PRIVATIZATION IN SRI LANKA:
THE EXPERIENCE DURING THE EARLY YEARS OF IMPLEMENTATION

Saman Kelegama

Sri Lanka Economic Association

Publications under the SLEA - USAID Publication Series*

1. Capital Market in Sri Lanka - Current Problems and Future Prospects
   - *W. A. Wijewardena*

2. A Review of Industrial Policy and Industrial Potential in Sri Lanka
   - *U. Vidanapathirana*

3. Monetary Policy in an Open Economy
   - *S. S. Colombage*

4. Foreign Trade - Experience in the Post-Liberalisation Period
   - *R. A. Jayatissa*

5. Economic Issues of Public Transport in Sri Lanka
   - *K. G. D. D. Dheerasinghe*

6. An Evaluation of the Role of Non-Bank Financial Institutions in Sri Lanka
   - *N. L. Sirisena*

7. Demand for the Supply of Commercial Energy in Sri Lanka
   - *H. N. S. Karunatilake*

8. Privatization in Sri Lanka: The Experience During the Early Years of Implementation
   - *Saman Kelegama*

* The SLEA-USAID publication Series includes a total of 18 papers published in two phases. This paper and seven other papers as listed above are included in phase one of the programme. The balance ten papers will be published under phase two of the programme.

PN-ABQ-029

PRIVATIZATION IN SRI LANKA: THE EXPERIENCE DURING THE EARLY YEARS OF IMPLEMENTATION

Saman Kelegama

Sri Lanka Economic Association, March 1993

This paper is one of the 18 papers, published under a special series of publications by the Sri Lanka Economic Association (SLEA) with financial assistance from the United States Agency for International Development (USAID). The objective of these publications is to provide economic literature on current and topical themes on the economic issues, but has little or no background in theoretical economics, while maintaining high analytical standards. Hence, the papers have been written in simple language avoiding the use of sophisticated technical terms, mathematical equations and models etc. which are normally found in economic literature.

ISBN 955 - 620 - 003 - 7

1. Introduction

Privatization, as is generally known all over the world, is the withdrawal of the state from the production of goods and services. At the broadest level, privatisation refers to the introduction of market forces into the economy. Though there are minor deferences in the interpretation of the term "Privatization", it is universally understood as being a shift from Public Sector production into the Private Sector. The Adam Smith Institute observed that "the universal appeal of privatization lies in the fact that it is... an approach which recognises that the regulation which the market imposes on economic activity is superior to any regulation which men can devise and operate by law. It is an approach which recognizes that the market measures, and responds to, the choices and preferences of people more accurately than the political process."

Privatization consists of a range of scenarios where various aspects of a business enterprise are progressively operated on private - sector lines until finally the enterprise comes totally under private ownership. There are several types of privatization. To give one example, the management of an enterprise may be handled by the private sector while the ownership remains with the state. The several types of privatization have been extensively discussed in the prevailing literature (Nellis and Kikeri, 1989, Vickers and Yarrow, 1991, and others); thus we shall not go into details here.

Privatization became a popular theme in economic policy in the late seventies after the advent of Thatcherism in the U.K. The breakup of the communist regimes in Eastern Europe and in the USSR and their gradual transition to market economies gave an added impetus to the concept of privatization in the late - 1980s. From about the mid - eighties, international financial institutions embraced the concept of privatization and started advocating it to many countries, and by the late 1980s privatization became a part of the aid conditionality package of these institutions[1]. In the 1980s, programmes of ownership reform were started in many developed and developing countries. Dramatic though some of these policies have been, they laid the foundation for a full-scale privatization in later years.

There are four fundamental goals of privatization in a developing country. They are:

i. to improve management, induce efficiency and thereby provide better consumer service;

ii. to induce technology transfer and modernization, to increase productivity and growth, by encouraging foreign participation in equity;

iii. to relieve the state of the burden of subsidizing and keeping afloat loss-making public enterprises, and thereby induce better budgetary management; and

iv. to spread the ownership of shares to a wider spectrum of the population.

While these remain the major objectives of a privatization programme, they cannot be realized without a suitable policy environment.

For a successful privatization programme the policy environment should have the following features. First, there should be proper institutional leadership to handle a privatization programme. Secondly, there should be proper planning i.e., good timing, an appropriate legal framework and tax structure, a suitable regulatory framework to handle monopolies, etc. Thirdly, there should be a well developed capital market to absorb the privatization programme, as well as minimum resistance from the labour market to transforming public enterprises into private companies. Fourthly, there should be a macro-economic policy environment that is conducive to private sector-led growth. This should be capped with credible policies that give correct signals for private sector investment. Privatization cannot take place overnight. Public opinion has to be familiarized with the notion of privatization and all its advantages. Thus substantial preparatory work is required to pave the way for the smooth implementation of any privatization programme.

This paper covers a very broad area while focusing mainly on the problems of privatization. The paper is divided as follows. Section 2 discusses the Sri Lankan privatization effort, with special emphasis on the background and preparatory work. Section 3 discusses the problems of privatization in Sri Lanka. Here we deal with the problems of the industrial sector in detail, and then outline the problems of the plantations and the transport sectors. Section 4 briefly examines some of the achievements of the privatization programme. Section 5 sets out some policy options for better prospects and concluding remarks.

2. The General Background and Preparatory Steps for Privatization in Sri Lanka.

Sri Lanka's privatization programme covers the major sectors of the economy, viz. industry, agriculture, and services. In the industrial sector, twenty one public enterprises (PEs) have already been fully privatized (by 31 September 1992) and a large number of public sector enterprises (40) are under consideration for divestiture (see Tables 6 and 7) and they are to be privatized before the end of 1993. In agriculture, the management of the plantation sector has already been privatized. In the service sector, the bus transport subsector has already been privatized. It was also said at one time that the banking sector was an area for privatization, but recently the government has denied it. However, the state banks (People's Bank and Bank of Ceylon) will be managed more on commercial lines in the future. Education, health, and other services are not considered for privatization. It will be useful to examine the background for the ongoing privatization in Sri Lanka.

Although Sri Lanka achieved independence in 1948, there were no major changes in the classic dual economy, with the export-oriented plantation sector separated from the large peasant subsistence sector, until about the mid - fifties (see, for instance, Karunatilake, 1987). This is because policy - makers of that time were of the view that industrial prospects for the country were limited. Sri Lanka had no known wide-ranging resources of industrial raw materials which were commercially exploitable, neither did it have a well developed entrepreneurial capacity, so an effective base for industrial development was thought to be lacking. Both policy-makers and the World Bank, whose advice was subsequently sought by succeeding governments, considered the comparative advantage of the economy to lie in agriculture. Thus, until the mid - fifties, the Sri Lankan governments were largely committed to non-interventionist policies which ensured the continuity of the basic structural features of the classic export economy. The major forms of public intervention were measures to promote social welfare.

A conscious effort was made towards industrialization in 1956. Industrialization was seen as a means of restructuring the economy so as to end economic dependence. In line with the then prevalent ideological bias in development-thinking, the development strategy chosen by the then government was a forced import-substitution strategy with import controls, and direct government involvement in production activities, and other direct controls on trade and finance. Corporations were established under two legislative enactments, viz. the State Corporation Act of 1955 and the State Industrial Corporation Act of 1957 and, on some occasions, by special legislation. These corporations were provided with start-up capital in the form of outright grants, loans or transfer of assets from the state. Furthermore, a drive towards nationalization of large private companies was initiated during the late-fifties. Bus transport services were nationalized first, followed by insurance, foreign-owned companies, and others.

The proliferation of public corporations continued during the early-sixties (1960-65) and the seventies (1970-77). Over 20 private companies were nationalized during the period 1957-77. The most significant piece of legislation was the Land Reform Act of 1972, which led to the nationalization of plantations in 1975. The Business Acquisition Act (BAA) was implemented in 1971 to accelerate the nationalization of private sector business. The large increase in the government's direct control over trade and commerce since 1970, resulted in the rapid expansion of the public sector. The size of the public sector increased from about 21 per cent of GNP in 1970 to 24 per cent in 1977 and employment in this sector increased from 135,019 in 1970 to 617,033 in 1977 (Karunatilake, 1987 pp, 145-147)

The operational objectives of public enterprises during the period 1957-77 included the following :

(1) Redistributive justice: for example, the Ceylon Transport Board (CTB) provided cheap transport to the general public.

(2) Regional development: for example, paper factories were established in Valachenai and Embilipitiya, and a cement factory was established in Kankasanturai.

(3) Price regulation of essential products: for example, the Cooperative Wholesale Establishment (CWE) and Salu Sala have made available goods at controlled prices which were much lower than in the open market.

(4) Providing employment and training to the people: for example, the state employed about 15-20 per cent of the labour force during the mid-seventies.

Clearly, non-financial objectives were accorded primary importance in promoting public enterprises. Thus the nationalization programme and the establishment of PEs appealed to the general public and commanded support from the majority of the population during the two decades before 1977.

Although Sri Lanka liberalized its economy in 1977, it was only a partial liberalization in the overall sense. Substantial liberalization took place in the area of regulations and controls, but the state's role in the economy remained significant. For example, the state did not revoke the two Land Reform Acts. When Liberalization commenced in late-1977, 66 per cent of tea production, 33 per cent of rubber production, and 10 per

Table 1: NONFINANCIAL PUBLIC ENTERPRISES

Agro Industrial Corp.
Air Lanka Ltd.
Airport & Aviation Services Co. Ltd.
All Ceylon Automobile Corp.
Asbestos Cement Industries ltd.
Asian Hotel Corp.
Associated Newspapers Ltd.
Automobile Assembly & Manufacture Ltd.
Ayurvedic Drug Corp.
Ayurvedic Medical Council
Bogala Graphite Ltd.
Building Material Corp.
Building Material Manufacturing Corp.
British Ceylon Corp. Ltd.
Casto Project (vehicle spare parts)
Central Freight Bureau of Sri Lanka
Ceylon Broadcasting Corp.
Ceylon Bulbs and Eclectricals Ltd.
Ceylon Cement Corp.
Ceylon Ceramic Corp.
Ceylon Cycle Industries Ltd.
Ceylon Electricity Board
Ceylon Extraction Corp. Ltd.
Ceylon Fertiliser Corp.
Ceylon Fisheries Corp.
Ceylon Fisheries Harbour Corp.
Ceylon Glass Co. Ltd.
Ceylon Hotel Corp.
Ceylon Hotels Services
Ceylon Leather Products Corp.
Ceylon Manufactures & Merchants. Ltd.
Ceylon Mineral Sands Corp.
Ceylon Oils and Fats Corp.
Ceylon Oxygen Ltd.
Ceylon Petroleum Corp.
Ceylon Plywood Corp.
Ceylon Shipping Corp.
Ceylon Shipping Lines
Ceylon Silks Ltd.
Ceylon State Hardware Corp.
Ceylon Steel Corp.
Ceylon Transport Board
Ceylon Tyre Corp.
Colombo Commercial Co. (Engineers) Ltd.
Colombo Commercial Co. (Fertilizer) Ltd.
Colombo Commercial Co. (TEAS) Ltd.
Colombo Dockyard Ltd.
Colombo Gas and Water Supply Co. Ltd.
Consolidated Commercial Agencies Ltd.
Contact Ltd. (Commercial Agency)
Cooperative Wholesale Establishment
Elephant Lite Corp.
Essential Oils (Ceylon) Ltd.
Heavyquip Ltd.
Hotel Buhari
Hunas Falls Hotels Ltd.
Independent Television Network Ltd.
Jafferjee Brothers Fishing Ind. Ltd.
Jafferjee Brothers Textile Ind. Ltd.
Jute Industries Corp.
Lanka Leyland Industries (automobile assembly)
Lanka Pineapple Co.
Lanka Porcelain Ltd.
Lanka Wall Tiles Ltd.
Libra Industries Ltd. (Textiles)
National Engineering Research and Development Centre
National Housing Development Authority
National Institute of Business Management
National Institute of Management
National Institute of Plantation Mgmt.
National Livestock Development Board
National Lotteries Board
National Milk Board
National Paper Corp.
National Salt Corp.
National Small Industries Corp.
National Textiles Corp.
National Water Supply & Drainage Board
Noorani Tile Works
Orient Co. Ltd. (trading)
Paddy Marketing Board
Palmyrah Corp. (Industrial development)
Paranthan Chemicals Corp.
Pharmaceuticals Corp. of Sri Lanka
Posts and Telecommunications
Railways
Rubber Manufacturing Corp.
Sedawatte Exports Ltd.
Shaw Industries Ltd (manufacturing)
Silk Allied Products Dev. Authority
Sri Lanka Cashew Corp.
Sri Lanka Co-op Marketing Federation
Sri Lanka Fruit Board
Sri Lanka Port Authority
Sri Lanka State Plantation Corp.
Sri Lanka State Trading (Consolidated Export) Corp.
Sri Lanka State Trading (General) Corp.
Sri Lanka State Trading (Tractor) Corp.
Sri Lanka Sugar Corp.
Sri Lanka Television Corp.
Sri Lanka Tobacco Industries Corp.
Sri Lanka Trading (Textile) Corp.
State Development and Construction Corp.
State Distilleries Corp.
State Engineering Corp.
State Fertiliser Manufacturing Corp.
State Film Corp.
State Gem Corp.
State Graphite Corp.
State Management Board
State Printing Corp.
State Timber Corp.
State Timber Corp.
Taos Ltd. (Boats)
Tea Small Holdings Dev. Authority
United Motors Ltd.
Urban Development Authority
Weaving Supplies Corp.
Wijaya Tiles Ltd.

