Impact of Privatization in Sri Lanka

A Study Conducted for USAID

Paul Crowe / Aneela de Soysa, Econsult
February, 1995

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* This report presents the independent findings and recommendations of the authors. It does not necessarily represent the official views of the Agency for International Development.

EXECUTIVE SUMMARY

In late 1989, a dozen years after accepting the need for a more market directed economy, Sri Lanka completed its first successful sale of a public company. In the five years since that event, over forty additional sales of companies have taken place, along with greater private sector involvement in bus transportation, tea plantations and some other, less extensive, government activities.

This assessment explores the legacy of those five years, as seen through the eyes of those involved in the privatization process, and as demonstrated in the performance of the privatized companies. It examines the impact of privatization on specific elements of the economy, including that on government fiscal accounts; on employment, productivity and investment in the firms; on the emerging stock market; on shares gifted to employees, and a range of related economic activities. It does not attempt to evaluate the performance of particular participants in the process.

Many factors influenced the Sri Lankan government to move ahead with privatization, including the belief that state owned enterprises would function more efficiently in the private sector. To a large extent this belief has been justified by the improved productivity and customer service orientation of the majority of privatized firms. Another major driving force behind the sale of government enterprises was the desire to curtail burgeoning domestic debt arising from large fiscal deficits. However, privatization has had little impact on reducing the deficit. Peak government receipts from sales, which were bunched into a few quarters, amounted to not much more than one/tenth of the prevailing deficit of approximately ten percent of Gross Domestic Product. Likewise, the government saved little by way of payments to the firms. the firms marked for sale had received almost no recent capital or current transfers. While many of these firms are now paying more to the government in taxes, the net new inflow so far is relatively small. The Government did gain some added potential revenue from shares retained in privatized firms. While limited scale privatization has had equally limited real budget impact, it has given the government valuable experience in the process, and increased the likelihood that larger scale privatization efforts will be successful.

Since the firms studied have operated as private ventures for only a short period, conclusions as to their performance are necessarily tentative. As far as possible, time series were constructed for the period 1989 to 1994, based on the data provided by the firms, augmented by in-depth interviews. Most privatized firms exhibit a familiar pattern: investment increased, more attention to marketing and customer service, management strengthened (especially mid-level) and profitability on the upswing. Labor productivity generally increased, but this may largely reflect the decreased employment accompanying many of the privatizations, despite government measures to minimize this effect. Collectively, the privatized firms performed somewhat disappointingly on productivity (gains were about equal to industry averages). Some additional time may be required as reorganizations are effected, new investment comes on line, and residual government covenants on employment expire (many firms agreed to no redundancies for two years). Future monitoring of productivity trends and related series should be a priority interest.

The biggest payoff came from the interaction of privatization with the rapidly developing Colombo financial community, especially the share market. Each boosted the other. New listings attracted foreign investors and generally fueled strong advances in trading and prices. Sales of government owned enterprises helped raise funds directly, and strengthened the market generally by honoring an often stated commitment to a more market driven economy. The endurance of this privatization push is now being tested by a severe decline in the market. To be successful, future privatizations will need to regain the positive interaction that prevailed in 1992-93, when the stock market figured prominently in the process.

Lessons learned, and recommendations for future USAID involvement, are included in the final sections of the assessment. Overall, they underscore the depth of influence from a long history of pervasive government ownership and control. In the period studied, privatization proceeded slowly and was poorly integrated into the economy. As a result, the new government is looking for additional avenues to accelerate privatization, both to raise firms performance and to ease the still economically deadening fiscal deficit. The recent formation of the Public Enterprise Reform

Commission (PERC) is a welcome positive sign that the new government recognizes the economic benefits of proceeding with a privatization program.

Good candidates for future privatization efforts are private - public partnerships for building infrastructure, partial privatization of large public enterprises like Telecom, and outright sale of selected public companies, including Air Lanka. How quickly these privatization goals can be accomplished, how far the Sri Lankan electorate is willing to go, and when major sectors of the economy, energy, transportation, food, distribution, and banking, will move from public to private direction is impossible to say. One message of the evaluation is that these changes are likely to come slowly.

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IMPACT OF PRIVATIZATION IN SRI LANKA

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1. INTRODUCTION

Background

The initial history of privatization in Sri Lanka has been documented in a number of published accounts[1] and need not be reviewed extensively here. To understand the assessment however, it is important to set the present context of privatization, as gleaned from the interviews, and to place in perspective events occurring since the release of earlier accounts.

Sri Lankan privatization is embedded in the economic liberalization that began in 1977 and continues today. To some the resulting transformation of the economy from inward looking central control to more market directed economic activity has been rapid and nearly complete; to others it has been a long slow transition, one struggling to keep pace with changes in the world outside Sri Lanka. Divergent views on what privatization has accomplished, and what lies ahead, often reflect the respondent's perspective of the overall liberalization process.

Whatever one's views, it is clear that Phase one (1977-1989) brought a recognition of the need for market based direction of economic activity, but no successful sales of public enterprises. Phase two (1989-1994) produced sales of forty-two companies, mostly small and medium sized enterprises. This period, so unlike the twelve years under economic liberalization that preceded it, now appears to be nearing its end. It may differ markedly from the periods that lie immediately ahead, based on the observations of those most involved in the privatization process. As the assessment will bring out, opinions differ widely on what was accomplished by phase two and what this privatization implies for the future.

Assessment Scope and Guidelines

This assessment was prepared at the request of the United States Agency for International Development (USAID) to assist them in understanding the basic features and results of recent privatization efforts in Sri Lanka. Its purpose is to ascertain privatization's impact on various elements within the economy, with an eye to identifying lessons learned.[2]

The assessment, admittedly, is premature. There is a paucity of available post privatization data, and most newly privatized firms haven't had time to break away from old ways sufficiently to establish their performance potential. However, to understand

[1] Jayawardene, A S (1993), Kelegama, Saman (1994) Kelegama, Saman (1993)

[2] Appendix 1 contains the relevant parts of the scope of work including purpose, general background, USAID's support for privatization in Sri Lanka, and specific issues for study. In general, most back up documents are included in the Appendix along with data and tables not incorporated in the main text

economic events as they unfold today, and to improve assistance when it is requested tomorrow, many of USAID's questions must be answered now. Recognizing the limitations of such an early evaluation, USAID worked closely with the investigators to define what could, and could not, be done within the limited resources available. The following guidelines were established:

- assessment to focus on economic impact - a privatization project evaluation was done in 1991, as part of the interim evaluation of the mission's Private Sector Policy Support (PSPS) project

- assessment based on sales of public enterprises - not limited privatization of government functions

- plantations and bus transportation excluded

- use of extensive qualitative data (interviews) to provide broad coverage of diverse economic impacts

- latest data or estimates to be obtained from firms where possible

- quantitative data mostly in time series format to facilitate easy updating and monitoring

Qualitative Data

The interviews took place in the final quarter of 1994, a period of election, political unrest, and much public rhetoric over privatization issues. Despite the potential difficulty, the team was able to obtain well structured interviews with more than 60 firms and individuals closely involved in privatization over the past five years and, in some cases, with individuals involved in earlier years.[3] Cooperation was excellent and responses candid.

The interviews quickly established that there was limited agreement among the participants to the process, and those affected by it, on the objectives of privatization. Likewise, there were wide differences in views of the government's role in the Sri Lankan economy. General knowledge of privatization seemed limited, only a handful of key business people, scholars, and policy makers with long standing involvement in privatization were familiar with the overall program. Consequently, views expressed often reflected a fairly narrow perspective, and many interviewed commented that the government had provided too little information on such factors as the selection of firms to be privatized, method of sale, the valuation of enterprises and similar questions. Charges of lack of transparency, or even fraud and crony capitalism, figured prominently in the criticism of some interviewees, as it did in the election campaign. In contrast, a majority of those interviewed, recognized that mistakes had been made, but felt that most of the privatization had been done about as well as possible under difficult

[3] See attachment 2 for interview list

circumstances. Several senior figures in relatively politically neutral positions recalled the difficult days of the early privatization, and the doubts of many that any sales could be successfully completed under such circumstances. The choices of enterprises for privatization, they felt, were determined largely on pragmatic grounds that necessarily included profit making firms, or those holding strong promise of quick turn around.

