The airline reported an operating loss of Rs.16bn in the year 2015, an improvement from the loss of Rs.31.3bn in 2014. To put these figures into context, the Government bought out Emirates for only US$53m (or Rs.7bn at today's exchange rate). In 2014 alone the airline lost four times its original purchase price, a truly remarkable feat. The airlines accumulated losses amount to almost a billion dollars; the entire Southern highway was built for around 700 million dollars, cost overruns included.

The management of the airline has claimed that the recession in Europe and high oil prices caused the

Net Profit/Los-Sri lankan Airlines-10 Year review (Mn)



Source: Annual General Reports of Sri Lankan Airlines

losses. The public was urged to look beyond the "mere profitability aspect" and understand the "catalyst role played" by the airline in tourism; in the words of the former CEO.

Airlines are global businesses and the same factors affect all airlines. Singapore Airlines cited by many who try to justify state ownership of airlines reported a marginal operating loss in only a single year during the last ten years; a loss of US$38m in 2009/10.

Singapore airlines is no less affected by the recession and oil prices, but it did not report losses. Singapore Airlines is a well-run state airline that is something of an exception. Many cite this example but few have been able to emulate its success, so we should not try to justify our Government's ownership by looking to Singapore. SriLankan Airline's own track record is what we need to examine.

What changed when the Government took it over? They inherited a profitable business with the same staff, systems and infrastructure; the principal difference was in the management. The truth is that the airline suffered from gross mismanagement and corruption, some of which has recently been uncovered.

These problems seem to plague state owned enterprises (SOEs), but why do they occur?

There are two elements to explanation: the principal-agent problem and the free-rider problem, both based on the assumption of self-seeking individuals.

An SOE is run by managers who do not own the firm. In a firm under state control, the managers know that their salaries will be paid regardless of how the business performs, therefore there is no incentive to maximise efficiency.

Frequently in Sri Lanka the Government will be under pressure to appoint various loyalists to key positions. In some, (although not all) instances, those who seek political patronage to be 'fixed up in a job' are people who lack the skills or abilities to find a job on their own merits. Thus the enterprise may become stuffed with incompetents; good staff will find it very difficult to work with these people so they either leave or give up trying to do any work and concentrate on keeping in the good books of the bosses.

The maxim of "more work, more trouble, less work, less trouble and no work, no trouble" is applied here.

Since the pay and benefits are not dependent on performance, people are of the opinion 'why bother to stick ones neck out?' As this attitude poisons the enterprise, the staff tend to work on surviving in their jobs rather than trying to manage the business.

This problem would not exist if the citizens, who are the owners (principals) of SOEs, can perfectly monitor the SOE managers (their agents) but individual citizens do not have the incentive nor the means to monitor the SOE managers.

This leads to the second element of the problem, even if they did try to hold the SOE to account, the costs that an individual citizen incurs in monitoring SOE managers (obtaining and analysing financial information, seeking explanations through public channels etc.) are solely his or hers, while the benefits of improved management accrue to all owners. Time and effort will be expended in the exercise by the citizen who receives no immediate benefit. Thus, individually, the citizens have little incentive to monitor the SOE managers, which means that in the end, no one monitors them. This is called the free-rider problem.

This is the fundamental structural flaw with SOEs which explains why many operating in truly competitive markets are doomed to failure. There are apparently profitable SOEs but in some instances they operate as a monopoly, like the Sri Lanka Port Authority. In other instances such as LakSathosa, Governments may create an uneven-playing field in markets where an SOE competes with private firms as they have a vested interest in ensuring that state-owned firms succeed. LakSathosa is exempt from the VAT and NBT charged on other supermarkets giving them a significant competitive advantage. Accordingly, despite its role as the regulator the government may in fact, restrict competition through granting SOEs various benefits not offered to private firms. In such instances SOEs may appear to be profitable but this is due to hidden subsidies and distortions which are ultimately borne by taxpayers.

Airlines used to be regarded as a key part of transport infrastructure, like roads or bridges, which should be owned by the Government. Until the mid-1980s, most governments did own airlines and protected flag-carriers by restricting new entrants. This thinking has changed. Privatisation made air travel more competitive and liberalisation brought competition from low-cost carriers. Most airlines in state control have failed to adapt and are losing money. There is little strategic interest in owning an airline; Switzerland and Belgium have done without a flag carrier for years.