Source: Institute of Policy Studies, Colombo.

cent of coconut production were controlled by the state. These shares remained more or less the same till the late - 1980s. It has been estimated that in the late-1980s the state controlled 40 per cent of the manufacturing sector's value-added. Moreover, for political reasons, the government did not repeal the BAA until 1988 and in fact used it to take over three institutions during the 1977-87 period.[2] Table 1 provides a list of PEs that were operating in 1985 (the list is incomplete and has only 120 PEs). Other than the Sri Lanka Television Corporation, Air Lanka, the State Fertilizer Manufacturing Corporation, and a few others, the rest were creations of the pre-1977 era.

By the mid-1980s, some public enterprises found it extremely difficult to compete with imported goods in the liberalized environment; their performance was far below expectations and the progressive decline in efficiency and productivity made it increasingly necessary to provide more tariff protection, which was contrary to the liberalization efforts. They also required state subsidies to effectively function and this became an enormous burden on the government budget (see Table 2) and the Minister of Finance stated in his 1985 Budget Speech: "Unfortunately some public corporations are becoming an intolerable burden on the budget and the people of the country. Unless we do something immediately to improve their efficiency the implications for the future are likely to be serious." (p.12)

Full-scale privatization did not feature in the policy package until about 1987. Several reasons could be found for this delay. Firstly, the Sri Lankan economy, by the year 1977, had developed a most intricate and pervasive system of controls and regulations. For example, it was observed that even after import permits were abolished, banks continued to

Table 2
Flow of Funds to the PEs

	1980	1981	1982	1983	1984	1985	1986
Flow of funds as % of total expenditure	30.3	28.3	36.2	31.2	31.7	27.1	32.1
Flow of funds as % of GDP	12.7	9.3	12.2	10.2	9.9	9.2	10.6

Source: CBC-AR, various issues

look for them before opening Letters of Credit. In fact, public institutions that lost their *raison d'etre* after liberalization nevertheless continued to function ineffectively and unproductively (Jayawardena, 1988). A case in point is the Department of Commodity Purchase which functioned till the late-eighties. Its main task was to purchase sheet rubber for export to China under a bilateral trade agreement; but sheet rubber sales to China under the agreement ceased in 1978 when trade was liberalized. In short, the strong roots that the public enterprises had in the Sri Lankan economy prevented their easy dismantling.

Secondly, in 1977, employment had to be given to the "job-card holders" as a matter of urgency, and the easiest way appeared to be through public enterprises, most often by overstaffing them. It is no secret that those in power (irrespective of the political party) always treated the public sector as a convenient means of employment creation and patronage. As is well known, employment opportunities increased after 1977 and the unemployment level fell to 11 per cent in 1982. However, after 1982, unemployment rose and reached nearly 21 per cent by 1985 (Karunatilake, 1987, p. 285). Privatization meant further additions to the pool of unemployed in the short run. When unemployment was already high, the government was reluctant to take the risk of creating further unemployment by privatization.

Thirdly, regardless of the pro export-bias incentive regime for the manufacturing sector, most private investment took place in the nontradable sector (services and construction) during the 1977-86 period (see for instance, Kelegama, 1989).[4] Private investment in tradables (industry and agriculture) was not very significant. This happened at a time when public sector enterprises were producing tradables. Thus the policy-makers felt that if the state dismantled some inefficient public enterprises it might lead to a steady erosion of the productive base of the country in the absence of any other alternative.

Initiatives were taken, however, for the privatization of the management of selected state enterprises, the deregulation of selected commercial activities, and the partial (or full-scale) privatization of "component parts" of state-owned enterprises through reorganization into subsidiaries. During the 1977-87 period, partial divestiture took place in the Rubber Manufacturing Company (RMC) and the Cooperative Wholesale Establishment (CWE) and restructuring under foreign management in the four mills under the National Textiles Corporation (Thulhiriya, Pugoda, Veyangoda, and Mattegama). The partial divestitures were unsuccessful but the latter showed positive results in regard to efficiency during the post-1985 period (see Table 3), and it led to a more thorough privatization exercise in the later years.[5] The discontinuing of public sector monopoly over bus transport also took place during this period (discussed later). In 1984, three small tile factories (Nooraini Tiles, Vijaya Tiles, Shaw Industries) were sold to the private sector by public tender. Subsequently, measures were taken to sell the management of certain subsectors of the Milk Board to the private sector but these measures did not fully materialize owing to

Table 3: Profit or Loss of Public Manufacturing Enterprises: 1975-1988 (Rs. Thousands)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1955	1986	1987	1988
1. National Milk Board	-84122	-81025	-65110	-84926	-60000	-43363	20531	2340	593	-14465	-16740	n.a.	-	-
2. Ceylon Oils and Fats	-5924	-6387	-13711	-2706	18413	438	5944	1714	1106	n.a.	1015	516	-105300	-47928
3. Sri Lanka Sugar(c)	35941	45769	23801	24243	-35476	108159	75152	23486	-6820	6231	-1627	-6945	-19372	n.a.
4. Sri Lanka National Salt	9618	8423	7848	6574	8329	14208	23893	19443	23949	20199	11492	2280	12425	15849
5. State Distilleries	n.a.	n.a.	n.a.	69074	47027	17244	52086	33596	72733	74833	93687	70618	61914	36077
6. G.O.B.U. of British Ceylon Corporation Ltd	-	-	-	-	-	-	-	859	-24896	-5055	-37471	25789	-19985	-24485
7. G.O.B.U. of National Textile	2897	-21878	-8130	-24746	-87300	-138446	-105210	-81650	-92124	-71708	89708	151980	110000	1359
8. Ceylon Teather Products	861	1125	676	3525	6846	4181	2791	2362	2807	1881	1546	3087	4589	-6798
9. Ceylon Plywoods	6250	-2149	-12044	-3115	6975	30707	9146	3689	125	-21043	-38167	-19273	-10803	-54142
10. State Timber	3066	n.a.	-3252	-3797	29245	87714	61443	93505	108969	98035	123048	60730	67450	-11700
11. National paper	22610	17730	n.a.	14645	-938	1105	40	-18622	6597	10660	34489	55855	28640	3060
12. State Printing	2460	3043	381	1600	4714	8902	11059	12338	5410	1841	1180	3966	10443	5796
13. Paranthan Chemicals	5068	7577	3370	3895	6192	7646	1147	1557	1321	141	6949	-	-	-
14. Sri Lanka Ayurvedic Drugs	557	154	377	1140	112	202	381	-1967	-5373	-392	4114	2876	-984	-590
15. State Fertilizer manufacturing	-	-	-	161792	192100	90261	-517960	-160789	-544278	-301560	-377620	-	-	-
16. Ceylon Petroleum	30288	109500	130780	n.a.	-	-	-23239	-644500	907287	1717212	523348	967631	-23547	-328594
17. Sri Lanka Tyre	22677	6518	2358	42392	32911	52201	17763	51859	329	15901	32457	42109	41446	13579
18. Sri Lanka (Ceylon)														
19. Rubber Manufacturing Co. Ltd.	132	1189	785	8048	11663	-5801	827	3150	4734	3862	1520	4977	1884	5683
19. G.O.B.U. of Ceylon Oxygen Ltd	-	-	-	-	-	-	-	11042	2745	5993	10619	16728	14000	n.a.
20. G.O.B.U. of Colombo Gas & Water Co. Ltd	-	-	-	-	-	-	-	7787	-362	7485	19506	29489	40712	16000
21. Ceylon Ceramics	11476	12069	2562	13765	26341	41887	34097	10596	6150	-10384	9475	2658	4945	15154
22. Sri Lanka Cement	12034	-2916	-24131	15580	7759	134924	7405	5718	28732	-25[illegible]	-48089	32500	144036	98535
23. Ceylonn Mineral Sands	11783	12585	3767	19425	35069	42140	18549	37470	14264	12818	67477	96940	131018	289506
24. State Mining & Mineral Development	3964	5546	5120	14129	26548	33489	44285	7976	6240	-3306	5576	10483	12956	12284
25. Ceylon Steel	11438	12580	1450	25529	31724	24321	5551	-9581	-48515	-63153	-69439	-10244	1056	-27390
26. State Hardware	-2796	-1189[illegible]	-55255	-1322	-515	2063	-3048	-24671	-18601	-31702	-23573	-4636	-11502	-12257
27. G.O.B.U. of Ceylon Silks Ltd.	11083	30375	-15533	-	-	-	-	-4864	-7154	-2847	-	-	-	-
28. Sri Lanka State Flour Miling (c)	-	-	-	45467	10152	8082	-	-	-	-	-	-	-	-
29. Sri lanka Tobacco Industries	-8211	-7382	-22561	30611	-	-	-	-	-	-	-	-	-	-
30. Ceylon Fisheries	3964	-	-	-	-	-	-	-	-	-	-	-	-	-

Source: Central Bank of Sri Lanka. Review of the Economy, Various issues.

implementational problems. The small size of these enterprises and the fact that they were sold virtually by private placement made it difficult to engender any public protest.[6] The State Fertilizer Corporation, Tobacco Industries Corporation, CEATO, Minneriya Textiles, Wellawatte Spinning and Weaving Mills, Ceylon Silk and certain unprofitable units of the Hardware Corporation were closed down during the 1977 - 87 period (MOFP, 1987, p. 77)

These initiatives in the early years were not referred to as "privatization". This may be perhaps because many of them did not involve the transfer of assets to the private sector, and even when they did, as in the case of the tile factories, their insignificance in the national economy did not make such transfers disputable. Although some ground work for full-scale privatization was done during the 1977-87 period, privatization was not seriously considered until 1987. Privatization was announced as a state policy for the first time in the 1987 Budget Speech by the then Finance Minister (Minister of Finance, 1987, pp. 43-44). It is worth examining some of the legal /institutional measures that were taken during this period and subsequently. The major institutional achievements were :

1. The progressive development of a public enterprise performance reporting system by the Public Enterprises (PEs) Division of the Ministry of Finance and the Central Bank.

2. The formulation of a unified legal framework in 1987, by legislative enactment, viz. the "Conversion of Government - Owned Business Units (GOBUs) into Public Corporations Act. No. 22 of 1987" and "Conversion of Public Corporations or GOBUs into Public Companies

Act, No. 23 of 1987."

Act No. 23 of 1987 allows the establishment of an independent corporate body (a company) to take over the operations of a GOBU or a public corporation. These companies are relatively free to determine their employment levels, as well as their pay scales, and are only partially subjected to government tender and investment approval procedures, but at the same time, they were not permitted to deviate substantially from the rest of the public sector practices. The Act also transfers the share capital to the Secretary to the Treasury, and provides for the vesting of all assets and liabilities of the company, as well as the transfer of employees to the Treasury. The objective was to turn all corporations and GOBUs into public companies as an integral step in the privatization process.

The period 1987-90 can be considered as the beginning of the privatization phase. The work on privatization of commercial PEs, particularly manufacturing PEs, was given some sort of a structure and was accelerated following the establishment, in 1987, of the Presidential Commission on Privatization. This commission designed the general framework for privatization during the post-1987 period. The Presidential and Parliamentary elections (1988/89) on the one hand, and civil disturbances (1988/89) on the other, held up the actual implementation of policy. However, this period was utilized to draw up, on the basis of established criteria, a list of state enterprises for privatization, and for the commencement of extensive studies on those enterprises which were high on the priority list for divestiture (MPPI, 1990, p. 49). The criteria for selecting PEs for privatization were profitability and size to be divested in the domestic market. However, those PEs of national importance were excluded.

The Presidential Commission on Privatization was renamed 'The Commission on Peoplisation' in 1989. The turning point, or the actual implementation of privatization, began in the latter part of that year. The privatization process consisted of three phases during 1987-89 : (i) the conversion of corporations and GOBUs into public companies; (ii) restructuring viable public companies; (iii) privatization of selected public companies. After 1989, these phases were merged into one step, i.e., conversion immediately followed by divestiture, in the case of small PEs, and into two steps, i.e., conversion and privatization/restructuring, in the case of large PEs, particularly in Textiles.