Quantitative Data

Starting with United Motors in 1989, forty two companies (excluding plantations and bus transportation) were privatized between the period December 1989 and June 1994. A listing of privatized enterprises in Sri Lanka is set out in attachment 3. Attachment 4 gives the sectoral analysis of the privatized companies and shareholding patterns after privatization. Thirty one of the firms had post privatization data for at least nine months. The analysis included 27 of these firms which is over 80% of the firms privatized to June 30, 1994 and represents 86% of employment in that category of companies. More details of the number of firms for which complete data was obtainable for time series analysis for key indicators is set out in attachment 5. This data was obtained from the companies, supplemented by data from annual reports of companies. Estimates were required to adjust for such changes as shifts in accounting periods and other data gaps.

Since privatization took place throughout the period, the data must be interpreted with caution in this regard. This issue is addressed in a variety of ways in the body of the report, as individual tables and charts are presented. Most data is indexed based on aggregate totals for the industry or other subgroup, with an accompanying series that measures diffusion[4]. In this way, the indices permit some conclusions to be drawn about the firms across the size spectrum. For those interested in further detail, individual firm indices are provided in attachment 5. These time series can be updated easily and integrated into aggregate series as more data becomes available, or new comparisons are demanded.

Methodology

All interviews were conducted by the authors based on questions prepared in advance; answers were collated to ensure that reported impressions were properly descriptive of the range of responses. Student assistants were utilized to record comments of retailers and traders in products of privatized firms, since this method was cost effective and probably less biased than formal questioning.

Where possible, data was indexed to permit easy presentation and to facilitate creation of composite indices of diverse variables. Data series generally extend from 1988 through 1994 to provide a perspective on performance before and after privatization.

[4] Percent of series components rising

2. IMPACT OF PRIVATIZATION

The assessment is structured to answer fairly directly, the questions raised in the scope of work; i.e., to describe the effects of privatization on various elements of the economy. While this approach is straightforward, it does not result in an arbitrary grouping of impact discussions. Most privatization effects spread through the economy and ultimately impact all its segments: interaction is the norm. It is hoped that the collective impact stands out more clearly as the sectors are addressed.

2.1 IMPACT ON GOVERNMENT

Although 1987/88 decision to move ahead with sale of public enterprises resulted from many forces, much of the push came from a desire to brighten the government's bleak fiscal picture. From the onset of economic liberalization in 1977 until the first privatization in 1989, the government deficit averaged more than eleven percent of GDP. Donors and international competition had pressured the government to reduce taxes from export crops - a traditionally strong source of revenue - while demands for additional spending marched ever upwards. Since new tax sources were hard to find, one answer seemed to lie in raising the efficiency of government enterprises and/or sale of government assets deemed not critical to fulfilling the government's economic role. That is not to say there were not other goals; many interviewed felt that government leadership of the time wanted to encourage the development of an entrepreneurial middle class, and to promote broader stock ownership as a means to eventually achieving a more nearly equal distribution of wealth. Fortunately, the need for fiscal medication was not inconsistent with achieving the other goals, and privatization moved to its more active phase in 1989. Opposition to privatization - eventually to be named peoplisation - was limited mainly to those who were opposed to any sale of public assets and those workers who felt they would be adversely affected by loss of a government job. The government succeeded in overriding the opposition in part by offering the workforce shares, and by selling enterprises at discounted prices.

The choice of assets to be sold flowed naturally from the needs of the time; the ideal candidate firm was not involved in a core economic activity, produced little revenue (perhaps even requiring government transfers), and possessed good upside potential given an infusion of capital and technology from the new private sector owner. Unfortunately, the major public sector recipients of public funds transfers didn't fit this mold. The largest current transfers in the three periods ending 1989, went to the Sri Lanka Central Transport Board, the Road Development Authority, the Co-operative Wholesale Establishment and the Ceylon Electricity Board. More than one third of the much larger capital transfers went to the Mahaweli Authority, which received capital transfers far in excess of all current transfers during the three year period. Other major capital transfer recipients were Air Lanka, Airports and Aviation Services, the National Water Supply and Drainage Board and the National Housing Authority.

In contrast, those public sector companies that were chosen for privatization were receiving very few public transfers. The last listed transfer to Government Owned

Business Undertakings, a group including many of the privatized firms, was a 1985 current transfer equal to about US$ six hundred thousand, and the last substantial transfers to this group of companies (about US$ five million) occurred in 1984. There were a few post 1985 transfers to other companies later privatized, but nothing substantial in terms of the desired budget relief. While the data on transfers from the privatized corporations are more difficult to construct, comments and scattered data indicate that few incoming transfers were finding their way to the government, suggesting that little revenue was lost via privatization.

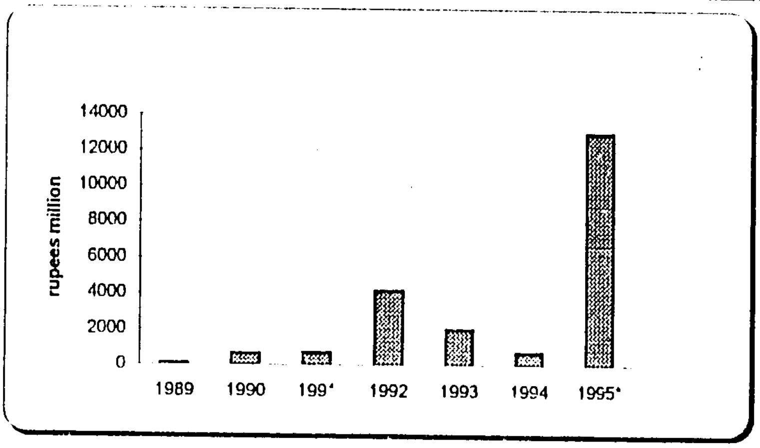
The long run net fiscal impact of privatization, of course, depends on a multitude of other factors that can be estimated only very generally at this point. One detailed estimate of the fiscal effects of privatization for which suitable data were available concluded that five of the six firms showed a net present value that was "unambiguously positive" and the sixth would be positive if efficiency improved, as evidence suggested was the case. These estimates indicated that privatization of both profit and loss making firms produced positive fiscal benefits for the government[5]. They also lend support to a commonly expressed observation by those interviewed that most firms had become more efficient, and were now contributing revenues to the government. Reported tax revenue gains for the government are growing rapidly although much of it occurs as a result of the contribution of a few companies. The impact is discussed in detail later in this report.

What, then, are the most significant effects of privatization on the government's fiscal operations so far? The dominant impact has been government's realization of proceeds from the sale of the companies, in the immediate instance, and the increase in the value of government shares retained in companies not yet fully privatized. Higher taxes paid, although of lesser importance to date, are making an increasingly important contribution to government coffers.

Two-thirds (approximately US$ 100 million) of total privatization receipts were realized in the period from the final quarter of 1991 through to the second quarter of 1992 (see chart 1). The four largest privatizations took place in this period, those firms and their approximate US$ value were: Distilleries Co. US$ 35 million, Asian Hotels Corporation US$ 22 million, Lanka Ceramic US$ 18 million and Kelani Tyres US$ 9 million. In the peak year - 1992 - privatization receipts were US$ 91 million (Rs 4.1 billion), an amount equal to about one percent of Gross Domestic Product.

[5] Kelegama (1994)

Chart 1: Receipts to government from privatisation



* Proposed receipts from public enterprise reform
source: Ministry of Finance

9.0

Interestingly, 1992 saw a decline of more than four percentage points in the fiscal deficit, from 11.6 percent of GDP in 1991 to 7.3 percent of GDP in 1992. Unfortunately, much of this reduction was achieved via unsustainable cuts in government capital spending, and the deficit has again risen to an average of about percent of GDP in 1993 and 1994. Given the spread of receipts over the 1991-94 fiscal years, and the lags in booking of actual receipts of some privatization proceeds, privatization receipts were not the major source of the swing in the deficit over the period 1991 through to 1994.

The exact net impact on the deficit is difficult to estimate given the variety of costs incurred by the government for valuations, advertising, labor redundancies and so forth. Although some of these costs were borne by donors, especially USAID, it is impossible to say that such offsets represent net additions to donor programs. (USAID assistance for privatization in Sri Lanka is described in box) On balance, the deficit reduction impact would appear to average about one-half of one percent for 1992 and 1993, and less than one-quarter of one percent in 1991 and 1994. It seems reasonable to assume, for reasons discussed below, that the fiscal impact in 1995 will be a reduction in the deficit of similar magnitude, i.e., between one quarter and one half percent of GDP.