The SriLankan airline is currently a huge drain on the treasury and the previous experience with Emirates demonstrates the clear benefit of privatisation.

NEPOTISM, CRONYISM AND THE GOVERNANCE OF STATE OWNED ENTERPRISES

By Ravi Ratnasabapathy

Some Government appointments to the boards of state owned enterprises have caused widespread dismay. The general public grumble that there seems to be a return to the bad old ways, with friends and relatives of politicians being appointed to plum positions. It is therefore opportune to examine the desired governance structure of state enterprises.

Nepotism and cronyism are the practice of giving preferential treatment to relatives and friends in employment. The term nepotism is derived from the Italian word 'nepotismo', which is based on Latin root 'nepos' meaning nephew. Since the Middle Ages and until the late 17th century, some Catholic popes and bishops, who had no legitimate heirs, appointed their nephews positions of power in the church. The related issue of cronyism refers to partiality towards friends and associates, not blood relatives.

State enterprises are run for the benefit of the public and to be properly administered they require competent people. It is not that every relative or friend is incompetent or unsuitable but unfortunately it is often the case that it is the very people who lack skills to make a proper career elsewhere turn to politically influential people to "fix them up" in a job. This was a defining characteristic of the previous regime and it is important that the new Government breaks from the bad practice of the past.

As a matter of principle all appointments from the most junior to the level below the CEO should be based on merit and subject to a standard selection process, exams and interviews. (For appointments to the Board and the CEO refer the box on the Organisation for EconomicCo-operation and Development (OECD) guidelines. It would not matter if a relative or a friend is appointed, provided they go through the standard selection process and are selected purely on merit.

If the staff is appointed on the basis of merit there should be no requirement for a change of personnel when a Government changes, which will give some continuity to policy. The Ceylon Electricity Board (CEB) and the Colombo Stock Exchange (CSE) have maintained a degree of independence in this regard.

We also need to frame this debate within the wider sphere of governance of state enterprises, and not simply focus on the appointment of directors. The OECD has published a set of guidelines that give concrete advice to countries on how to more effectively manage their responsibilities as company owners, thus helping to make state-owned enterprises more competitive, efficient, and transparent.

These guidelines represent an ideal and implementing them in-toto overnight may not be practically possible due to political trade unions and entrenched political appointees.

The OECD Guide comprises six sections:

I. Ensuring an Effective Legal and Regulatory Framework for State-Owned Enterprises
II. The State Acting as an Owner
III. Equitable Treatment of Shareholders
IV. Relations with Stakeholders
V. Transparency and disclosure
VI. The Responsibilities of the Boards of State-Owned Enterprises

The most important points from this are discussed below. It is advisable that the Government adopt a comprehensive framework to SOE governance. It will undoubtedly improve performance and maintain the confidence of the public.

I. Ensuring an Effective Legal and Regulatory Framework for State-Owned Enterprises

The legal and regulatory framework for state-owned enterprises should ensure a level-playing field in markets where state-owned enterprises and private sector companies compete in order to avoid market distortions.

A. SOEs should not be exempt from the application of general laws and regulations. Stakeholders, including competitors, should have access to efficient redress and an even-handed ruling when they consider that their rights have been violated.

B. There should be a clear separation between the state's ownership function and other state functions that may influence the conditions for state-owned enterprises, particularly with regard to market regulation. In simple terms, there should be no preferential treatment by regulators for state owned enterprises.

C. The legal form under which SOEs operate should be standardised and allow creditors to press their claims and to initiate insolvency procedures.

D. Any obligations that an SOE is required to undertake in terms of public services beyond the generally accepted norm should be clearly mandated and should be disclosed to the public. Costs related to such activities should also be disclosed. This will prevent abuse such as the funding of election campaigns and tamshas for the minister.

E. SOEs should face competition in funding. Their relations with state-owned banks, state-owned financial institutions and other state-owned companies should be based on purely commercial grounds. This will prevent the development of off-balance sheet black holes in public finances.