The institutional framework to manage and implement this process also underwent many changes. Small public enterprise privatization, which was earlier handled by the Presidential Commission on Peoplisation, was entrusted to the Commercialization Division (CD) of the Ministry of Finance in January 1990. The CD has been working on the privatization of many PEs which included Ceylon Oxygen and others. Plantation and sugar industry privatization was initially handled by the Public Investments Management Board (PIMB), established in September 1989, and incorporated as a Company in March 1990. Later, these responsibilities were handed over to the Plantation Restructuring Unit (PRU). Besides the PIMB, the CD and other line Ministries have been actively involved in privatization.

The privatization programme is assisted by some consultants of the USAID (under the Private Sector Policy Support) who are engaged in the preparation of company profiles and valuation of some companies using "cash flow' methods. The government chief valuer also values the companies using both "net asset" method and "cash flow" method. After allocating 10 per cent of shares free of charge to the employees, the tender board decides the mode of privatization of the remaining 90 per cent of shares. The usual mode is to provide 60 per cent of shares to the corporate investor and the remaining 30 per cent to the public. In the case of financially weak enterprises, however, the entire 90 per cent of shares is offered to the corporate investor. "The rationale of this strategy is that majority ownership by a corporate investor who has the necessary financial capacity to expand the enterprise, the ability to transfer technology, and the ability to expand market access, would be the best guarantee for the future growth and expansion of the .... enterprises", (MPPI 1991, p. 75).

The following steps are supposed to take place before full divestiture, however, in order to maintain flexibility they are not defined under legislation.

i. Drafting a suitable advertisement to be inserted in both local and foreign papers. The profile of the company is also made available at selected overseas embassies of Sri Lanka. Usually, such an advertisement specifies the general requirements for a successful bid.

ii. Offers are made on sealed bids which are opened and read out in the presence of the tender board officers (technical committee) on the closing date.

iii. The technical committee evaluates bids and the successful bid is recommended to the Cabinet. After the Cabinet approval is obtained, the CD of the Treasury prepares a draft Memorandum of

Undertaking (MOU) which is then sent to the successful bidder.

iv. The MOU is negotiated with the assistance of the Attorney General's Department. After signing the MOU the bidder pays the purchase price to the Secretary to the Treasury who in turn credits the proceeds to the consolidated fund and transfers the shares to the bidder.

The required policy environment for privatization was dealt with in Section 1. It would be relevant at this juncture to look at the policy measures that were taken by the state to support the privatization programme.

(a) Tax Incentives

Tax incentives are needed to stimulate the activities of the capital market through which funds are raised for privatized companies. Several taxation measures were implemented to stimulate share market activity and make share issues more attractive compared to investing money in a bank. One of the main methods of enhancing the buoyancy of the share market and making the share issues of a privatized company attractive, is by allowing large scale foreign capital participation in the share market. In order to encourage foreign investment, two important measures were implemented.

i. Abolition of the 100 per cent transfer of property tax on share transfers between foreign persons.

ii. Approved country and regional funds and individuals resident outside Sri Lanka were permitted to invest in up to 100 per cent of the issued equity of listed public companies. All inflows and repatriation of dividends relating to these investment were to be channelled through the Share Investment External Rupee Account (SIERA) in commercial banks, with automatic exchange control authorization for such transactions.

A number of specific taxes which inhibited the development of the share market were abolished in the 1991 Budget. In November 1990, the capital gains tax on proceeds of sales of shares held for more than one year, was abolished, while 20 per cent capital gains tax for shares sold within a year was maintained. In August 1992, the capital gains tax was totally abolished. In 1991, Stamp Duty payable on issue and transfer of shares was abolished. Two other measures that were announced in the Budget were put into operation in April 1991:

(i) The withholding tax on dividends paid on listed shares was abolished,

(ii) The wealth tax on listed shares was abolished.

(b) Measures to Develop the Capital Market

In order to develop the capital market to support the privatization programme, the government took steps to establish venture capital funds and unit trust funds. The first unit trust fund was established in late-1991-- The National Equity Fund (under National Assets Management Ltd.) and this was followed by the Pyramid Unit Trust (under CKN Fund Management) in early 1992. Two more Unit Trusts were established in 1992.

In addition, the following measures were taken:

(i) The government exempted from income tax (upto Rs. 50,000 or one-third of the assessable income, whichever is lower) investment expenditure in venture capital companies and unit/mutual trust funds.

(ii) A five-year tax holiday was granted to unit trusts, while a ten-year tax holiday was granted to approved venture capital companies.

(c) Policies for the Labour Market

As stated in Section 1, privatization encounters resistance from the labour force of the institutions concerned. Firstly, the workers fear that after privatization there could be exploitation and they would not be entitled to the same privileges as before. Secondly, since all public corporations were heavily overstaffed during the last two decades, retrenchment of labour before or after privatization is inevitable, and the employees are aware of it.

In order to overcome the first factor, and as a motivating force, the government gives an assurance of commensurate payment and also provides a sweetener to the employees in the form of an offering of 10 per cent (or 5 per cent) of total shares free of charge. "The basis of distribution of the allotted percentage of shares among employees is length of service, and not an employee's position in the corporate hierarchy" (MPPI, 1990, p. 51). In order to overcome the second factor, the government offers a voluntary retrenchment package amounting to approximately Rupees two and a half lakhs per person on average (this is entirely a Cabinet decision).

(d) Measures to Develop Competition Policy

For nearly a decade following liberalization, competition policy in Sri Lanka was governed by the National Prices Commission (NPC) Law No. 42 of 1975. The NCP had the limited function of undertaking price-surveillance. In 1987, a new law was passed signalling a more detailed competition policy. The Fair Trading Commission Act No. 1 of 1987 set up a stronger body than the NPC to control monopolies, mergers, and restrictive business practices and continue with price surveillance (Wijesinghe, 1989).

2.1 Privatization of Industry

As can be seen in Table 1, most of the Sri Lankan PEs are in the industrial sector. Thus the general background and preparatory work that we discussed above are mostly applicable to the industrial sector, and we shall not go into details here. Table 4 provides some statistics to indicate the position, in 1988, of industrial sector PEs (or Public Manufacturing Enterprises – PMEs) in the Sri Lankan economy.

As has been discussed elsewhere, the post-1977 regime lacked an industrial strategy, till 1987, and relied solely on trade policies (exchange rate changes, tariff changes, etc.) for industrial development (Kelegama, 1992). And as Karunatilake (1987) states "the policy framework for public sector industry after 1977 has been formulated by many groups of people with different interests and views. This often resulted in the adoption of a large number of different selective policies which in aggregate conflicted with one another" (pp. 155-156). Lack of a clear cut industrial policy and ad-hoc policy formulation contributed much to the poor performance of the industrial sector during the 1977-87 period (Kelegama, 1992). Tables 3

Table 4 - Public Manufacturing Enterprises (PMEs) Performance
(All figures are for the year 1988)

	PME Output share as a % of Total Output	PME Export US$ Million	PME Employment	1977- Overall Growth of the Sector	1988 % PMEs Growth
Food, beverages, and tobacco	9.1	-	10,598	10.3	-10.1
Textiles, wearing apparel, and leather products of which	9.7	2.2	9623	25.3	6.0
[Textile Corporation]	[9.1]	[2.2]	[8400]		[9.0]
Wood and wood products (including furniture)	29.7	-	5601	7.9	-3.0
Paper and paper products	43.3	-	4016	8.8	4.0
Chemicals, petroleum, coal, rubber, and plastic products of which	74.8	14.7	8629	8.9	1.6
[Petroleum Corporation]	[71.2]	[12.8]	[6019]		[1.7]
Non-metallic mineral products (except petroleum and coal) of which	80.5	17.0	10279	8.8	3.3
[Cement Corporation]	[56.2]		[3398]		[5.2]
Basic metal products	100.0	-	1500	4.9	-1.4
Fabricated metal products, machinery, and transport	2.1	-	600	6.5	-3.8
Manufactured products n.c.s.	0.0	-	-	-	-
Total	30.6	33.9	50800	12.2	1.2

PMEs Performance: Summary Statistics, 1988

Total Industrial Exports % of total exports	=	53.2
PMEs Exports % of total Industrial Exports	=	4.3
PMEs Exports % of total Exports	=	2.3
PMEs Employment % of industrial Employment	=	6.0
PMEs Employment % of total Employment	=	1.0

Source: Estimated using data from Central Bank of Sri Lanka, Review of the Economy, Various issues.

and 4 provide statistics to show the poor performance of some of the PMEs in terms of growth and profitability, respectively.[7]

A dominant viewpoint in the country is that the PMEs were deliberately allowed to run down by the government in order to provide the justification for privatization (see, for example, Karunatilake, 1987, pp. 165-166). There is some truth in this. However, the reality is that these enterprises thrived under a protective wall during the pre-1977 period, and some of them could not survive under the competitive pressure of the post-1977 liberalized environment. Thus more subsidies were needed to keep them afloat in the liberalized environment. Besides the above-mentioned ad hoc policy formulation, sole reliance on trade policies for industrial development etc., and political interference also contributed to aggravate the crisis for the PMEs.

During the 1977-87 period, the ad hoc measures for the industrial sector and implementation of those measures fell within the purview of a number of different ministries such as Industries and Scientific Affairs, Rural Industrial Development, Plan Implementation, among others, and there was little coordination among them. Although an attempt was made to coordinate ministries under the 1987 new policy package, it did not result in the implementation of any significant policy during the 1987-89 period.[8] In late 1989, a serious attempt was made by a committee, which included top state officials and private entrepreneurs, to formulate an overall industrial strategy (Ministry of Industries, 1989). The privatization of industries, it is believed, will complement the basic aims of the new industrial strategy.[9]

2.2 Privatization of the Plantation Sector

The plantation sector is a vital component of the Sri Lankan economy. As is well known, the Janatha Estate Development and Board (JEDB) and the State Plantation Corporation (SPC) took over the Sterling and Rupee Companies vested in the government under the Land Reform Law of 1975. During the 1975-1990 period the plantation sector experienced a serious crisis. The administration became top heavy; bureaucratic red tape and paper work increased, and technical personnel such as superintendents did not devote adequate time to monitor and supervise productive activities, as was the practice before nationalization.

The replanting was far below the annual targets during the 1980s (CBC-AR, various issues). Moreover, export taxation was harsh. From time to time the government did reduce the export levies and also provided subsidies and transfers, but these lag adjustments failed to provide an impetus to growth and development.[10] It is worth glancing through some statistics related to the plantation sector. The budgetary allocation to ministries governing plantations increased from Rs. 37.7 million in 1971 to Rs. 87.7 million in 1981 and to Rs. 1683.7 million in 1991 (provisional) due to the inefficiency of the two plantation corporations - JEDB and SPC. The profits of the two corporations fell well below targets during the period 1985-90. In 1990, the SPC and the JEDB were provided a subvention of nearly Rs. 5000 million but the financial position of the two corporations remained insecure. The debt position of the JEDB and the SPC as at end-1990 was estimated to be about Rs. 1930 million. These included overdraft balances, medium term loans from the Bank of Ceylon and the People's Bank, as well as loans obtained from the Treasury by the two corporations.

Apart from the lack of entrepreneurship and the shortage of working capital, the state sector also suffered from low yields and lacklustre market promotion. For example, the average tea yield per hectare in Sri Lanka during the late-1980s was 30-40 per cent lower than that of competitor countries such as Kenya and India. As Table 5 shows, it was the public sector in Sri Lanka that contributed most to this poor performance.

Table 5: Tea Sector Performance Indicators

1989	Public	Private
Yield per hectare (kg.)	1268	2442
Cost of production (US $)	1.25	0.90
Output per plucker (kg. per day)	13.5	24.5

Source: CBC-AR, various issues.

All these shortcomings were the result of centralized decision-making, lack of accountability in management, operating units having little or no say in corporate planning, the absence of policy guidelines, and the lack of an institutional authority to evaluate management strategy (see, for instance, Kelegama, 1986, pp. 46-51). The government realized that unless financial restructuring is accompanied by institutional restructuring, where the issues of autonomy and management structure are fully addressed, sustained commercial viability of the plantations, and more productive employment opportunities for the labour force will not be forthcoming.

To address these problems the government appointed, in 1990, a high level "Core Group" to identify the problems and prepare a programme of action. The group's recommendations included (1) reducing taxes on tea and rubber; and (2) reducing labour costs and increasing management flexibility in the use of labour. In the long-term, decentralization of the management of the SPC and JEDB was recommended. The 525 estates under the two corporations were to be grouped into 84 clusters as financially independent operational units - which in turn were to be grouped into 12 zones for supervision purposes. As a result of the Cabinet reshuffle in March 1990, the work of the "Core Group" came to a halt and the new Minister wanted to review the situation further before taking concrete action. Thus in June 1990, the government appointed a task force to advise on the restructuring of the corporations.