Government receipts from privatization fell significantly in 1994, as privatization efforts were put on an election year hold. However, the potential value of government owned shares in several privatized corporations has increased sharply since the dates of their privatization, despite the recent downturn in the Colombo share market. The 1994 year end value of these shares, shown in attachment 6, exceeds Rs. 2.4 billion for companies listed on the Colombo Stock Exchange; and shares in unlisted companies would add at least another Rs. 100 to 200 million. Collectively, these shares represent realizable funds roughly equivalent to actual receipts in the peak year of 1992. The portion of these funds that can be realized in 1995 depends very much on the decisions taken by the new government.

USAID assistance for privatization in Sri Lanka

USAID assistance for privatization in Sri Lanka was a component of the Private Sector Policy Support (PSPS) project amounting to approximately $ 9 million in technical assistance, funding of the Commercialization Division of Public Enterprises (COPED) in the Ministry of Finance and actual costs of divestiture. The project goals included privatizing a total of 24 State Owned Enterprises (SOEs) and helping the Government of Sri Lanka (GSL) develop the institutional capability to carry out privatization activities. AID and GSL signed the PSPS agreement in July 1988 of which, the funds allocated to assist in the privatization were made available to:

- Analyze privatization possibilities and methods
- Defray expenses incurred in the preparation of companies for divestiture. Such expenses include independent financial audits, legal costs associated with company restructuring, advertising of the public offering and using the advice of share brokers (though not for paying commissions or other fees)
- Defray post privatization expenses. Such expenses include severance payments for redundant workers (only after successful divestiture of an SOE), management services to newly-divested firms and worker training programs for the new company
- Defray costs associated with public education and publicity for the commission, office equipment and furniture for the commission and a vehicle for the project

As part of the project, USAID entered into a three year contract with Ernst and Young (USA) to work directly with COPED to identify appropriate short-term specialists (expatriates and locals) for the tasks, guide their work and report on the use of contract funds. Some of the items that have been funded by USAID include preliminary studies for four textile mills; registration of shares for United Motors, Ceylon Oxygen and Pugoda; legal fees for Hotel Buhari and Ceylon Cold Stores; profiles of tire, rubber and plywood companies for the Ministry of Industries; surveying for Milco Land; post privatization technical assistance for United Motors through the IESC; and promotion and advertising for United Motors, Ceylon Oxygen, Pugoda, Nylon 6, Oils and Fats and Hunas Falls

In her policy statement presented to the third Parliament of Sri Lanka on Jan. 6, 1995, President Kumaratunga stated that ... "the Government will embark upon a major program of selective and carefully planned privatization of public sector enterprises in 1995. This will include major ventures in the services sector especially in aviation, in transport, and in insurance. Divestiture of some industrial and trading activities such as sugar, paper, fertilizer, and milk will be completed shortly. Large Government shares in companies will be disposed of in the market".

This direct policy pronouncement reinforces and gives dimension to an earlier statement that the private sector must be the engine of economic growth. While the ongoing list of companies selected for privatization has undergone periodic revisions, the Public Sector reforms proposed in the Budget speech in February 1995, listed in the Box is reasonable representative of the current list.

Public Enterprise Reforms proposed in the 1995 Budget

The government announced its plans for privatization of state enterprises with the presentation of the budget for 1995 where it was proposed that over Rs 13 billion would be raised through the Public Enterprise Reform Program. A Public Enterprise Reform Commission will be entrusted with the task of initiating and coordinating strategic alliance between the public sector enterprises and private sector investors and facilitate government decision in cooperation with relevant government agencies. The commission will consider diverse methods of reform with a view to maximizing the benefits of the country which would include

- the sale or lease of government property/assets, partially or wholly
- the sale of government shares in companies, partially or wholly
- opening the public sector to private sector participation and competition
- partnership between public and private sector by the sale of a portion of the shares of public enterprises
- management technical expertise or marketing agreements with the private sector
- direct private sector investments in areas such as infrastructure

The immediate tasks of the Commission during 1995 will be as follows:

1. Opening up government monopolies to fair competition
2. Complete the outstanding reforms in respect of
   - Janatha Fertilizer Enterprises
   - Sevanagala Sugar Industries Ltd
   - Colombo Commercial (Tea) Co Ltd
   - Orient Lanka Ltd
   - State Trading (Textiles) Corporation Ltd
   - Sri Lanka Rubber manufacturing Co. Ltd
   - Milk Industries of Lanka Ltd (Milco)
   - National Paper Co Ltd
   - British Ceylon Corporation Ltd
3. Sale of all or part of Government shares in various companies
   - Capital Development and Investment Company
   - National Development Bank
   - Lanka Ceramic Ltd
   - Ceylon Glass Company Ltd
   - Pelwatte Sugar Co Ltd
   - Subsidiaries of Sri Lanka Insurance Corporation (Commercial Bank of Ceylon, Robinson Club)
   - Ceylon Hotels Corporation
   - Lanka Phosphates Ltd
   - Galadari Hotels
   - Bogola Graphite (Lanka) Ltd
4. Sale/Lease of Government land and properties
5. Strategic alliances in the public Utilities/Infrastructure/Services sector
   - Sri Lanka Telecom Ltd
   - Ceylon Electricity Board
   - Air Lanka Ltd
   - Sri Lanka Insurance Corporation
   - Ceylon Shipping Corporation
   - Ceylon Petroleum Corporation
   - Ceylon Government Railways
   - Galle Harbor Development
   - Colombo Katunayake Highway
   - Colombo Matara Highway
6. Management of state sector plantations where the government is considering a proposal to broad base the ownership by offering a share to the management
7. any other public enterprises referred to the commission

Many of the smaller manufacturing and service firms included in the list are in various stages of the privatization process; several sales are likely in 1995, especially in view of the President's remarks. Revenues from these sales, however, will be small, especially in comparison to potential revenues from sales of government shares in already privatized firms. The amounts, timing and mechanics of such sales are difficult to predict in view of the government's commitment to selling shares in large public corporations not yet privatized, such as Sri Lanka Telecommunications.

Over the past six months there has been a steady withdrawal of foreign investors in the Colombo market. To sell large chunks of shares at favorable prices, this trend must reverse.

Most market participants interviewed prior to the new government's most recent policy statements felt that privatization - and stock market activity - would be stalled in 1995. Their expectations may have been buoyed somewhat by the President's remarks, but the outlook remains cloudy and will continue to be so for the immediate future. Under these conditions, it seems likely that 1995 will see government receipts from privatization greater than the depressed levels of 1994, but still well short of amounts required to lower the deficit significantly.

One aspect of previous privatization sales that troubled several interviewees was the use of privatization receipts to finance current expenditures. Although most government receipts are fungible, making it difficult to determine uses of specific funds, there has been an absence of a government commitment to resist new spending based on sales of assets. In fact, on several occasions the previous government said that it was engaging in new spending based on privatization receipts. Criticism of these past practices was faced squarely by President Kumaratunga when she stated that "The significant revenues raised by privatization will be used primarily to retire public debt." This commitment is especially encouraging in view of the persistent rise in debt repayment as a percent of total government expenditures. (The recent budget however shows that a large portion of the sizeable receipts expected from privatization will not be used for debt repayment.)

Initially, the assessment hoped to document the non-financial impact of privatization on government operations. After considerable probing, it became evident that little or no positive impact occurred, in terms of freeing policy makers time for more important activities. Given the considerable time privatization activities require at all levels of government, it is unlikely that any privatization dividends of this nature will appear, except in the very long run.

2.2 IMPACT ON THE ECONOMY

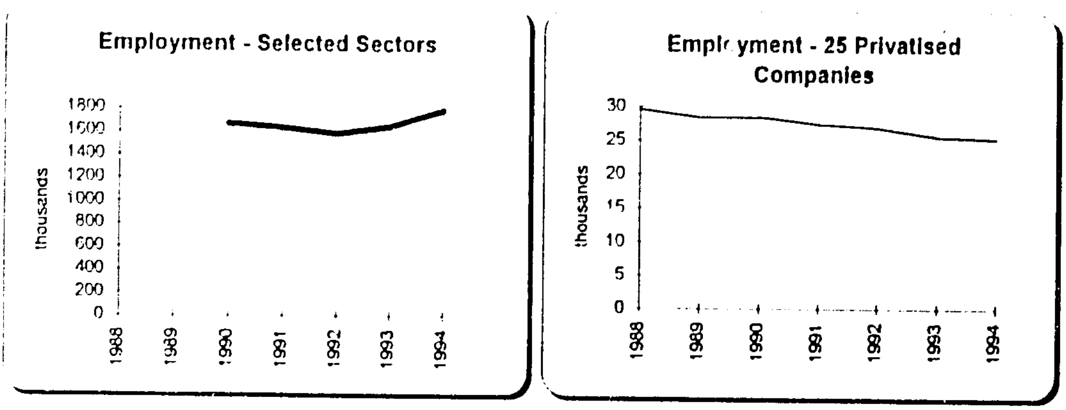
The direct effects of privatization were relatively minor in terms of overall employment, productivity and investment.