II. The State Acting as an Owner

The state should act as an informed and active owner. A clear and ownership policy should be present, which explains the objectives of ownership against which performance can be measured.

A. The government should issue an ownership policy that defines the overall objectives of state ownership. It must explain the state's role in the corporate governance of SOEs, and how it will implement its ownership policy.

B. The government should not be involved in the day-to-day management of SOEs and allow them full operational autonomy to achieve their defined objectives.

C. The exercise of ownership rights should be clearly identified within the state administration. Ideally all shareholding by the state should be centralised under one specialised body which will oversee the investments and be held responsible to parliament. This will ensure that proper attention is paid to the management of investments and consistent policies apply. The body should:

a. Ensure a well-structured and transparent board nomination processes and actively participating in the nomination of all SOEs' boards. Board nomination should not be the prerogative of the minister alone.

b. Setting up reporting systems allowing regular monitoring and assessment of SOE performance. This will enable proper reporting to parliament.

III. Equitable Treatment of Shareholders

The state and state-owned enterprises should recognise the rights of all shareholders and ensure their equitable treatment and equal access to corporate information. This is relevant where the state owns a partial shareholding and ensures that the concerns of minority shareholders are addressed.

An active policy of consultation with minority shareholders, transparency in dealings and facilitating minority participation at shareholders meetings is necessary.

IV. Relations with Stakeholders

The state ownership policy should fully recognise the state-owned enterprises' responsibilities towards stakeholders and request that they report on their relations with stakeholders.

V. Transparency and disclosure

State-owned enterprises should observe high standards of transparency in the conduct of their affairs. In particular:

A. The entity vested with the state shareholding should develop consistent and aggregate reporting on state-owned enterprises and publish annually an aggregate report on SOEs. In Sri Lanka's case it may also be advisable, additionally, to list all SOEs on the stock exchange. Meeting the disclosure requirements of the Colombo Stock Exchange (CSE) will go a long way to improving transparency.

B. SOEs should be subject to an annual independent external audit based on international standards. The existence of specific state control procedures does not substitute for an independent external audit.

VI. The Responsibilities of the Boards of State-Owned Enterprises

A. The boards of SOEs should be assigned a clear mandate and ultimate responsibility for the company's performance. The board should be fully accountable to the owners, act in the best interest of the company and treat all shareholders equitably.

B. SOE boards should carry out their functions of monitoring of management and strategic guidance, subject to the objectives set by the government and the ownership entity. They should have the power to appoint and remove the CEO. Note that the minister does not appoint the CEO, it is the board that appoints the CEO.

C. When necessary, SOE boards should set up specialised committees to support the full board in performing its functions, particularly in respect to audit, risk management and remuneration.

D. SOE boards should carry out an annual evaluation to appraise their performance.

KEY FINANCIAL INFORMATION OF STATE OWNED ENTERPRISES

Performance of Non-Financial SOEs

Non-Financial Institutes	**Operating Profit/Loss (LKR Mn.)**									
Enterprise	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013***	**2014 ***	**2015****
Energy										
Ceylon Electricity Board	-14,176	-22,314	-33,870	-7,440	4,962	-19,266	-61,447	22,945	-13,303	14,625
Ceylon Petroleum Corporation	-466	7,089	-11,085	-7,717	-20,295	-94,508	-97,380	-7,770	1,633	-4,912
Ceylon Petroleum Services Terminal Limited						2,342	2,193	1,596		
Ports										
Sri Lanka Ports Authority	5,903	3,498	2,941	1,942	4,387	329	5,211	1,625	7,950	5,651
Water										
National Water Supply and Drainage Board	-214	-1,278	-2,915	-1425	-5,955	421	408	1,193	1,432	48
Aviation										
Airport and Aviation Services (SL)Ltd	2,120	2,469	1,742	1,441	1,864	3,421	2,738	3,554	4,038	3,115
Sri Lankan Airlines Ltd	1,149	5,145	-9,738	-5,409	655	-19,675	-21,751	-32,358	-16,181	-6,488
Mihin Lanka (Pvt) Ltd	-195	-3,160	-1,300	-1,221	-940	-1,967	-2,866	-2,566	-1,187	-667
Transport										
Sri Lanka Transport Board	-6,824	-6,051	-7,998	-4,645	-830	-3,490	-2,964	-10,640	-9,407	-8,601
Construction										
State Engineering Corporation of Sri Lanka	25	128	55	279	133	211	226	128	81	-452
Central Engineering Consultancy Bureau	52	44	238	271	669	428	384	570	426	205
State Development and Construction Corp.	32	55	121	210	102	43	48	90	90	40
Livestock										
Milco Ltd	21	109	352	339	103	111	-267	160	185	23
National Livestock Development Board	-23	43	20	24	187	250	29	2	87	111
Non-renewable resources										
Lanka Mineral Sands Ltd						1,107	1,302	221	61	220
Lanka Phosphate Ltd						202	114	172	179	70
Kahatagaha Graphite Lanka Ltd						54	17	21	17	5
Health										
State Pharmaceuticals and Manufacturing Corp.	9	77	121	152	292	245	116	328	270	255
SL Ayurvedic Drugs Corporation	56	15	109	83	87	64	54	42	47	265
State Pharmaceuticals Corporation	386	437	456	401	484	418	468	777	654	533
Sri Jayawardenapura General hospital						-28	-121	92	549	70
Media										
Independent Television Network Ltd	89	10	317	296	495	678	813	847	566	339
SL Rupavahini Corporation	207	30	31	12	42	173	47	48	-182	-287