The strategy recommended by the task force for restructuring the state-owned plantations consisted, *inter alia,* of the following. Firstly, the breaking up of the two corporations into smaller units - 11 Regional Boards - and the conversion of these Boards into public companies under Act No. 23 of 1987. These companies were to be managed by the private sector under management contracts. The companies were entitled to a percentage of turnover plus a share of profits as their management fee. Secondly, the marketing, warehousing and fertilizer import and distribution departments of the JEDB and the SPC were to be converted into public companies and the management handed over to the Public Investment Management Board (PIMB). The PIMB had to devise a strategy for divestiture. Once the profitability of the newly-managed Boards was established, the next step was to privatize ownership of the estates. The envisaged strategy was to distribute the equity capital of the 11 Boards to the managing companies, employees, and the general public.

The task force recommendations were modified and implemented in early 1992. A Plantation Restructuring Unit (PRU) was set up to convert the JEDB and the SPC into one central organization to be in charge of overall supervision, once the management was privatized. Out of the 525 estates owned by the two state corporations only 450 were considered for privatization of the management (the remaining estates were considered as non-viable for privatization of management). The 450 estates were divided into 22 units (parcels) instead of 11 as recommended by the task force and these units were advertised for private management. All other recommendations of the task force were implemented without modification.

Although initially the government was undecided whether to call foreign companies for management, later it was decided that only local companies would be invited for management contracts. In June 1992, the following 22 companies were selected for managing the 450 estates of 189,500 hectares: Finlays (11,000 hectares), Lankem (10,000 hectares), Forbes Ceylon (9,000 hectares), Pickle Packers (11,000 hectares), Metropolitan Agencies (13,000 hectares), Magpek (10,000 hectares), Forbes and Walker (7,500 hectares), Mackwoods (9,500 hectares), Hayleys (6,000 hectares), Dipped Products (10,000 hectares), Ceyexe (6,000 hectares), E.B. Creasy (9,000 hectares), CIC (8,000 hectares), Carsons (8,000 hectares), Stassen (5,500 hectares), Richard Pieris & Co. (8,000 hectares), Free Lanka Trading Company (10,000 hectares), George Steuarts (11,000 hectares), BC Computers (10,000 hectares), Aitken Spence (5,000 hectares), S.A. De Silva (6,000 hectares), and Lake House Printers (6,000 hectares).

The government is of the view that only the private sector can deliver an aggressive marketing policy to the plantations sector. Moreover, with the increase in importance of smallholder production and value-added tea, both of which are mainly controlled by the private sector, the government views the management privatization of the plantation sector as an essential prerequisite for its future growth and development.

2.3 Privatization of the Services: Bus Transport Sector

The Ceylon Transport Board (CTB) was established in 1957, absorbing 76 private bus companies then operating in the country. The CTB was decentralized by Act No. 19 of 1978 which set up nine Regional Boards to operate buses, and the Sri Lanka Central Transport Board to coordinate supplies, inter-regional services, heavy repairs, and other related matters. In 1979, following the liberalization of the economy, the government permitted private buses to enter the market and compete with the state-owned bus transport sector. However, the government did not change the management of the CTB but continued to maintain rigid public sector laws and controlled fares. The competition from the private sector combined with the poor public sector management led to a steady deterioration in its services.[11] The number of roadworthy buses reduced from around 7,000 to 4,000, mostly due to lack of spare parts, etc. This created a substantial redundancy among the CTB's 52,000 employees.

With the passage of time, the CTB became a highly unprofitable organization and the government had to subsidise it heavily for its survival. In 1989, there were about 4,000 CTB buses compared with 16,000 private buses operating in the country. The Treasury was subsidizing the CTB to the tune of Rs. 500-600 million annually - nearly 1.4 per cent of GDP. In 1989, it was estimated that about 14,000 new buses were required to cater to the growing demand. This would cost approximately Rs. 14 billion and the government was simply not in a position to make such a large investment on buses. To reverse this deterioration and to improve the quality of the bus services, the Cabinet endorsed a plan in late-1989 to:

(1) totally deregulate bus fares,

(2) introduce a voluntary retirement scheme for the surplus staff, followed by a compulsory retirement scheme (the retrenchment target was 20,000),

(3) discontinued the operations of the CTB,

(4) transfer the assets of the board to the remaining employees so as to create new companies centred around existing depots, and

(5) set up a National Transport Commission (NTC) to implement a national policy on road passenger transport (with only passive powers to restrict operations of new or additional services).

With these measures, privatization of CTB buses was initiated in late-December 1990. The privatization was based on a 'one-off subsidy'. All debts incurred by the CTB over the last several years were (and will be) settled by the government. These debts include unpaid provident fund shortfall or arrears as well as several bills to suppliers like the Petroleum Corporation, the Tyre Corporation, and the vehicle licensing authority (see Ceylon Daily News [CDN], 29.12.1990). The policy was to give 50 per cent of the shares of depots free of charge to workers while at the same time putting into operation a voluntary retirement scheme to remove excess labour. The remaining 50 per cent was to be held in trust by a consortium of banks for a period of 3-5 years at the end of which it would be sold to the employees.[12] The idea was to privatize 75-80 bus depots and convert them into companies. The privatization of depots was completed (except in the North and East) by the Ministry of Transport in early-September 1991. 31,000 workers and their families were expected to benefit from this programme and to receive assets worth Rs. 800 million.

The question could be posed whether all this preparatory work together with the institutional and legal measures for the industrial, plantation, and transport sectors paved the way for a smooth and sustainable privatization programme. Table 6 shows the industrial enterprises that were privatized by 31 September 1992 while Table 7 shows those industrial enterprises that will be privatized after 1992. It is in the context of the preparatory work and the current progress that we have to look at the problems and achievements of privatization in Sri Lanka.

3. Problems of Privatization

Sri Lanka has faced many problems in its privatization attempts. In very broad terms these problems are as follows:

(i) Problems encountered in the planning process,

(ii) Problems of institutional leadership,

(iii) Problems of transparency,

(iv) Constraints in the capital market,

(v) Managerial problems,

(vi) Problems of the labour market,

(vii) Problems of the regulatory framework and the competitive environment.

Table 6: Privatization Pattern in the Industrial Sector (Progress upto 31 September 1992).

	Name of PE	Sale of Majority Shareholding		Public Share Issue		Total
		Date	Amount (Rs. Mn.)	Date	(Rs. Mn.)	Realised (Rs. Mn.)
1.	United Motors Ltd.	Dec. '89	5.00	Dec. '89	90.00	95.00
2.	Thulhiriya Textile Mills Ltd.	Feb. '90	200.00	-	-	200.00
3.	Pugoda Textile Mills Ltd.	June. '90	60.00	June. '91	30.00	90.00
		Sept. '92	1.06			1.06
4.	Lanka Oxygen Ltd.	Nov. '90	60.00	Apr. '91	27.00	87.00
		Apr. '92	0.62	-	-	0.62
5.	Dankotuwa Porcelain Ltd.	Dec. '90	102.00	-	-	102.00
6.	Hotel de Buhari	Dec. '90	6.30	-	-	6.30
7.	Ceylon Leather Products Ltd.	July '91	40.00	-	-	40.00
8.	Hunas Falls Hotel	Aug. '91	12.00	-	-	12.00
9.	Lanka-Loha Hardware Ltd.	Oct. '91	30.00	-	-	30.00
10.	Lanka Milk Foods Ltd. (OPC)	Oct. '91	527.80 227.53	- -	- -	527.80 227.53
11.	Asian Hotels Corporation Ltd.	Jan. '92 (OPC)	81.22	-	-	81.22
12.	Ceylon Oils & Fats Ltd.	Jan. '92	81.22	-	-	81.22
13.	Nylon 6 Plant (Lanka Synthetic Fibre Co. Ltd.)	Feb. '92	227.70	-	-	227.70
14.	Kelani Tyres Ltd.	Feb. '92	400.00	-	-	400.00
15.	Veyangoda Textile Mills Ltd.	Mar. '92	270.00	-	-	270.00
16.	Distilleries Company of Sri Lanka Ltd.	Mar. '92	1,053,00	June '92	495.00	1,548.00
17.	Mahaweli Marine Cement Co. Ltd.	June '92	32.00	-	-	32.00
18.	Bogala Graphite Lanka Ltd.	-	-	Feb. '92	111.84	111.84
19.	Lanka Ceramic Ltd.	June '92	112.50	-	-	112.50
20.	Sathosa Motors Ltd.	August '92	49.50	-	-	49.50
21.	Kahatagaha Graphite Lanka Ltd.	Sept. '92	16.50	-	-	16.50
	TOTAL		4,396.24	-	753.84	5,150.08

Source: Ministry of Policy Planning and Implementation.

Table 7: PUBLIC ENTERPRISES TO BE PRIVATIZED

1. Mattegama Textile Mills
2. Acland Insurance Service Ltd.
3. Ceylon Manufacturers & Merchants Ltd.
4. Heavyquip Ltd. & CCC (Engineering) Ltd.
5. CCC (Teas) Ltd.
6. CCC (Fertiliser) Ltd.
7. MILCO Ltd.
8. Sathosa Computers Co.
9. Sathosa Printers Co.
10. Trans Asia Hotels Ltd.
11. Ceylon Fertilizer Corporation
    - (a) Ceylon Fertilizer Co. Ltd.
    - (b) Wayamba Agro Fertilizer Co. Ltd.
    - (c) Rajarata Agro Fertilizer Co. Ltd.
    - (e) Ruhunu Agro Fertilizer Co. Ltd.
12. State Trading (Tractor) Corporation
13. Building Materials Corp.
14. Building Materials Manufacturing Corp.
15. Ceylon Steel Corporation
16. Sri Lanka Cement Corp.
    - (a) Ruhunu Cement Works
    - (b) Kankesanturai Cement Works
    - (c) Puttalam Cement Works

17. State Trading (Textile) Corp. (Salu Sala)
18. Lubricant Plant of Ceylon Petroleum Corp.
19. Sevanagala Sugar Co. Ltd.
20. Hingurana Sugar Co. Ltd.
21. Kantale Sugar Co. Ltd.
22. Sri Lanka State Trading (General) Corp.
23. Consolidated Exports & Trading Co. Ltd.
24. Lanka Canneries Ltd.
25. Ceylon Shipping Lines Ltd.
26. Cey-Nor Foundation Ltd.
27. Janatha Fertilizer Enterprises Ltd.
28. Sri Lanka Cashew Corporation
29. B.C.C. Lanka Ltd.
30. Sri Lanka (Cey.) Rubber Manufacturing Co. Ltd.
31. Tea Smallholder Factories Ltd.
32. People's Merchant Bank Ltd.
33. Lanka Machine Leasers Ltd.
34. Hotel Services (Ceylon) Ltd.
35. Colombo International School
36. Colombo Gas Co. Ltd.
37. Ceylon Plywood Corporation
38. Lanka Porcelain Ltd.
39. Bogala Graphite Lanka Ltd.
40. Lanka Phosphate Ltd.

Source: Ministry of Policy Planning and Implementation.

These problems will be discussed in the context of the industrial sector's progress because privatization has taken place mostly in this sector. The above-mentioned problems are also applicable to the plantation and bus transport sectors, but the degree of applicability will vary. Problems that are specific to the plantation and the transport sectors are dealt with separately in this section.

3.1 Privatization of Industries: Problems

3.1.1 Problems Encountered in the Planning Process

Sri Lanka was in deep turmoil at the commencement of the privatization programme in 1989. Reserves were adequate only for one week of imports in June 1989 and the government was desperate for credit. On the one hand, there was the IMF's Structural Adjustment Facility (SAF), and on the other, there was the World Bank's Economic Restructuring Credit (ERC). The receipt of this credit from both these institutions was conditional upon privatization of certain enterprises. Thus in 1989/90 privatization was pushed through without sufficient time taken to study the nature of the Sri Lankan capital market and how much it was able to absorb. It was a trial-and-error type of implementation. Jayawardena (1989) states that the government committed all the mistakes that he had warned against before the privatization of United Motors (UM) - the first industry that was privatized. There is some truth in this statement.

When UM was ready for public share sale in July 1989, the country was at the peak of the JVP crisis, yet the government went ahead with the sale. Only Rs. 33 million worth of shares was bought by the public (out of which 75 per cent was bought by the two state-owned insurance companies). Thus the underwriters were left with Rs. 57 million worth of UM shares. Clearly, the privatization process did not live up to expectations at the start. What went wrong? Firstly, it was a case of bad timing in regard to share issues. Secondly, there was insufficient understanding of the capital market and the marketing efforts were poor. Let us examine the latter. According to the government, the poor sale of shares resulted from "the tight money policy adopted from the middle of 1989. The requirement of a 100 per cent margin on Letters of Credit opened by businessmen, though operative for only a short period, militated against investment by the business community, while the rise in interest rate to around 18 per cent was a disincentive to investment in shares which would, at best, yield a lower post-tax rate" (MPPI, 1990, p. 52). Also, marketing was done by the branch networks of state banks without giving the banks any financial incentives to market the offer to their clients. From a practical side all these problems were inevitable given the desperate situation into which the government had fallen into.