Employment

Over the years, the government looked upon many of the state enterprises as a convenient way of easing the problem of unemployment in the economy. Consequently, they were heavily over-staffed, with many of the workers being appointed on their political affiliations and access to politicians. The government implemented redundancy programs in the organizations prior to the privatization as in the Leather Products Corporation. However, this strategy was not followed in all the privatizations, and the companies had to rationalize staff through voluntary retirement schemes since many had to enter into an understanding to avoid redundancies for a period of 2 years.

Employment in the group of 25 companies for which full yearly data was available dropped from 29,536 in 1988 to 25,272 persons in 1994, a decrease of 15%. Thirteen (or 52%) of the companies, had increased the number of persons employed. The aggregate employment levels in the sectors of the economy in which privatized companies operate has been compared with the levels of employment in the privatized companies in chart 2.

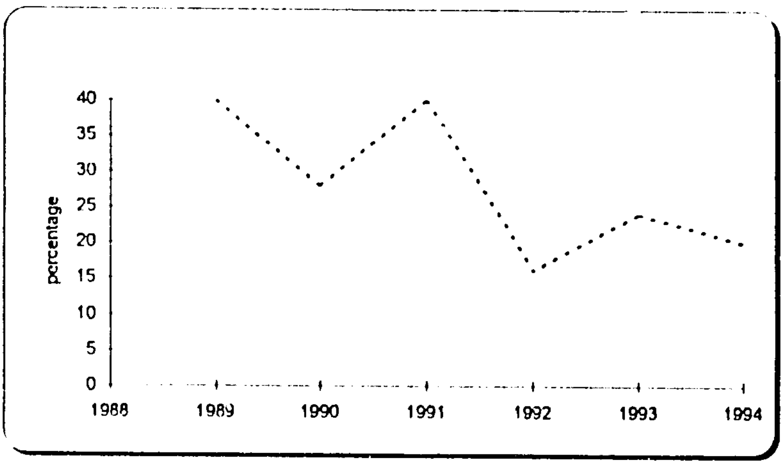
Chart 2: Employment



Source: Company data, Labour force survey

The diffusion index on chart 3 shows the percentage of companies increasing employment over the previous year.

Chart 3: Employment - Diffusion Index



Overall, the number of persons employed in 42 privatized companies amounted to thirty thousand persons which is less than 1% of the non-agricultural work force. In national terms, privatization had little impact on employment levels. Index data is shown on attachment 5 1

Productivity

Productivity was measured using an output measure that was calculated by deflating turnover by the wholesale price index. This method produced data from 19 companies. The deflate turnover was divided by the number of employees in the company to measure productivity[5]. The productivity data was indexed and compared with a national productivity index calculated using aggregate output and employment in the industry sectors in which the privatized companies operate[6]. The productivity of privatized companies increased at around aggregate sectoral productivity levels for the period 1992 and 1993 and showed an improved performance in 1994. (see chart 4). It is too early to draw any definitive conclusions on the overall improvement in productivity in these companies. Fifteen, or over three quarters, of the companies sampled, had increased productivity over the period. The index data is shown on attachment 5.2.

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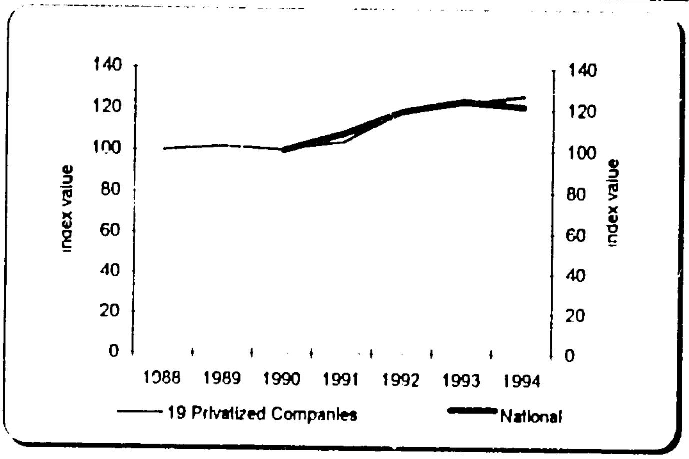
[5] As volume output data was available only for 9 of the companies, it was not possible to get a representative productivity measure using volume output per worker

[6] National data for employment was available only from 1990 and therefore, aggregate productivity data is available only from that point

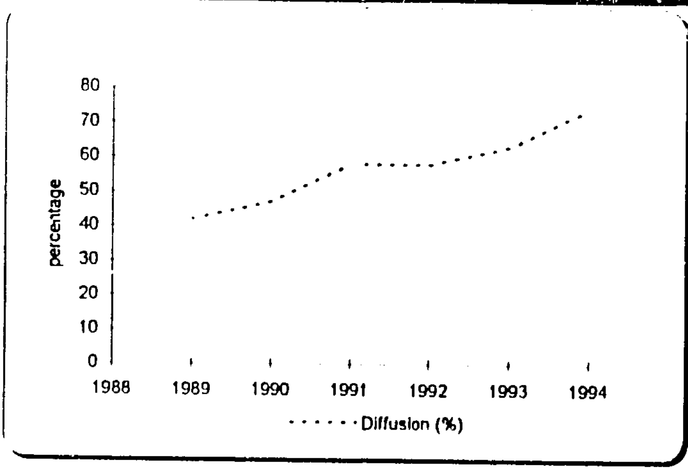
Chart 4: Productivity Index



Source Company data, Labour force survey

The percentage of companies with improved productivity over the previous year are shown in the diffusion index.

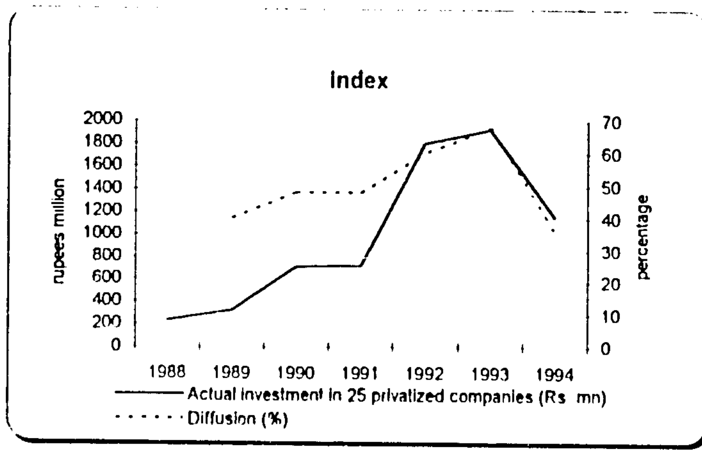
Chart 5: Productivity - Diffusion Index



Investment

While direct investment in privatized companies has increased over the period 1988 to 1994, enabling the companies to develop, the magnitude of this increased investment (around Rs 900 mn per annum by 1994) has been too small to have any significant impact on the overall investment levels in the economy with a Gross Domestic Capital Formation of Rs 128 billion (1993). Data was available for 25 companies. Details of indexed values are provided on attachment 5.3 The percentage of companies with increased investment over the previous year is shown in the diffusion index.

Chart 6 : Investment Rs Mn



The major impact on investment attributable to the privatization process is in the extent to which it enabled the rapid development of the stock market and increased the attractiveness of Sri Lanka as a place for investment. This has come about by the increased availability of shares due to the privatization and by drawing the attention of foreign investors to investment opportunities in Sri Lanka. The development of the stock market has in turn resulted in assisting the privatization process through the marketing channels that have been created as well as by serving as a mechanism for conducting the divestiture.