Non-Financial Institutes	Operating Profit/Loss (LKR Mn.)									
Enterprise	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013***	**2014 ***	**2015****
Sri Lanka Broadcasting Corporation	-87	-38	-18	38	43	-78	-68	-130	-51	83
National Film Corporation						2	18	12		
Selacine Television Institute						8	21	12		
Plantations										
Sri Lanka State Plantations Corporation						-52	-117	-228	-69	-92
Janatha Estates Development Board						-258	-235	-248	-237	-129
Kurunegala Plantations Ltd	39	100	120	126	181	225	186	208	227	111
Chilaw Plantations Ltd	60	122	53	141	137	97	86	82	85	103
Kalubovitiyana Tea Factory Ltd	37	49	42	72	23	31	91	28	24	17
Sri Lanka Cashew Corporation						20	44	1	2	2
Other										
Sri Lanka Handicraft Board						50	73	24	21	7
State Timber Corporation						603	202	382	425	195
STC General Trading Company						62	97	78	46	-24
Lanka Sathosa Ltd		7	22	29	58	79	652	663	364	-1,113
State Printing Corporation						134	140	78	71	8
Ceylon Fisheries Corporation						-69	-42	-80	-56	-50
Ceylon Fishery Harbour Corporation						-302	-259	-42	20	-70
Ceylon Fertilizer Company Ltd						96	107	241	288	93
Colombo Commercial Fertilizer Company Ltd						165	216	209	366	131
Hotel Developers Lanka PLC						-998	757	253	316	54
Lanka Sugar Company Ltd						93	-155	1,346	-31	-1,069
National Paper Company Limited						-212	-74	-110		
Sri Lanka Cement Corporation						2	-70			
Total	**-11,800**	**-13,414**	**-60,184**	**-22,001**	**-13,116**	**-126,601**	**-168,610**	**-13,541**	**-17,730**	**4,219**
Profits	**10,185**	**19,427**	**6,740**	**5,856**	**14,904**	**14,302**	**19,206**	**40,631**	**22,974**	**28,173**
Losses	**-21,985**	**-32,841**	**-66,924**	**-27,857**	**-28,020**	**-140,955**	**-187,816**	**-54,172**	**-40,704**	**-23,954**