As stated in Section 2, the privatization programme is handled by various institutions and the Treasury. During the weekly meetings of the Secretaries' Committee there is co-ordination between the Treasury officials and others involved in the privatization process. However, practical shortcomings do exist. The link appears to be weak between macro-level privatization efforts and the timing of broader policy initiatives such as taxation, regulation, legislation, and the development of competition policy. There are also conflicts with the government's short-run objectives and the privatization programme. The government has many short-term goals such as increasing employment, increasing revenue, etc. Clearly there are trade-offs between privatization and these objectives and the priorities of the state in achieving these objectives are unclear. Thus a limited and sometimes conflicting understanding of these priorities prevails between government officials and the business community. This has adversely affected coherence in programme planning and management.

There is also serious inconsistency in state policy towards privatization. For example, at one time the Independent Television Network (ITN) was a candidate for privatization. The media gave much publicity when bidding took place for its privatization. Suddenly, in late February 1992, the Cabinet decided not to privatize ITN. Likewise, in regard to plantation privatization, at one time it was said that foreign management would be permitted. Consequently, many of the old agency houses in the U.K. and some leading South Indian tea companies showed an interest in taking over the management. Here again, there was a sudden reversal in policy and the government announced in mid-February 1992 that only local management will be permitted. These issues bring us to the question of institutional leadership in coordinating the privatization programme.

3.1.2 Problems of Institutional Leadership

In the early years of partial privatization (1987-89) there was no guiding institutional leadership. For example, Jayawardena (1988) points out that the State Distilleries Corporation became a candidate for privatization as a result of a trivial dispute between the then Minister of Finance and the then Minister of Industries (*op.cit.* pp. 210-211). The Corporation was not chosen on the basis of profitability or on the basis of absorbing too much state subsidies.

As stated in Section 2, although there was a rapid change in the institutional structure after 1989 for managing the PE privatization process, there is yet no unambiguous lead institution responsible for devising and managing a comprehensive privatization process jointly with the Ministry of Finance and the line agencies which supervised individual PEs. It is because of this factor that there is no harmony between macro-level policies and micro-level restructuring. Moreover, as a result of this lack of institutional leadership, it appears that favourites of politicians have been able to play a major role in the privatization process. In other words, lack of institutional leadership, *inter alia,* has led to lack of transparency.

3.1.3 Problems of Transparency

Although privatization was pursued with vigour in 1990 and 1991, in early 1992 it faced a serious setback. That is, lack of transparency in the implementation of the programme led to rumours of corruption and favouritism. This in turn led to the formation of a powerful constituency against the programme. And above all, the workers became suspicious of the privatization motives.

Even during the early phase of partial privatization in the pre-1989 era, the problem of favouritism prevailed to a great extent. For instance, Karunatilake (1986) writes: "The government has not publicly advertised that enterprises are being handed over to the private sector and has not called for competitive bids or quotations. There has been a considerable amount of secrecy about privatization and the procedures that have been adopted. While some ventures that are being privatized have been advertised, about others no information has been given. Private arrangements seem to have been made to hand over enterprises to particular companies and individuals who are close to the administration. Some of these are now being operated by close relatives of politicians." (p. 112). The tile factories (Vijaya, Noorani, and Shaw), which were privatized in 1984, provide evidence to what is stated above. It is alleged that these factories have not paid the balance instalment of purchase price during the stipulated period. In fact, only the advance payment has been made up to date.

Let us examine some specific cases of favouritism. It is alleged that the real value of the Thulhiriya Mills was around US $ 100 million, whereas it was sold at only US $ 7 million to Kabool Lanka Ltd. (CTMA, 1991). The Ceylon Textile Manufacturers' Association has alleged that unduly favoured domestic market access was accorded to the textile products of Kabool Lanka Ltd., and as a result the government "loses Rs. 106 million per annum by way of import duties" (CTMA, 1991, p. 1). In regard to Ceylon Oxygen, it is alleged that the land belonging to it was valued at Rs. 68 million but that it was sold to the Norwegian company at Rs. 17 million (Ravaya, 4.8.1991).

The case of the Oils and Fats Corporation - which produces animal feed among other products - is worth examining because there are many factors in regard to it which became controversial The Finance Ministry awarded 60 per cent shares of the Corporation to - Prima Ltd. (together with Free Lanka Trading Company) which was reportedly the only bidder through tender procedure. It is alleged that the Corporation was sold at a low value (Ravaya, 26.1.1992). Prima Ltd., already had market power in the animal feed business and it specialized in flour production. The country's animal feed requirement is estimated to be around 12,000 tons per annum of which 50 per cent is met by the Corporation and the balance by Prima Ltd.

The tender condition was that the Corporation should be bought as a going concern, but it is alleged that Prima's intention was to curtail production to gain monopoly power in the livestock market while turning the Corporation into a processing unit for other livestock related products. Soon after the decision was made to sell the Corporation, the trade union, Jathika Sevaka Sangamaya, took legal action to prevent a private monopoly emerging in the livestock industry. The sale of the Corporation was thus halted for four months. The matter was investigated by the Fair Trading Commission and after much controversy it was handed back to a subsidiary of Prima Ltd. called Prigo Agro Industries of Singapore.[14]

In regard to the privatization of the Nylon 6 Plant and the Tyre Corporation, the government did not fully discuss the terms with the workers. In fact, the workers of the Nylon 6 Plant got to know about the divestiture only a day before the transfer. Whereas in the Tyre Corporation, the workers were not fully informed about the divestiture procedures and this led to a massive strike and thus a disruption of the Corporation's activities during the transfer of ownership.

Of course, the given market value of an enterprise can be subject to many different estimations. Until recently, Sri Lankan valuers were mostly trained in valuing land and buildings. They were not very experienced in valuing business enterprises. Thus the valuation department had to get the services of an internationally reputed valuer to train its valuers. It is believed that standards in relation to valuations of enterprises improved significantly over the 1990-91 period. However, the valuation by the chief valuer need not be 100 per cent accurate. The value one can gain for a corporation through tender or open bidding can sometimes be lower or higher than the valuation by the chief valuer. The point made here is that the allegations about low values may not have become an issue if the privatization was done openly with full information provided to the public. Sadly, this was not the case during the 1990-91 period. In mid-1992, the privatization procedures became more transparent, but not fully as would be necessary for successful privatization.

3.14 Constraints in the Capital Market

As well known, bulk of the shares of a large number of public enterprises has been sold to foreign companies. In the case of some PEs, however, the bulk of the shares was sold to domestic entrepreneurs (e.g. Buhari Hotel, Leather Corporation, Tyre Corporation, Hunas Falls, etc.). The remaining portion of the shares was successfully absorbed by the domestic capital market. Now the question could be posed whether the domestic capital market will be able to absorb whatever portion of shares that remain of the PEs that are going to be privatized.[15]

Privatization and the development of the capital market is analogous to the "chicken and egg" situation. That is, on the one hand, a developed capital market is required for the smooth functioning of the privatization programme and, on the other, privatization is necessary in order to stimulate activities in the capital market and thereby contribute to its development. The privatization programme in Sri Lanka has focused on promoting wider share ownership. The Colombo Stock Exchange (CSE) is a vital component in this process. Thus the state of the capital market can be gauged by recent developments in the CSE.

Until about mid-1990, the CSE remained inactive. For example, in 1989, market capitalization was 7.7 per cent of GDP and the annual turnover was 1-2 per cent of capitalization.

This was due, *inter alia*, to the uncertain political climate that prevailed in the country during 1988/89, and to a general lack of knowledge of share market operations, with most people preferring to invest in banks rather than in equities. By mid-1991, however, most of these problems were overcome. Political stability came with the crushing of the JVP in late 1989; and the efforts by the Securities and Exchange Commission in early-1991 to educate the public on share-market activities showed favourable results. For example in 1988, the average number of share-holders in a public company was around 600. By mid-1991 the situation had changed dramatically. Pugoda Textile had around 33,000 share-holders, while Ceylon Oxygen had around 13,000 share-holders.

The statistics for share-market transactions that are given in Table 8 provide convincing evidence of the growth of the share market in recent times. The annual turnover of the CSE increased from Rs. 0.2 billion in 1989 to Rs. 1.5 billion in 1990 and to Rs. 4.9 billion, in 1991. (In the first half of 1991, the total turnover was Rs. 1.6 billion, of which Rs. 1.2 billion constituted foreign investment in listed shares.) Market capitalization increased from Rs. 36.9 billion in 1990 to Rs. 85.1 billion 1991 while the All Share Index increased from 384.39 in 1990 to 837.79 in 1991.

The shares of two public companies - Ceylon Oxygen and Pugoda Textiles that were privatized in April 1991 and June 1991, respectively, were oversubscribed. Some people are of the view that because of such oversubscription there is a large reservoir of money to be tapped from the domestic capital market. However, one cannot become complacent about the domestic capital market by the oversubscription of shares because, firstly, the oversubscription was only for a part of the companies' value - 30 per cent in both cases.

Table 8: Summarised Trading Statistics of the CSE

	1986	1987	1988	1989	1990	1991
Annual Turnover(Rs. bn.)	0.140	0.336	0.380	0.226	1.563	4.944
Shares Traded (no.)	6,086,694	17,323,408	17,204,532	12,215,762	41,692,180	68,654,312
Companies Traded (no.)	132	151	154	160	164	na
Market Capitalization (Rs. bn.)	11.8	18.5	15.7	17.1	36.9	85.1
All Share Price Index						
(Base 1985 = 100)	141.38	217.97	172.44	179.49	384.39	837.79

Note =: na-not available

Source: CSE - AR, 1990, and Asian Wall Street Journal, 5 February 1992.

Secondly, it is vital to note that this is only the beginning of a programme and as always, at the start of a new programme there is much enthusiasm. Thirdly, most people who relied on Finance Companies sometime ago have lost confidence in them, and have begun to invest in shares. Thus, the oversubscription does not reflect a high absorption capacity of the local capital market. There is a ceiling as regard to domestic savings. It is in this context, and in the context of possible reduction in foreign capital inflows (owing to the recession in the West and the new economic developments in the Soviet Bloc), that the CSE - though a micro entity in the capital market - has to be further developed to sustain the contemplated privatization programme.

It is through the active functioning of the CSE that wide share-ownership can be achieved. In 1989, the CSE was insignificant as a source of financing corporate investment. Excluding the amounts taken by the government-owned institutions and underwriters, less than US $ 10 million was raised from the public during the 1987-89 period, while the two development banks (NDB and DFCC) were able to lend credit amounting to US $ 70 million. Further, in 1989, most observers estimated the per issue maximum at between Rs. 50 - 100 million and a total of Rs. 300 million over a two-year period. However, the scenario changed dramatically after 1990 with the improvement of the security situation. For example, the Asian Hotels Corporation managed to raise Rs. 600 million from the CSE in a day (December 1991) while the Distilleries Corporation was able to raise Rs. 1.05 billion from the CSE in a day (February 1992). This shows that the capital market has developed substantially over the 1989-91 period.

There are 40 industrial enterprises for privatization during 1993 (Table 7). The combined net asset value of all these is very large. Given the fact that there will be regular private-sector issues in the CSE, the question has been posed whether the privatization programme will exert an excessive demand on the capital market. If some foreign savings can be mobilized for the industrial privatization process this may not be the case. If not, the capital market has to be developed further to sustain the privatization programme.[16] To what extent the measures to establish venture capital funds and unit trusts will contribute to capital market development remains to be seen.

In regard to capital market development, taxation policy is an important issue. New tax measures outlined in Section 2 may have stimulated share market activities in 1991. However, in the pre-August 1992 period controversy prevailed in regard to the capital gains tax. The capital gains tax was imposed for quoted share sales within one year because, in its absence, investors were encouraged to engage in quick buying and selling of very large investments. Such activity defeated the purpose of the CSE of raising long-term investment. It was argued that the Sri Lankan capital market was in its infancy and "quick-buck" transactions of very large sums should be prevented as far as possible for the healthy development of the stock exchange. On these grounds, the capital gains tax was seen to be useful.

Leading proponents of private sector-led development, however, argued that the capital gains tax should be totally abolished. For example, CSE-AR (1990) stated that: - "the argument for this tax policy is that foreigners will encash on rising prices, realize a quick capital profit and repatriate the sale proceeds to the detriment of the Sri Lankan economy. What is important to note here is that the rising prices themselves are attributable to current foreign capital inflows so that repatriation of capital gains, along with sale proceeds realized, can then be met from accruing capital inflows without any detriment to the economy. Indeed, if capital gains were exempted from a time-bound tax, it would have contributed significantly to the buoyancy of the capital market. Also, it would have attracted more investment in listed shares from a wider section of small investors" (CSE-AR, 1990, pp. 6-7).