One of the principal drawbacks of investing in the Colombo Stock market is that it is thin, which means that the volume of trading is low as is the availability of stock. The privatizations increased the depth of the market, as seen by the liquidity that it generated amounting to a third of the transactions in the stock exchange. It also improved the breadth of the market as seen by the market capitalization of privatized enterprises which amount to a sixth of the total market.

Table 7: Liquidity and market capitalization contributed by privatized companies January 1994 - September 1994

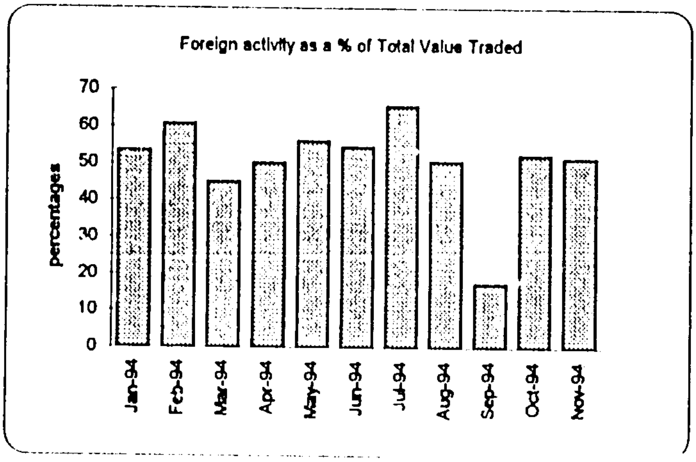
Company	Market Cap %	% of Total Traded
National Development bank	4.91	1.38
United Motors	0.34	1.13
Pugoda	0.21	0.73
Ceylon Oxygen	0.42	0.16
Lanka Milkfoods	0.6	3.32
Asian Hotels	2.84	1.95
Kelani Tyres	1.01	3.21
Veytex	0.38	0.24
Hunas Falls	0.1	0.27
Lanka Ceramic	2.01	3.13
Sathosa Motors	0.14	0.16
Bogala Graphite	0.08	1.32
trans Asia	0.7	2.42
People's Merchant Bank	0.28	0.2
Hotel services	0.24	0.57
Distilleries	1.92	12.31
Total	**16.18**	**32.6**

Source Colombo Stock Exchange

The funds that International investment funds typically have to invest in small emerging markets such as Sri Lanka are relatively large when compared to the value of transactions in the market. As many of the quoted companies in Sri Lanka are closely held, turnover of shares in these companies tend to be low and brokers are hard pressed to find shares in the quantities that foreign investors consider efficient to purchase at a given time. Shares in privatized companies being made available to the public has alleviated this problem, resulting in increased foreign interest in the Sri Lanka stock market.

It is generally believed that privatized ventures are usually sold at a heavy discount at the initial public issue of shares. This has been the experience in many developed and developing countries. The need for a heavy discount on price arises from the need to attract a large value of investment over a relatively short period of time as these enterprises are often relatively large. International investment funds are therefore attracted to markets where state divestiture of enterprises takes place. These investors, once attracted to a country for investment in newly privatized ventures often establish a presence through investing in a portfolio, creating an opportunity for other companies to raise capital through the stock market through initial public offerings as well as through rights issues. Foreign activity in the stock market in 1994, accounted for nearly half the value of all transactions.

Chart 8: Foreign activity in the Sri Lanka stock market - 1994.



Source Colombo Stock Exchange

The government policy of selling off a minority interest (usually 30%) of several of the privatized institutions through the process of listing on the Colombo Stock Exchange created an increased public awareness and demand for scrip, resulting in increasing share ownership among the public. This process was further assisted by the fact that many of these issues were issued at a discount for reasons given earlier and by the policy on allocation of shares where a proportion of the issue was reserved for small applications. The public issue of shares in the privatizeo National Development Bank attracted much foreign interest and thereby signaled the start of an upward trend in the Colombo Stock market which lasted for almost a year. (see box)

The cumulative impact of the privatizations and other policy initiatives of the government resulted in the market prices of equities to rise dramatically, making the Colombo stock market one of the best performing stock markets in the world in 1993.

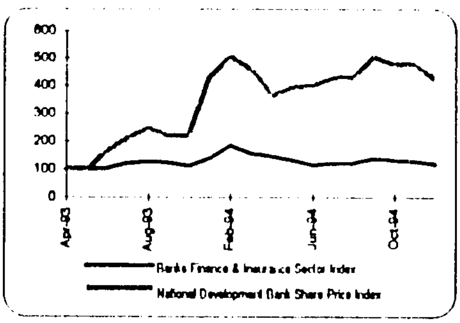
An interesting example is that of a group of Hong Kong based investors who came into Sri Lanka initially to buy shares on the stock market and then bid for a stake in Asian Hotels on privatization. The group has now invested in a Merchant Banking operation, Asia Capital and moved onto several direct investments in unlisted companies.

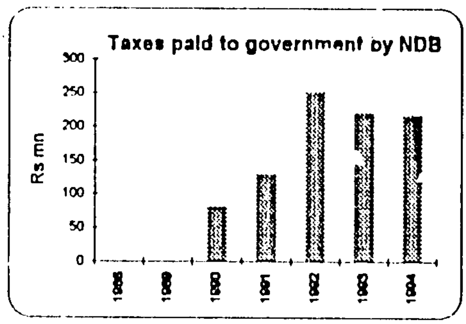
At what price? - The NDB experience

The "right price" at which shares in public enterprises should be sold has been the subject of much discussion. National Development Bank's (NDB) experience in pricing a public issue of shares is an example of how a price for a share was determined

The government was offering 30% of the holding in NDB to the public through the stock exchange. The offer price had to be determined by the government. Experienced international firms of valuers were called in. The National Development Bank of Singapore was called in to value the shares in September 1991 as the public issue was expected to take effect in 1992. The recommended price was Rs 35/- per share. In July 1992, Ernst & Young, after looking at the most recent financial results, recommended that the share be priced at Rs 50/- per share. When the issue was finally put on the market in February 1993 at Rs 50/- per share, many broking houses advised their clients not to buy the shares as they were considered too expensive. Despite this, the issue was a success, being oversubscribed twice over. However, institutional investors were slow to recognize the potential of NDB. NDB's share price increased rapidly over the following year as investors recognized the growth potential of the company and the general favorable investment climate in the economy

It is the market that determines the 'right price'! The remaining shareholding of the government, a 15% share can now be sold at market price

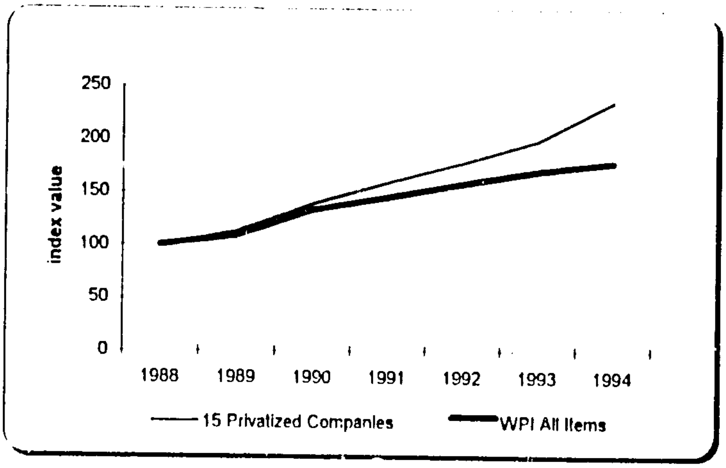




Price

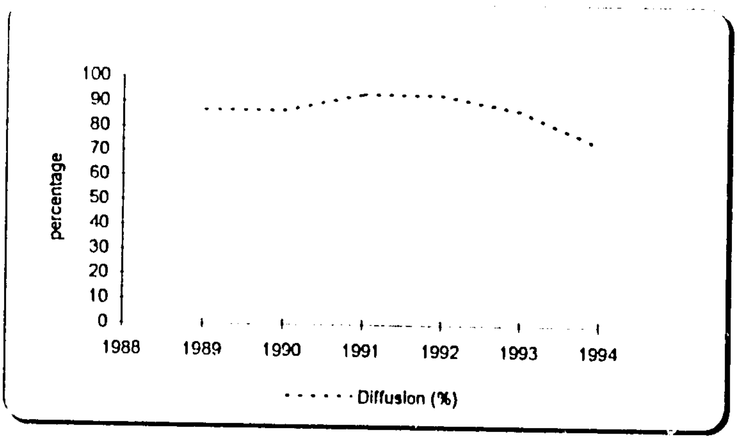
The chart 9 below shows that the prices charged by the 15 privatized companies for which data is available increased faster than the general price level. The impact of these price increases on the general price level was marginal as the turnover in privatized companies represents less that 0.001% of total turnover in the economy.