Source : Treasury Annual Reports 2014

Performance of Financial Institutes & Insurance sector SOEs

Financial Institutes	Operating Profit/Loss (LKR Mn)									
Enterprise	2006	2007	2008	2009	2010	2011	2012	2013*	2014 *	2015**
Banking and Finance										
Bank of Ceylon	4,137	4,518	5,231	4,208	10,053	16,485	19,794	15,258	20,777	12,224
People's Bank	4,079	5,002	5,664	6,076	8,771	15,600	15,249	10,304	17,200	11,725
National Savings Bank (NSB)	3,501	3,301	3,100	6,944	9,776	9,255	6,169	2,279	10,472	8,329
State Mortgage & Investment Bank (SMIB)	318	124	41	119	638	688	522	343	411	494
HDFC Bank (HDFC)	239	47	-94	92	189	321	176	309	818	518
Lankaputhra Development Bank Ltd	52	58	227	221	163	124	294	371	193	82
Pradeshiya Sanwardhana Bank (RDB)	-	-	-	-	1,570	1,875	1,492	689	1,268	592
Sri Lanka Savings Bank Ltd	-	-	150	239	295	494	645	616	236	196
	12,326	13,050	14,319	17,899	31,455	44,842	44,341	30,169	51,375	34,160
Profits	12,326	13,050	14,413	17,899	31,455	44,842	44,341	30,169	51,375	34,160
Losses	-	-	-94	-	-	-	-	-	-	-
Insurance										
Sri Lanka Insurance Corporation		800	1,600	2,800	15,000	2,132	4,236	5,012	4,511	1,679
National Insurance Trust Fund						2,315	2,083	4,374	4,674	1,600
Sri Lanka Export Credit Insurance Corporation						113	163	207	190	165
Agriculture and Agrarian Insurance Board						-3,692	-1,775	-1,887	-1,941	-1,759
Total	**0**	**800**	**1,600**	**2,800**	**15,000**	**868**	**4,707**	**7,706**	**7,434**	**1,685**
Profits		**800**	**1,600**	**2,800**	**15,000**	**4,560**	**6,482**	**9,593**	**9,375**	**3,444**
Losses		**-**	**-**	**-**	**-**	**-3,692**	**-1,775**	**-1,887**	**-1,941**	**-1,759**

*Provisional
** Jan- Aug
Source : Treasury Annual Reports & Fiscal Management Reports 2016

Total Employment in the Public Sector of Sri Lanka

Year	Public Employment	Total Employed	Total (%)
2004	963,852	7,394,559	13.0%
2005	Data not available		
2006	954,886	7,105,322	13.4%
2007	968,525	7,041,874	13.8%
2008	1,164,147	7,648,305	15.2%
2009	1,175,925	7,602,414	15.5%
2010	1,099,803	7,706,593	14.3%
2011	1,179,889	8,196,927	14.4%
2012	1,230,398	8,128,704	15.1%
2013	1,269,610	8,417,674	15.1%
2014	1,292,835	8,423,994	15.3%
2015*	1,278,696	8,552,359	15.00%

Source: Treasury Annual Reports, COPE Report 2014 & Fiscal Management Report 2016
**Average of first 3 quarters of 2015*

Profit/Losses of SOEs by Sector

Sector	2006-2015 (Mn)	
	Cumulative Loss	Cumulative Profit
Energy	-415,949	57,385
Ports	0	39,437
Water	-11,787	3502
Aviation	-127,669	33,451
Transport	-61,450	0
Construction	-452	5,384
Livestock	-290	2,156
Non-renewable resources *	0	3,762
Health	-149	8,412
Media	-939	5,277
Plantations	-1665	2,972
Banking and Finance	-94	294,030
Insurance*	-11,054	53,654
Lotteries	0	11,337
Others	-4,826	9,323
	-636,324	**530,082**

**Data was available only for the period of 2011- 2015*
Source: Treasury Annual Reports & Fiscal Management Report 2016

Net contribution to the economy by SOEs sector wise

Non - Banking & Financial sector	2006-2015 (Mn)
Sector	**Net Profit/ Loss**
Energy	-358,564
Ports	39,437
Water	-8,245
Aviation	-94,218
Transport	-61,450
Construction	4,932
Livestock	1,866
Non-renewable resources*	3,762
Health	8,263
Media	4338
Plantations	1307
Lotteries	11,337
Others	4,497
	-442,738

Source: Treasury Annual Reports & Fiscal Management Report 2016

Profit/Losses of SOEs by Sector

Banking & Financial Sector	2006-2015 (Mn)
Sector	**Net Profit/ Loss**
Banking and Finance	293,936
Insurance	42,600
	336,536

*Data was available only for the period of 2011- 2015
Source: Treasury Annual Reports & Fiscal Management Report 2016

THE ADVOCATA INSTITUTE

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