After weighing the pros and cons, the Taxation Commission Report argued that exemption of capital gains on transaction of quoted shares will be justified as a means to develop the capital market, by helping to mobilize private savings. The Report recommended the "tax exemption of capital gains on sales of quoted shares for a strictly limited period of two years from the date of enactment of the reform legislation" (p. 144). This period was considered to be adequate to provide necessary incentives to develop the capital market. On this basis the capital gains tax was removed in late August 1992. Its impact is yet to be seen.

3.1.5 Managerial Problems

Although Sri Lanka has very high basic needs indicators, it does not by any means imply that the country also possesses the required industrial skills. In fact, there is a serious lack of management and entrepreneurial training institutions in the country and this is a disturbing factor in the context of the future management of privatized institutions. Some light is shed on this issue in ADB (1989) and it is said: "The facility to upgrade skills is far from adequate. Information in respect to future demand for different skills and occupations is not available for guidance of training authorities. The facility for technical training is grossly inadequate both in terms of output and occupational focus" (p. 23).

Private sector taxation policies are also posing a threat to the smooth functioning of the privatization programme from the viewpoint of efficient management. Policy-makers have a tendency to compare private sector salaries with those of the state sector. Consequently, high taxation of private-sector personnel is encouraged to lessen the gap between the private and the state-sector salaries. Many leading authorities in the Sri Lankan private sector have identified this policy as one of the major causes of the brain-drain in the country. Brain drain has in fact become a serious problem in the context of privatization. The Chairman of the Ceylon Chamber of Commerce, for instance, states: "While policy planners in Sri Lanka seemed to take the availability of human resources for granted, the country has suffered a brain-drain of alarming proportions involving managers, accountants, engineers, scientists, and hoteliers" (CCCNL, 1991, p.1). Likewise, the Chairman of Hayleys Ltd., says: "...at the moment the odds are heavily weighted against us as the brain-drain far exceeds the pace at which we can train people" (Hayleys Ltd., 1991, p.23).

3.1.6 Problems of the Labour Market

As stated in Section 2, PEs had 15-20 per cent of the labour force in the country employed in them. Because privatization is associated with labour retrenchment, it often meets with much resistance from Trade Unions. After the July 1980 strike, the power of trade unions has been significantly reduced, but resistance from unions still exists in some form or another. To take one instance, the efforts towards privatization of the Telecommunications Department in the late-1980s was hampered by labour-union agitation (Jayawardena, 1988). As mentioned in Section 2, certain offers were made by the government to combat such resistance.. They are examined below.

The offer of 10 per cent of shares free of charge did assist the state to sell the privatization package to the workers. The government claims that the employees' status will change from that of employee only to employee and part-owner and that their remuneration will change from only a salary to both salary and dividends. But there was nothing to prevent these worker shares from falling below 10 per cent in the short-run. It is said that most employees, due to economic hardships, sell their shares in the short-run when the share price goes up (see, CDN, 18.10.1991, p.1 and CDN, 19.10.1991, Editorial). Thus it can be construed that with time the share holding ratios may change, say, in the case of Ceylon Oxygen to 60: 37: 3 from the original ratio of 60: 30: 10, and consequently some employees might cease to be share holders. Thus, whether the 10 per cent sweetener will entice the employees to have a stake in the enterprise - as claimed by the proponents of this share issue - is quite doubtful.

The voluntary retirement scheme is also not free of problems. The major problem is that the government thereby lost the services of talented and experienced people. (Evidence for this phenomenon could be obtained from the CTB and the former Leather Corporation). Moreover, the voluntary retirement package may not succeed in removing all the redundant labour (in the case of the CTB the target was 20,000 but only 12,000 retired under the package); and compulsory retrenchment may consequently be necessary to remove the redundant labour. Though on paper there is no compulsory retrenchment, there may have been some instances in the early years of privatization of this happening. However, in May 1992, H.E the President gave an assurance that compusary retrenchment would not take place as a result of privatization.

Voluntary retrenchment has taken place under different packages; viz. under the "Bulumulla Formula (revised)", "Cyril Gamage Formula" and the "Leather Corporation Formula". Then again retrenchment has taken place in a totally different style in the Building Materials Corporation. Some of these packages seem more attractive than others. This has created confusion and consequently generated an intense distrust of privatization proposals among the workers, who appear to be mounting powerful resistance against privatization. Cases in mind are the contemplated privatization of the two state commercial banks and the railway system, and their subsequent reversals.

If retrenched workers are immediately absorbed by another sector, labour union resistance may not become a major problem. But in Sri Lanka, the labour absorptive capacity of the manufacturing sector - the key determinants of employment in the medium-and long-run - is low (Kelegama and Wignaraja, 1992) and thus retrenchment associated with privatization has become a problem. It is believed that, by the beginning of 1992, there were around 50,000 laid-off workers as a result of the privatization programme.[17] Some of them may have found alternative employment but some may remain permanently unemployed or retired.

Once a public corporation is privatized, one of the major impediments to its efficient management comes from the existing labour laws of Sri Lanka. There are far too many labour laws in the country: 42 different Acts. Private entrepreneurs claim that labour laws are not only contained in statutes, but also in thousands of decisions made by various courts which have jurisdiction in labour matters. As a result, it has been found difficult to determine which of the many labour laws would apply to the various decisions that have to be taken with regard to the management of labour.

One of the biggest hindrances to private management comes from the Termination of Employment of Workmen Act. A provision of this Act requires that an employer with fifteen or more workmen, who wishes to terminate the services of an employee with one or more years of service on non-disciplinary grounds, should obtain the written consent of the employee or the approval of the Commissioner of Labour. As it is unrealistic to expect the consent of the employee, the employer has to obtain the approval of the Commissioner of Labour. This provision results in an inability to take speedy action in adjusting the workforce size when restructuring is required, and it also unnecessarily involves a third party, thus adding an element of protracted uncertainty. It also increases costs for the companies due to the necessity to pay the employee pending the Labour Commissioner's verdict.

In the case of United Motors and Ceylon Oxygen there was no retrenchment of labour before privatization. The new management decided to come to an agreement with the government to absorb the excess labour, so that it could make some arrangement to remove the redundant employees after the take-over. After divestiture, 100 out of the 600-strong labour force of Ceylon Oxygen was retrenched with a compensation package. In this case the private management avoided the requirements of the Termination Act simply by coming to an agreement with the redundant workers. However, not all privatized enterprises will be able to come to this type of agreement with their workers.

Besides the Termination Act, the large number of public holidays acts as an impediment to the progress of the newly privatized corporations. The Employers' Federation of Ceylon states: "...it means at least 160 to 170 non-working days in the year. This means on an average we work approximately on every other day of the year. In the case of many employees who are absent over and above their leave entitlement which... is 'encouraged' by our industrial relations system, they do not work even for half the year." Complaints have also been made by the private sector entrepreneurs about the Maternity Act where women are given long holidays before child birth.[18] Clearly, there are many problems in the labour market which hinder privatization in particular and private sector development, in general.

3.1.7 Problems of the Regulatory Framework and Competition Policy

The South Commission Report (1990) states: "In many cases, privatization would turn a public monopoly into a private one, and the need to avoid a private monopoly may have been the reason why a public enterprise was set up in the first place" (p. 127). In fact, a public monopoly becoming a private monopoly is a situation that one has to avoid as far as possible when contemplating privatization. Private monopolies, as is well known, in the absence of a regulatory framework can engage in consumer and labour exploitation and this could lead to social problems.

It is often said that a private monopoly cannot exercise excessive market power and last for a long period in a liberalized regime because of import competition. This argument however needs to be qualified. If import tariffs are very low, there can be serious import competition that can threaten the monopoly power. But in Sri Lanka, the lowest tariff band is 10 per cent and this level is certainly not low enough for effective import competition with a monopoly. It is unlikely that the government will reduce tariffs below 10 per cent because (1) it will create revenue problems for the government, and (2) it will go against the promotion of infant industries. Two examples would suffice to illustrate private monopoly power under the existing tariff structure: (i) The privatized Ceylon Oxygen company still retains its monopoly on the production of oxygen and nitrogen, (ii) Ceylon Tobacco Company has a total monopoly in producing cigarette and pre-empts any new entrant to the local cigarettes market.

Given that there are problems in regard to tariff reduction, it is prudent to focus on other factors that lead to private monopoly power. Legal monopoly power and *de facto* monopoly power of public corporations are factors that need attention in this context (see, for instance, Fraser, 1988). Certain public corporations have a monopoly power due to legislative enactments. The example of the state-owned Lanka Ceramics Ltd., would be worthwhile to illustrate this point. The raw materials division of the Lanka Ceramics Ltd. dominates the supply and processing of raw materials as a result of the legal monopoly granted to it to mine the input materials.[19] Private small and medium enterprises (SMEs) have the potential to be efficient ceramics producers, yet there are only about a dozen SME producers of ceramic figurines. Difficulties in gaining access to materials hinder the business efforts of SMEs despite the abundant local availability of input material such as quartz, feldspar, and kaolin. These difficulties arise from the legal monopoly granted to the Lanka Ceramics Ltd. to mine these raw materials.

In the absence of alternative sources of raw materials (imports being non-viable owing to low value-to-weight ratios), the Lanka Ceramics Ltd. is free to decide which enterprises would have access to inputs and at what price.[20] Obviously, Lanka Ceramics has favoured its own downstream operations, creating problems for SMEs in having reliable access to inputs. Lanka Ceramics Ltd., may become a candidate for privatization in due course, and in such an event the dismantling of the legal monopoly power will ensure future competition in the ceramics market. However, it can create new problems, such as, illicit mining by the private sector, low value added production by the private sector, etc., and these new problems need to be effectively addressed. It is said that such problems will be addressed by the Mining and Minerals Law that was enacted in June 1992. How effective the law would be in ensuring the best use of resources while promoting competition remains to be seen.

In certain enterprises, however, even after the removal of legal monopoly power there tend to exist a *de facto* monopoly power. The tariff structure is not responsible for such market power. The Sri Lankan market being small there are no economies of scale for an entrepreneur to undersell, for instance, Oxygen, in an environment where it is produced by a reputable company such as Noske Hydro (the corporate investor of Ceylon Oxygen). Consequently, a company such as Ceylon Oxygen has *de facto* monopoly power in producing oxygen. Such cases have to be prudently studied before privatization.[21]

In Britain, for example, companies with *de facto* monopoly power such as, British Gas, were privatized with accompanying policies to set up regulatory bodies to control the abuse of market power (see Vickers and Yarrow, 1991). Such policy measures to regulate the market have not been considered in Sri Lanka.

As stated in Section 1, a competitive environment is necessary for a successful privatization programme. The measures that were taken to ensure competition were enumerated in Section 2. A recent study, however, shows that the Fair Trading Commission has not been very effective in ensuring a competitive environment (Gray, 1991). The study states: "...the Fair Trading Commission's present status leads it to be regarded in both government and the private sector as something of a bureaucratic backwater. It does not even have direct access to the Minister of Trade, dealing instead through a Minister of State in that Ministry" (p. 16).

As stated, a stable macro-economic environment is essential for privatization, in particular, to generate effective competition. In 1990, Sri Lanka failed to achieve macro-economic stability and inflation reached over 20 per cent. Measures that were taken to combat inflation (tight credit policies, etc.) often conflicted with promoting private sector development, in general, and privatization, in particular (cf. Section 3.1.1).

3.2 Problems of Privatization of the Plantations

The main source of resistance to the privatization process comes from the labour unions.[22] Since the mid-1980s, the plantation sector labour market has changed sharply as a result of large scale repatriation of "high caste" workers. The hierarchical system that prevailed in the labour market was reduced significantly, and consequently there was a great deal of radicalization. Thus, the unions were able to make inroads on the labour market with ease. The CWC and DWC are two powerful unions that control the labour force. There were costly agreements with unions, which transformed daily-paid workers into *de facto* monthly-paid ones thus preventing the free movement of labour from one estate to the other. Moreover, the wage increases bore no relationship to productivity increases or to the level of tea/rubber prices in the world market. All this was possible due to the power of the unions. Although some big unions such as the CWC openly supported the privatization of management, some other unions were against it because privatization meant decentralized management, which in turn was seen as a threat to the bargaining power of the unions.

It appears that the companies which took over the management of the estates have not discussed the new terms of agreement comprehensively with the labour unions. For example, these companies have imposed new productivity norms, such as collection targets in tapping and plucking, as well as clearing and weeding performance targets without prior discussion with the unions. This lapse on the part of the companies has led to protest and strike action. A recent strike organised by the Joint Plantation Trade Union Committee protested on the following issues, which, however, went unheeded by the companies concerned.

1. setting targets for weeding and plucking;

2. half hour increase from the normal working hours;

3. forcing the labourers to repair and maintain their own line rooms; and

4. non-registration of children of estate workers into the plantation work force.