Chart 9 : Price Index and Wholesale Price Index



Attachment 5.4 contains the detailed price indexes. Chart 10 shows the percentage of companies with increased prices over the previous year.

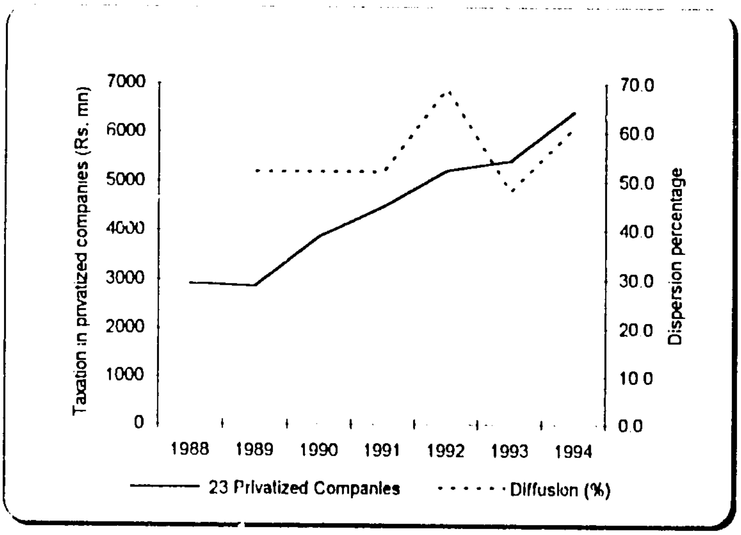
Chart 10: Price - Diffusion Index



Taxation

Fiscal levies contributed by 23 of the companies increased faster than the increase in total revenues of the government during the period. Over the period, 83% firms in the sample increased their tax payments to the government, increasing the total collections from the privatized companies from Rs 2,910 mn in 1988 to Rs 6,422, mn in 1994. The details of tax paid indexes are in attachment 5.5. The percentage of companies with increase in tax payments over the previous year is shown in the diffusion index.

Chart 11: Taxes paid Rs Mn



Industry structure

The impact on industry structures due to privatization has been mainly in the area of financial services and the hotel industry sectors. However, in other areas, competition increased after privatization such as in the ceramics sector, tires, motor companies and distilleries, streamlining operations and improving service levels as the firms become more market oriented. With time, some companies which were monopolies have had to face competition after privatization as with Ceylon Oxygen and Ceylon Agro Industries.

The impact on financial markets did not result primarily from the privatization of financial enterprises but the impact that the program had on the development of the stock market and the consequent development and expansion of the financial services industry.

The financial sector privatizations were: Acland Insurance Services (a small insurance company), National Development Bank (one of the two development finance institutions in the country) and People's Merchant Bank, (the merchant banking arm of People's Bank, a state owned bank). These divestitures did not have a dominant impact on the industry, as they accounted for a relatively small part of the total financial services industry.

The privatization program was one of the series of policy reforms that transformed the financial services industry through the generation of demand for new financial services, and thereby improved access to capital. The program contributed significantly to the emergence of new financial intermediaries such as stock brokers, merchant banks and venture capital companies, while established financial institutions have developed new products to suit the needs of the market.

On more than one occasion, domestic entrepreneurs successfully bid for assets of the privatized companies but subsequently had difficulties in raising the necessary funds, due to many factors, including the size of the undertakings on offer, and regulatory constraints faced by the existing financial intermediaries. At the same time, the privatization of enterprises that were dominant in their industries and the resultant de-regulation threw up new opportunities for the expansion and development of these companies and for the entry of competing firms, creating new opportunities for the financial services industry. (Nanayakkara, 1993)

Specific financial services which developed as a result of the privatizations were: the valuation of business, financial structuring of the acquisition, mobilization of funding, legal and secretarial services and handling public issues. Developments are also seen in methods for structuring finances, such as in the leveraged buy out of Kelani Tyres, Veyangoda Textile Mills and Puttalam Cement Company (see box) and the development of the use of debentures as a source of financing

Puttalam Cement Company- a leveraged buy out

A leveraged buy out occurs when borrowings against the assets of a target company is used to purchase the company. This strategy creates a highly leveraged capital structure with a heavy interest cost. This mechanism is used when a restructuring of operations will generate large cash flows in the future which can then be used to retire debt.

The leveraged buy-out of Puttalam Cement Company Ltd has caused much controversy as the question of the legality of a leveraged buy out under the present company law in Sri Lanka has been questioned. This issue has now been settled through a redefinition of the Balance Sheet.

February 9,1993: the government of Sri Lanka called for offers for the purchase of a 90% stake in the share holding of Puttalam Cement Company Ltd (PCCL),which manufactures cement.

September 20, 1994 the offer of US$ 41.1 million made by Tawakkal Group of Companies of Pakistan was accepted.

January 5, 1994: The purchase consideration was paid, financed partly by a direct payment of Rs 1,128 million by a consortium of local and international investors and partly through the issue of debentures by the company as follows:

		Rs mn	%
Equity		1123	56
Debentures	600		
Convertible debentures	300	900	44
		2020	

The attractive earnings potential of the company in the hands of private sector management who intended to modernize and expand the plant resulted in a successful mobilization of the funds. The company intends to get a listing on the stock exchange and issue new shares to obtain the funds for the program of modernization. It is also expected that the debentures would eventually be quoted on the market, reflecting the price of the underlying shares.

The straight debentures holders were guaranteed an interest rate of 21% while the convertible debentures carried an interest rate of 15% and would be convertible to 2 ordinary shares at a future date. The local investors took up the redeemable debentures while part of the convertible debentures were placed internationally. The redeemable debentures were secured by a primary mortgage of the assets of PCCL.

The expansion and sophistication of the stock market and related services was a direct result of the privatization process. As a result of the increased volumes traded and foreign investment in the market, new stock brokerages have started up in technical collaboration with regional broking houses such as Jardine Fleming and Smith New Court. These operations in turn have resulted in greater publicity to attract buyers for privatized companies through their international marketing networks. In addition, the collaboration with the regional broking firms has improved the quality of the research and evaluation in the local market.

The three five star hotels owned by the government, Hotel Lanka Oberoi, Ramada Renaissance and Hotel Ceylon Intercontinental were privatized under the company names of Asian Hotels, Trans Asia and Hotel Services. As these hotels had been given out to 3 different hotel management companies to operate, there was a severe price war resulting in negative returns. A group of foreign investors successfully bid for a stake in all three hotels and have now set a new strategic direction for the hotel industry. Although the same management contractors are running the hotels, the new owners are upgrading the hotels through a major refurbishing program, a policy of not competing on price within the group has reduced competition within the hotel group, but increased their ability to compete with the leading five star Colombo Hotel. Privatization has consolidated this industry and increased profitability of the companies although at a price to the consumer.

Competition and reguiation

In 1987, the Fair Trading Commission Act 1 was set up to control monopolies, mergers and restrictive business practices and continue with price surveillance. At our interview with the Fair Trading Commission (FTC) they emphasized their role in encouraging competition rather than regulation. However, the lack of adequate resources in the form of funding to employ and retain qualified staff poses a very real constraint on their activities. As a result, it is conceivable that they are not in a position to effectively deal with anti competitive practices that may arise. A report presented to the Industrialization Commission of Sri Lanka on Competition Policy proposes the transformation of the FTC into a Presidentially appointed National Competition Council (NCC) that would make competitiveness and enhancement of competition the central foci of development policy and have the political clout to promote it. The report also cites the necessity to endow this organization with the necessary resources to carry out its mandate.

Many concerns have been raised about converting public monopolies into private monopolies without adequate regulation. So far, the signs are that with time, the market appears to be solving the issue as competitors emerge. In fact some are of the opinion that the government relinquishing the monopoly status on industries encourages competition. Ceylon Oxygen, which was a monopoly producer of industrial gases, already has one competitor in operation and another possible competitor about to start operations. Ceylon Oxygen is now feeling the constraints of the limited possibility of raising prices while still carrying the unnecessarily large overhead expense which is a legacy of state ownership. There were also concerns that Ceylon Agro Industries had a monopoly over animal feed. There appears to be competition emerging in this area as well. Competitors have made complaints to the Fair Trading Commission against these two privatized companies and the cases are being investigated. Distilleries Company of Sri Lanka Ltd controls 80% of the market share of locally produced liquor products. After privatization a large number of bottlers have been issued licenses to manufacture liquor, but significant competition is yet to emerge.