Since the privatization exercise in regard to the plantations concerns only the management, the private companies are unlikely to make large capital investments in pruning, replating, etc., unless they have a guarantee of a long-term contract. From the impressionistic evidence available there seems to be a reluctance on the part of the new companies to commit their finances to items of expenditure that yield returns beyond their five-year management contract. These issues are causing great concern to the policy-makers.

Although privatization may improve efficiency, etc., it may not guarantee that commensurate benefits will accrue to national development from the enhanced economic returns. Before nationalization in 1972, through Sterling Companies, Agency Houses and London Auctioneers much of the profits of the companies remained abroad instead of being used for national development. The abuses under this system were highlighted in the Report of the Commission on Agency Houses appointed by the then Minister of Finance, Dr. N.M. Perera. It is now said that some of the local private companies that have taken over the management of the privatized estates have established strong links with foreign companies that showed an interest in the plantation management when it was first announced that foreign companies would be permitted. Some of the companies acted as agency houses prior to the nationalization of estates in 1975. Thus there is a great possibility of history repeating itself under the supervision of foreign directors and auctioneers.

3.3 Problems of Privatization of Transport

Several problems have been encountered so far and the government is relying on the NTC to examine these problems. Firstly, the problem of uneconomic routes. Until recently these routes were served by the loss-making CTB. The NTC, with a package to compensate for the losses that will be encountered by the private sector in these routes, is planning to call for bids. Such a scheme was not considered in early 1991 and as a result, most people living in areas close to uneconomic routes were adversely affected. Secondly, there is a problem in accommodating season ticket holders, especially students. The NTC proposes to subsidize the issue of season tickets to enable the private buses also to accommodate them. At present, however, only 'peoplized' buses issue season tickets and since they are less in number compared to private buses it has caused inconvinence to daily commuters. Thirdly, there are problems with regard to discipline. Today, very few private buses issue tickets and collecting one's balance money is not always easy. Moreover, private buses do not run according to a time-table and bus services come to a virtual halt by late evening (CDN, 29.10.1991). For example, it is impossible at present to get a bus from Colombo-Fort to Bandaragama after 7.30 p.m. Such lack of commitment and discipline has created much inconvenience to the public. Monitoring and enforcing the law in this regard comes under the purview of Provincial Councils (PCs), and not under the NTC. Most often, PCs do not enforce the law because of vested interests. Thus political factors have once again invaded the new system. Fourthly, in the absence of a corporate investor in the peoplized buses, it is difficult to foresee an immediate modernization in the services.

It was ascertained, in 1990, that the then existing 16,000 private buses were owned by about 10,000 owners.[23] Thus a monopoly situation does not prevail in the private bus transport sector. But tendencies towards monopoly control can emerge. Today, around 23 buses belong to a company called Evergreen, and about 73 buses belong to a company called Greyline. There is a possibility that, with the importation of 14,000 new buses, there will be mergers and that a few groups could control the market, in particular, certain routes, and thereby determine the market price of road transport.

4. The Impact of Privatization

What are the major aims of the Sri Lankan privatization programme ? In the introduction, the objectives of the privatization programme were outlined. To recapitulate, they are: (i) to improve management, induce efficiency and thereby provide better consumer service; (ii) to induce technology transfer and modernization to increase productivity and growth, by encouraging foreign participation in the bulk of the shares; (iii) to relieve the state of the burden of subsidizing and keeping afloat inefficient public enterprises; and (iv) to promote wide-spread share-ownership that will eventually make it difficult for future governments to reverse privatization. Has Sri Lanka been able to achieve these goals from the recent experience[24]?

Given the short experience with privatization, it is yet too premature to make conclusive statements about the positive and negative achievements of the Sri Lankan programme. However, impressionistic evidence and some published and unpublished data are available to make some tentative observations. As can be seen, the first two objectives of the privatization programme are somewhat interrelated and thus can be considered together. In regard to them it appears that privatization has shown some positive results. A few case studies would be worthwhile to examine.

Pugoda Textiles Company, for instance, has invested Rs. 140 million in modernization, expansion, and a diversification programme after it was privatized. This amount is very significant compared with Rs. 150 million invested over the last ten years by Pugoda under public ownership, and under a technical know-how and managerial services agreement with Lakshmi Textiles, India. Moreover, among other innovations, a new rotary screen printing machine with twelve colours, costing Rs. 35 million, has been added. Profits too have increased from Rs. 863 million in 1990/91 to Rs. 925 million in 1991/92.

In United Motors, the turnover doubled from Rs. 219.6 million in 1989/90 to Rs. 443.2 million in 1990/91. The pre-tax profit increased by 15 per cent during these years and the company continues to fund its operations internally without resorting to any long-term bank borrowing. During 1990/91, the company concentrated on marketing, customer relations, productivity improvements, computerization, training of personnel and diversification among others. Ceylon Oxygen has also performed well. Compared with 1990, the company achieved 6 per cent growth in profit in 1991. The company invested Rs. 25 million in a carbon dioxide plant, which has made possible the manufacture of liquid and gaseous carbon dioxide as well as dry ice. The company has also embarked on a planned expansion programme for computerization and to increase productivity.

In the case of the Leather Corporation, production has increased by 50 per cent after privatization. The salaries of employees have also increased by 50 per cent. Moreover, some of the retrenched labourers from the corporation are now engaged in subcontracting activities to the company, and some others are similarly engaged for other leather enterprises such as Bata. Thus, in overall terms, it appears that modernization and growth have already taken place in some privatized corporations. But due to the small number of enterprises privatized so far, the overall economic impact may be insignificant.

In regard to the third objective, the appearance is negative in the short-run. Although privatization relieves the state of the fiscal burden of subsidizing inefficient public corporations in the long-run, there is no evidence that it relieves the general fiscal problems in the short-run. This is because, before actual privatization takes place, the state has to settle the accumulated liabilities of these public corporations, restructure debt, compensate displaced workers, etc. Sometimes the funds obtained by the sale of these corporations are inadequate to meet the abovementioned commitments.

The short-term costs that the state incurs during privatization has been lucidly described by Karunatilake (1986) when he states: "When the government hands over an undertaking to the private sector it has very often to compensate the workers who are being displaced from that enterprise and to meet those liabilities to credit institutions. Sometimes the total cost of these liabilities is higher than the subsidies annually provided to the Corporations in the preceding years. Very often the price paid by private entrepreneurs is insufficient to meet these claims because enterprises change hands at very low figures" (p. 111). The inadequate revenue gains come into direct conflict with the government's tax reduction policies. Thus there are conflicts in the government's short-run objective of gaining more revenue with the privatization programme.

Finally, in regard to the fourth objective, the attempts to promote wide-spread share ownership have not been very satisfactory. Sri Lanka's privatization programme with the ongoing private sector development programmes have contributed to increase the share-owning population in the country from about 9,000 in 1989 to about 50,000 by 1991. About 10,000 employees of 12 privatized enterprises became shareholders during the privatization process. In a country where the share-market was in the doldrums for many years, this increase could be considered progressive. However, the share-owning population appears to be concentrated in urban areas and the same group of investors seems to have been involved in purchasing shares of the recently privatized companies. The number of share application forms in the country was around 300,000 by the end of 1991 as against the 50,000 share-owners; a possible interpretation to this is that, on average, a person holds shares in six companies. Although the Securities and Exchange Commission took various measures to educate the public on the virtues of owning shares, these efforts seem to have had a limited impact in spreading ownership to a wide spectrum of the population.

5. Concluding Remarks

In this paper, the privatization experience in Sri Lanka in terms of the background work, implementation problems, and impact, have been highlighted. As stated, it is yet too premature to make conclusive statements about the achievements of the privatization programme, thus we shall explore some policy options to combat the problems that were highlighted.

How should the privatization programme be planned ? Firstly, Sri Lanka's privatization programme should be a case-by-case implementation rather than 'shock therapy' as has been advocated by Prof. Jeffrey Sachs in the case of Poland.[25] Careful planning should be done before privatizing enterprises that could pose a threat to national security. A regulatory framework should be formulated before privatizing certain enterprises. Secondly, in Sri Lanka, there is no explicit legal and policy framework which regulates the process of privatization except for the limited exercise of conversion. Thus, there is an urgent need to define critical elements in the divestiture process, such as, the valuation of enterprises, the competitive bidding process, criteria for evaluation of bids, etc. For example, in the British Honduras, the legislation in regard to these matters have been effectively formulated. What Sri Lanka requires is fairly comprehensive legislation for transferability and accountability, without it affecting the flexibility of the programme.

If enterprises are sold at low prices to favoured persons, without calling for or properly evaluating bids, it will undermine public confidence in the concept of privatization. Thus transparency is an essential requirement for a successful privatization programme. Open competitive bidding (with a reserve price being set), as was done with the Distilleries Company in February, 1992, can minimize the problems of such undervaluation and prevent favouritism. Moreover, the revenue to the state by open bidding will be higher. Alternatively, if the bidding is by tender, institutional leadership can prevent favouritism and minimize undervaluation.

A central body should be responsible and accountable to the public - ensuring that each enterprise to be privatized conforms to the regulatory reforms - and for supervising individual PE reform, planning and implementation. In the U.K., there is a central body - H.M. Treasury - that plans the privatization process. Given the dearth of technical manpower in Sri Lanka, a central body must necessarily maximize the use of such manpower. Such a body should also take the initiative to coordinate with skill and managerial developing institutions in the country regarding the new requirements of the privatization programme. While the central body engages in such activity, the state should give utmost priority to developing industrial capability (management, entrepreneurial, and technological) and to training programmes.

Several factors need to be taken into account in regard to the capital market. It has been estimated that the black-money market in Sri Lanka accounts for nearly Rs. 40 billion or nearly 25 per cent of GDP (Jayawardena, 1989). This represents an abundant source of private investment funds and new ways and means have to be devised to tap this money. New financial institutions such as, discount houses, acceptance houses, and building societies should be established to further stimulate the capital market.

From the investors' point of view too, certain factors need to be taken into consideration. Interest rates on medium- and long-term loans available from the state development finance banks (NDB, DFCC, etc.) is fixed at 19 per cent. Commercial banks lend long-and medium-term loans at around 20 to 24 per cent. Thus the minimum return from equity investment, which is more risk-prone than loan finance, should be set close to a minimum of 25 per cent depending on the spectrum of risks to which the investment is exposed (Jayawardena, 1989). Also, from the investors' point of view, the equity should have much higher returns than risk-free assets such as Treasury Bills, as the risk premium of equity shares is large because of: (i) scepticism about the quality of offering, as well as by uncertainties regarding the quality and timeliness of information on companies; and (ii) the high risk of illiquidity due to insignificant trading on the CSE.[26]

With these efforts to restore normal incentives for using equity, the government should continue to stimulate investment by making more attractive equity offerings than it has done in the past. New measures to promote and facilitate foreign investment should be devised to attract new equity issues. Foreign investors provide access to external savings pools which in turn supplement domestic saving, thus bringing in additional sources of funds for privatization. The future buoyancy of the CSE will depend to a great extent on the inflow of foreign investment.

Despite many incentives, the foreign investment inflow to Sri Lanka is relatively low compared to ASEAN countries. In fact, non-ASEAN countries - Cambodia and Vietnam - are attracting more foreign investment than Sri Lanka. One reason for low foreign investment inflow to Sri Lanka is inconsistency in economic policy (Section 3.1.1) which gives mixed signals to foreign investors. In other words, there is a lack of confidence among foreign investors in the Sri Lankan macroeconomic polices. Thus serious consideration should be given to maintaining consistency in economic policy formulation.

The informaiton network has to be improved. Some action has already been taken such as the market Awareness Programme of the Securities and Exchange Commission,[27] and the inclusion of the study of the Share Market in the GCE Advanced Level curriculum. Besides these measures, the Unit Trusts should be used as an indirect divise to attract rural investors to the share market. Moreover, the television could be used, as it was done in the U.K. during the beginning of the privatization programme, to educate the public on share-market operations. On the British Telecom (BT) privatization, for example, Vickers and Yarrow (1991) notes: "[an] important innovation of the BT sale was the extent to which the share issue was targeted at small investors by advertising... share allocation rules, and loyalty bonuses to encourage individuals to hold on to their shares. For the first time, successful applicants for shares were numbered in millions..." (p.133)

The state should take every possible measure to prevent privatized enterprises from becoming monopolies. The Fair Trading Commission has to play a major role in this regard. A careful study of PEs on a case-by-case basis is required, with a view to judging whether any special action might be necessary to deal with possible abuse of market power after complete divestiture. On the British experience, Vickers and Yarrow (1991) notes that new regulatory bodies like OFTEL for British Telecommunications and OFGAS for British Gas were established in connection with privatization. "Their job [was] to apply price controls to regulate firms and, within limits, to promote competition. .. they have been increasingly active in influencing market conduct" (p. 124),. They go on to state that "the British evidence [on privatization] is consistent with the view that competitive conditions and regulatory environments are key determinants of performance" (p. 125).

The state should also make a serious effort to reduce inflation and create a macroeconomic environment that is conducive to private-sector activities. Regrettably, the on-going war in the North has increased defence expenditure substantially and makes it difficult to reduce inflation to a single digit level. The resolution of the conflict is therefore essential for the smooth functioning of the privatization programme.

The problems of privatization of transport need to be addressed by the NTC. It will have to make unambiguous decisions on issues such as uneconomic routes, season tickets, and time-table schedules, and above all see to it that healthy competition prevails and mergers that are socially detrimental do not occur. It would be in the best interest of the peoplized bus services if a corporate investor could be introduced to the remaining 50 per cent of shares in the former CTB. In the plantation sector, the state has to come to some agreement with the workers to effectively implement the decentralized management system. Haphazard wage increases to plantation workers should be avoided as far as possible. Such wage increases can only frustrate the new management and drive them away from undertaking new investments in the plantation sector. Also, legislation would be required to provide adequate safeguards against diversion abroad of the profits of the plantation sector.

To conclude, although there are positive achievements of the privatization programme, yet the Sri Lankan privatization exercise is not free from major problems and unfulfilled expectations. In fact, as shown, the privatization programme has raised some serious problems. What has to be realized in this context is that, for successful privatization, the public has to be familiarized with the notion of privatization and all its advantages and then support has to be gained. Popular support is essential, particularly for a privatization programme that calls itself "peoplisation". Such support cannot be gained without more openness of the programme. Lack of discussion on privatization methods leads to unfounded rumours even in regard to enterprises that are privatized impartially, and thus harms the image of the entire programme. When this is the case, there is bound to be mass opposition and labour resistance and consequently sudden reversals of decisions to privatize certain sectors of the economy. There are reasons to believe that many of the problems of the privatization programme can be overcome if there is more openness and debate on the privatization procedures. It is only then that the support of the general public can be gained for the effective implementation of the programme.

Footnotes

1. See, for instance, Fraser (1988), Chapter 12.

2. The three institutions are: (i) Times of Ceylon, (ii) Colombo International School, and (iii) ITN.

3. According to the Public Enterprise Division of the Ministry of Finance, at the end of 1985 there were altogether 164 PEs: 82 public corporations, 10 Government Owned Business Units, and 72 public companies. We have produced 120 out of this 164 in Table 1. In Government statistics, Research Institutes, Government Departments such as the Urban Development Authority, the Export Development Board, etc, are also included as PEs. If they are also included then the total number of PEs would have been about 265 in 1985. We have excluded these when considering PEs.

4. The 'pro-export bias' is explained in Cuthbertson and Athukorala (1991) and Kelegama (1992).

5. Here efficiency is judged by profitability. Clearly, in many contexts, this is likely to be misleading. But what are the alternatives to measuring efficiency by profitability? One obvious alternative is to look at the efficiency in social terms valuing inputs and outputs at world prices, and nontraded inputs in terms of their social opportunity costs, i.e. Little-Mirrleess type analysis. Such analysis is beyond the scope of this paper and thus we will adhere to the simple notion of profitability.

6. In Sri Lanka, where public enterprises and trade unions are deeply rooted in society, public protest against privatization is to be expected.

7. It is worth noting that some of the PMEs have performed well and remained efficient during the period under consideration.

8. An Industrial Policy Statement was announced by the Ministry of Finance and Planning in March 1987. For details of the evolution of the 1987 industrial policy statement, see Kelegama (1989 and 1992).

9. Among other things, the new industrial strategy aims at six goals: (1) stabilizing the economy, (2) improving domestic savings, (3) promoting foreign investment, (4) promoting research and development, (5) encouraging training and skills, (6) removing administrative bottlenecks (see Ministry of Industries, 1989).

10. Currently, Sri Lanka's export levy is about 8 per cent of the f.o.b. value of tea, and 20 per cent of the f.o.b. value of rubber. This is in stark contrast to the nil export duties for tea in India and less than 1.5 per cent of f.o.b. for rubber in Malaysia.

11. For details, see Diandas (1988).

12. Information on assets and equipment, operations, cost and revenue, working capital needs, bus maintainance and staffing was provided by depot staff (CDN, 29.12.1990).

13. For example, the state is at present uncertain about implementing some of the recommendations of the Taxation Commission Report owing to revenue considerations. This uncertainly has been strengthened by the reaction of the private sector to its recommendations. For instance, the Ceylon Chamber of Commerce has stated that the country's development may be retarded if the array of existing tax incentives are removed, as suggested in the Report (CCCNL, 1991, p.1).

14. We shall not go into details of this issue here. The interested reader may get some facts from The Island, 11. Dec. 1991, 30. Dec. 1991, and 17 Jan. 1992.

15. The fundamental question that has been posed by Sri Lankan policy-makers is whether the country's capital market is developed enough to absorb the contemplated privatization programme. In other words, the question is: does the Sri Lankan business community and the general public have enough money to buy these public companies that are going to be privatized, i.e, to be share holders in whatever way?

16. It is worth noting that despite the progress of the capital market, by February 1992 only one private sector project funded by raising equities had come into existence.

17. The retrenchment has had an impact on the Employment Trust Fund (ETF). According to its chairman, by October, 1991, the fund had paid Rs. 120 million to 25,000 workers involved in PEs associated with the privatization programme (The Island, 16 October 1991, p.1).

18. See "The Blind Spots of our Development Strategy" by Chari De Silva, The Sunday Times, 7 April 1991.

19. Downstream, the Ceramics Corporation operates two earthen-ware and semi-procelain divisions, and has established a number of relatively large ceramics ventures. Upstream, the raw material division of the Corporation dominates the supply and processing of raw material.

20. Lanka Ceramics Ltd, maintains a high sale price in order to run profitably. Ceramic product companies, such as, Lanka Porcelain, Lanka Walltiles, and the privatized Dankotuwa Porcelain, depend heavily on Lanka Ceramics Ltd., for their inputs. It is said that the high input price is reflected in the output price of these companies, thus adversely affecting the competitiveness of Sri Lankan ceramics products in the international market.

21. Cases such as the Oils and Fats Corporation - where the buyer already has some command over the concerned market - also need careful study before handover if the authorities are genuinely concerned about private monopoly power.

22. Some have argued that resistance can come from other forces. Abeysinghe (1992), for instance, has argued that whatever chances the Kandyan peasantry had of expanding their villages and obtaining new land are hampered by the privatization programme. This he argues, will lead to resistance to privatization by the peasantry in the near future.

23. This information was obtained from the NTC.

24. The general goals of the Sri Lankan privatization programme have not been specifically stated in terms of the above four objectives. However, according to various statements made by politicians, Sri Lanka seems to be aiming at these goals.

25. Sachs argues that Prime Minister Thatcher in the U.K. "privatized 50 companies in ten years. Poland has 3,000 state industrial enterprises, which means that it would take the Poles 600 years at that rate" (Time, 22, July 1991, p. 38). Thus Sachs advocates "shock therapy" in cases where the state enterprises are large in number.

26. Out of the 17,000 limited liability companies operating in the country, only 176 were quoted in the CSE in 1989. Only 9 companies out of the 176 had their share traded more than half the trading days, and 18 companies did not trade at all during 1989. 80 per cent of listed companies traded less than once a week, and 50 per cent less than once a month (Baring Securities, 1990). However, it is worth noting that these figures improved significantly in 1990 and 1991. In mid-1992, once again the trading in the CSE declined drastically.

27. See "Taking Stock", The Island. Starting on 9 July 1991, Parts 1 to 10 were published every Tuesday until 17 September 1991. These articles explained the concept of shares, companies going public, etc. Moreover, the advantages of share ownership were advertised in most Sunday newspapers since mid-1991.

References

Abeysinghe, A. (1992), 'Privatization: Plantations and the Kandyans', Lanka Guardian. Vo.l. 14, No. 21.

Asian Development Bank (1989), Education and Training in Sri Lanka Vol. 1, Education Consultants India, New Delhi (referred to in the text as ADB, 1989).

Baring Securities (1990), Sri Lanka Stock Market Review, D. Robinson, Hong Kong.

Central Bank of Ceylon (varicus years), Annual Report (referred to in the text as CBC-AR).

Ceylon Chamber of Commerce (1991), Enterprise (news Letter), Vol. 3, No. 3 (referred to in the text as CCNL, 1991).

Colombo Stock Exchange (1990), Annual Report, CSE, Colombo (referred to in the text as CSE-AR).

Cuthbertson, A.G. and Athukorala, P. (1991), 'Sri Lanka', in D. Papageorgiou et al (eds.), Liberalizing Foreign Trade, Vol. 5, Blackwell.

Diandas, J. (1988), The Future of Government-Owned Bus Transport in Sri Lanka, in Friedrich-Ebert-Stiftung (ed.), Aspects of Privatization in Sri Lanka, FES, Colombo.

Employers' Federation of Ceylon (undated), Report, Colombo.

Fraser, R. (1988), Privatization: The UK Experience and International Trends, Keesing's International Studies, Longman.

Government Publication Bureau (1991), Report of the Taxation Commission 1990, Colombo (referred to as TCR, 1990 in the text)..

Gray, C. (1991), 'Competition Policy in Sri Lanka', A report presented to the Industrialization Commission of Sri Lanka, (mimeo).

Hayleys Limited (1991), Annual Report 1990 - 1991, Colombo.

Jayawardena, A.S. (1988), 'Privatization in Sri Lanka', in V.V. Ramanadham (ed.), Privatization in Developing Countries, Routledge, London and New York.

Jayawardena, N.U. (1989), 'Privatization in Sri Lanka: Some Reflections', paper presented at a seminar on The Liberal Economy', Council for Liberal Democracy, October, Colombo (mimeo).

Karunatilake, H.N.S. (1986), 'Public Enterprise and the Private Sector', Sri Lanka Economic Journal, Vol. 1, No. 2.

Karunatilake, H.N.S. (1987), The Economy of Sri Lanka, CDSS, Colombo.

Kelegama, J.B. (1986), 'Review of Economic Policies and Progress: 1977 - 1984', Sri Lanka Economic Journal, Vol. 1, No,. 1.

Kelegama, S. (1989), 'The Speed and Stages of a Trade Liberalization Strategy: The Case of Sri Lanka, Marga Quarterly Journal, Vol. 10, No. 1.

Kelegama, S. (1992), Liberlization and Industrialization: The Sri Lankan Experience of the 1980s, Institute of Policy Studies, Industrialization Series, No. 2, Colombo.

Kelegama, S. and G. Wignaraja (1992), 'Labour Absorption in Industries: Some Observations from the Post-Liberalization Experience of Sri Lanka', Industry and Development, No. 31, UNIDO, United Nations.

Minister of Finance (1985 and 1987), Budget Speech, Govt. Press, Colombo.

Ministry of Finance and Planning (1987), Public Investment 1987 - 1991, Colombo (referred to in text as MOFP, 1987).

Ministry of Industries (1989), A Strategy for Industrialization in Sri Lanka, Colombo.

Ministry of Policy Planning and Implementation (1990), Public Investment, 1990 - 1994, Colombo (referred to in text as MPPI, 1990).

Ministry of Policy Planning and Implementation (1991), Public Investment, 1991-1995, Colombo (referred to in text as MPPI, 1991).

Nellis, J. and Kikeri, S. (1989), 'Public Enterprise Reform: Privatization and the World Bank', World Development, Vol. 17, No. 5.

South Commission Report (1990), The Challenge to the South, OUP, Oxford.

Vickers, J and G. Yarrow (1991), 'Economic Perspectives on Privatization', Journal of Economic Perspectives, Vol. 5, No. 2

Wijesinghe, F.D.C. (1989), 'Competition Policy in the Economic Development in Sri Lanka', Sri Lanka Economic Journal, Vol. 4, No. 2.

World Bank (1990), Sri Lanka: Sustaining the Adjustment Process, Report No. 8951-CE, Washington, D.C.

SRI LANKA ECONOMIC ASSOCIATION
OFFICE BEARERS - 1992/93

President	-	Dr. H. N. S. Karunatilake
Vice President	-	Prof. B. Hewavitharana Dr. M. R. P. Salgado Mr. A. S. Jayawardena Mr. A. S. Wickremasinghe Dr. L. L. Gunaratne
General Secretary	-	Mr. K. G. D. D. Dheerasinghe
Assistant Secretary	-	Mr. K. Jegarajasingham
Editor	-	Dr. N. L. Sirisena
Assistant Editor	-	Mr. T. S. N. Fernando
Treasurer	-	Mr. M. R. Fernando
Assistant Treasure	-	Dr. U. Vidanapathirana
Committee	-	Dr. Gamani Corea Mr. A. M. A. Abeysinghe Mr. P. T. Sirisena Mr. T. B. Subasinghe Dr. S. Kelegama Dr. S. S. Colombage Prof. K. Dharmasena Dr. (Mrs.) R. Jayamaha Mr. K. Kodituwakku