Most domestic industry in Sri Lanka requires a degree of tariff protection to remain competitive. Privatized companies are no exception. Specifically, the textile companies, Kelani Tyres and Ceylon Oxygen would not be able to be profitable if not for the tariff protection they enjoy. At the same time, Kelani Tyres and the textile companies have strong competition from imported products. Management of these companies allege these products are often brought in without paying the full tariff on the item, either through under-invoicing or by smuggling. The management of these companies, however, are aware of the necessity to become more competitive and are exploring export opportunities.

Some companies continue to be dependent on government purchasing, as at Leather Products Corporation, (the primary supplier of boots to the military) that had special arrangements for 3 years after privatization. United Motors also continues to supply spares to vehicles that were sold to the government in previous years, thus having an assured customer. While privatization must result in a competitive market, and continuing preference to certain entities is not warranted, it is likely that with time these aberrations will be ironed out.

2.3 IMPACT ON FIRMS

Privatization has enabled the firms to become more market oriented, and encouraged them to inject necessary investment to upgrade operations and improve profitability. The access to technology provided by their new parents, along with professional management, is enabling many of the companies to move towards being internationally competitive. The principal problem that the companies face is the change in culture and work attitudes that is a lingering legacy of state ownership.

Labor and Employment

Labor and employee relations remain one of the problem areas in privatized companies as the process of a culture change to a results oriented environment is achieved through new working practices, productivity targets and a more disciplined work environment. The experiences of several organizations including Veyangoda Textile Mills, (see box) Sathosa Motors and even Hotel Buhari where the employee trade union became the new owner, is that changing worker attitudes and developing a new work ethic is a slow and difficult process.

A new work ethic for Veyangoda Textile Mills

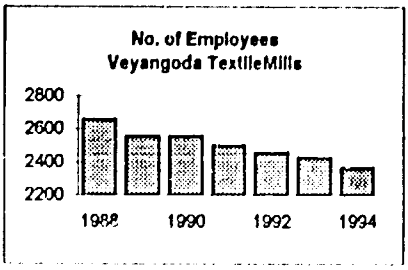
Veyangoda Textile Mills produces fabrics and yarn. It was privatized in 1992 when the government sold 60% of its shareholding to a consortium of investors which in technical collaboration with Marubeni Corporation of Japan has considerably improved the management, efficiency and productivity of the company.

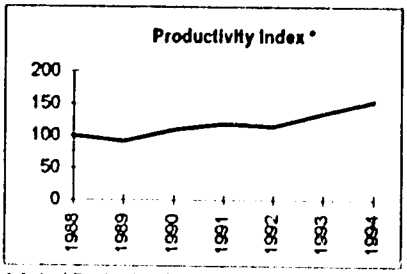
The long period of state ownership from 1961 to 1992 had resulted in the politicization of the work force. Recruitment was done based on Ministry recommendations and the trade union was closely affiliated with the government in power. The average period of service of the workers is 17 years as the labor is supplied mainly from the area surrounding the mill. The company was faced with the problem of implementing new work methods and participatory management through retraining.

The new owners decided to retain the Chief Executive of the company which eased the transition to a private company. The top management made sure that they were accessible to the Trade Union leaders and workers at the time of the privatization and concentrated on a strategy of building up loyalty to the organization through recognition of long service awards, giving priority for employment of children of workers, increasing welfare measures and assurances that increased production would enable earnings to rise. The management even succeeded in changing the 12 hour shift to an 8 hour shift. Consequently, this mill was one of the few organizations that did not have any form of labor unrest consequent to privatization.

The main areas of conflict during the transition period related to fear of retrenchment. The company assured the workers that there was to be no retrenchment for two years and no new recruitment at the middle level management and below. The company did however recruit new senior managers, some of whom were involved in the major changes that directly affected the work methods.

The management believes that the success of the organization will depend on the increasing the level of employee participation in the decision process. However, efforts in this direction have only been partially successful. Quality circles are still not functioning satisfactorily after nearly six months of implementation. It is difficult to change work methods. Despite the efforts of the management to ensure good employer/employee relations, changing work methods to improve productivity has been an uphill task.





* Actual Production/ No. of Employees

The over staffing of the companies posed a big problem to the management of the privatized ventures. Most of the companies entered into an agreement whereby no redundancies were to be made for 2 years after privatization, which prevented a number of companies from reducing the staff to desired levels. Some of the companies implemented selective voluntary retirement schemes with a very attractive redundancy package (see box) as did Distilleries Company of Sri Lanka, United Motors, Ceylon Agro Industries, Ceylon Leather Products and Ceylon Oxygen. Voluntary retrenchment has its problems because it is the ablest of the employees that usually are in the best position to take advantage of the offer as was experienced in the Leather Corporation and Veyangoda Textile Mills. Kelani Tyres overcame this problem by identifying the redundant positions first and implementing the offer of voluntary retirement to any employees in the identified positions. Some companies have adopted a strategy of absorbing the excess staff through systems of retraining with computerization.

Motivating staff to increase productivity and quality standards is one of the most important challenges facing the privatized companies. This is being done through extensive training programs, introducing participatory work methods and incentive and bonus schemes as practiced by companies such as Lanka Ceramics, Kelani Tyres, Ceylon Oxygen and Veytex. Many of the companies cited the fact that the elimination of political interference in the running of the company has resulted in improved motivation as well as skill levels. The most significant change in recruitment has been that ability has replaced political affiliations as the criteria. However, some vestige of the old system remains.

Efficiency

Efficiency increases the productivity of companies by reducing the resources consumed per unit of output. Privatized companies improved productivity in many different ways.

Reduction of excess employees and the reduction of absenteeism was one of the principal methods used to increase efficiency. Incentivising production as a method of motivating staff was also practiced with much success at Lanka Ceramics and Kelani Tyres. Improved work methods through retraining was used extensively at Lanka Ceramics which is estimated to have increased productivity by nearly 10%. Hunas Falls Hotels used the period during which the refurbishment was being done to place staff at other hotels in the group for training, while Ceylon Oxygen engaged in extensive training with the objective of reaching international levels of competence.

The elimination of waste and fraud contributed considerably to efficiency gains in the first year of privatization in some of the companies as was experienced by Ceylon Oxygen where purchasing procedures were streamlined to reduce input costs and Distilleries where large scale pilferage of spirits for sale to illicit markets was prevalent (Annual Report 1994)

Chart 12: Distilleries Company: turnover

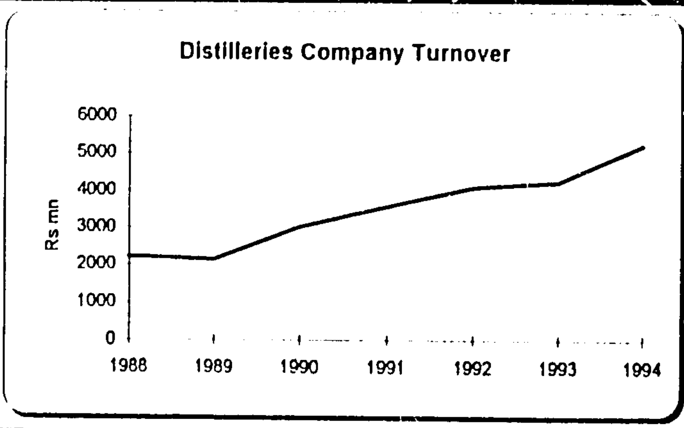
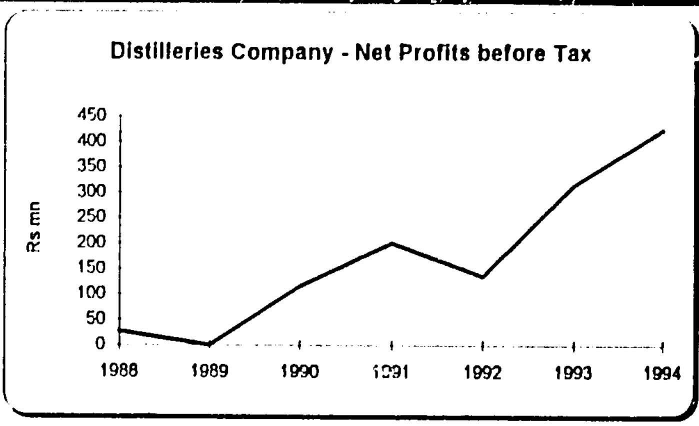


Chart 13: Distilleries Company Net profit before tax



Better utilization of assets was accomplished in many ways such as the use of excess land by Asian Hotels, which expanded into construction of apartment blocks. Ceylon Oxygen upgraded and modernized their plant and enhanced stock control systems. Kelani Tires is adopting a strategy of rehabilitating old machinery and improving productivity before investing in new machinery. Much of the storage of raw materials of Kelani Tyres has been eliminated in favor of spot purchases and deliveries. This was made possible by the elimination of the need to gain Ministry approval for purchases, a time consuming process. Similar changes were reported by other privatized companies.

The decision making process in the company has also resulted in efficiencies with the management being able to respond more quickly to the needs of the organization without being restricted by the rules that have to be followed under government ownership. For instance, the companies can now engage in more efficient purchasing methods using economies of scale afforded by centralized buying by the parent company such as in the hotel sector. In the textile sector, the ability to build up long term relationships with suppliers, has resulted in more stringent quality standards, resulting in lower input costs and better quality.

On aggregate there is an improvement in the productivity of the privatized companies. However, analysis of output per worker shows that the reduction in employment has been a significant contribution to the improvement in labor productivity.

Investment and Technology

Budget constraints resulting from a large deficit prevented the government from investing adequately in the commercial enterprises that came within its control. This resulted in a constraint on the enterprise in terms of accessing new technology, improving production techniques, expansion programs and on-going maintenance. Privatization, for most of the companies, resulted in large investments to upgrade and expand the company. The companies that were listed on the stock market were able to raise money though the market for the investment program, as did Asian Hotels, and Hunas Falls.

Many of the companies bought unproductive assets as part of the privatized company. There have been different approaches to dealing with these assets. Kelani Tyres has a policy of disposing of unproductive land to improve the liquidity of the company, while Asian Hotels has decided to develop the excess land by way of additional investment. Although the sale of assets by privatized companies has raised cries of asset stripping, if the company is not in a position to utilize the asset, disposal to some one who has use for it is often a good management decision.

Significant improvements have been made in asset management such as with debtors and stock control in the companies, which have had an impact on the management of finances by reducing working capital needs and generating the liquidity needed for expansion.

Investment has taken place to achieve diverse objectives as is seen in the examples listed:

Table 14; Investment projects in privatized companies

	Investment undertaken and/or proposed
Asian Hotels	complete refurbishment program
	develop excess land into an apartment complex
Trans Asia	refurbishment of hotel
Hunas Falls	expansion of hotel, refurbishment, golf course
Veyangoda Textile Mills	New Machinery, computerization
Pugoda Textiles	New machinery
United Motors	additional workshop to increase service levels,
Ceylon Oxygen	new plant for an expansion program, upgrading the present plant and computerization.
Distilleries	packaging technology
Lanka Ceramics	new ventures in the ceramics industry
National Development Bank	diversification of financial services

source annual reports, interviews with management

Technology

Many of the privatized companies inject new technology into the company through the new owners. At Ceylon Oxygen, engineers from the parent company have been advising on production techniques and some of the senior employees are being trained abroad. At Sathosa Computers, the parent company is providing cutting edge technological support (see box). Noritake is providing technical advice to Lanka Ceramics. Reduction in raw material costs due to new designs due to the technical collaboration with Avon is expected to reduce the costs per unit by 15-20% at Kelani Tires. In other instances, the management is taking steps to improve technology as with Distilleries Company introducing tamper proof packaging. Veyangoda Textile Mills is using Marubeni corporation of Japan to improve technical skills.

Management

Management in government organization is generally thought to be poor. Professional managers in the public sector are paid very much less than in the public sector, a multiple of between 4 - 10 times the salary depending on the level of management. It is conceivable that good managers would not find the public sector an attractive option. Privatization enabled the institutions to increase the professionalism in management by releasing it from the stipulated salary structures. It was at the middle management levels that the greatest impact was felt for it was in these grades that it was most difficult to attract competent staff. This had a significant impact on the ability of the company to improve management capability.

Sathosa Computers finds the right parent

Sathosa Computer Services Ltd was incorporated in 1982 by converting the data processing department of the Cooperative Wholesale Establishment (CWE). Subsequently, it became one of the leading information system consultants in Sri Lanka, catering to both public and private sector organizations. The company was bought by Hayleys, one of the most efficiently managed firms in Sri Lanka, for Rs 1.5 mn in November 1992. Almost 2 years later, with losses mounting despite increase in turnover, Hayleys divested itself of the company in July 1994. EDS the new owner took over the company at no cost except to pay the credit balance in the books due to Hayleys.

Business activities

Consultancy services

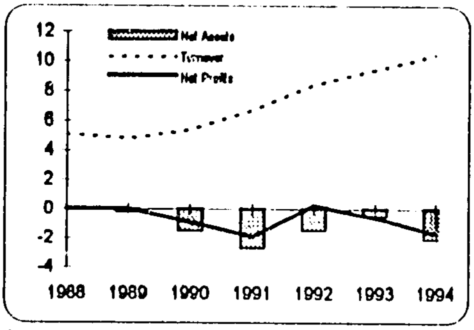
Systems analysis and design

Software maintenance

Facilities management

Bureau services

Training



The new parent company is a regional software house. The leading edge knowledge of the Information Technology industry and the software products made available through EDS is giving a competitive edge to the services that Sathosa Computers has to offer. The turnaround of Sathosa Computers is now being accomplished through cutting down unnecessary expenditure and expanding the client base. Although the employees still find it difficult to get accustomed to the change to a high tech, private sector culture of organization, the new management is confident that they can make the venture a success.

We see here an interesting example of how market forces delivered the company to a parent that could support and develop the company through synergies of "strategic fit".

Strategic planning

Privatization has resulted in the Board of Directors of the companies becoming more business oriented by giving them the ability to respond quickly to new developments in the environment. The directors have also become more results oriented with shareholders demanding returns on their investment and becoming concerned with the share price on an on-going basis whereas the government tended to be a more passive shareholder. Several of the companies had systematized budgets and corporate planning processes were introduced after privatization.

At the National Development Bank, strategic alliances were made by offering a stake in the equity of the company to institutions such as Citicorp Investment Bank of Singapore and Asia Pacific Ventures. Subcommittees were set up at the board level to guide the direction of the company which resulted in the owners getting directly involved in the running of the business. Hunas Falls hotel is an interesting example where it was developed into an up market hotel which has allowed them to increase room rates four fold.

The companies that were under a management contract such as the Asian Hotels and Trans Asia, the textile firms and Sathosa Motors (which was an independent company owned by the Cooperative Wholesale Establishment) found the transition from a state owned enterprise relatively less painful. They were used to private sector style management. In the case of city hotels, where the management contractors have been retained by the new owners, it is the strategic vision and its resultant investment that is the most visible change in the organization.

Product marketing methods

Marketing orientation is perhaps the most important development in the post privatization period. In many of the companies, the marketing division had to be significantly expanded, driven mainly by the need to be competitive. Examples range from National Development Bank which engineered a change in image to "the achievers bank" to the Leather Products Company which had to change from a "selling" to a "marketing" strategy with the recruitment of professional marketing personnel. Some examples, although seemingly trivial reflect the attention to detail and being close to the customer that is the hallmark of successful companies. At Lanka Ceramics showroom, where customers had to bring their own packing boxes, are now provided with the same free of charge. The dealer that buys from Kelani Tyres no longer has to order 35 tires to get his actual requirement of 8 and The Distilleries Company now delivers products to its customers' premises

The increased customer orientation has resulted in widening of dealer networks as has occurred at Kelani Tyres and United Motors, introduction of new products as at Ceylon Oxygen and improvement in quality as at Veytex.

Turnover has increased in 25 of the 27 companies for which data is available. Although turnover figures are not conceptually the same as GDP at market prices, comparison with GDP is provided to give a rough measure of the overall growth in turnover since value added by the firms cannot be calculated form the data available. The detailed indexes for the companies are given on attachment 5.6. The percentage of companies with increased turnover over the previous year is shown in the diffusion index on chart 16.

Chart 15: Index of turnover

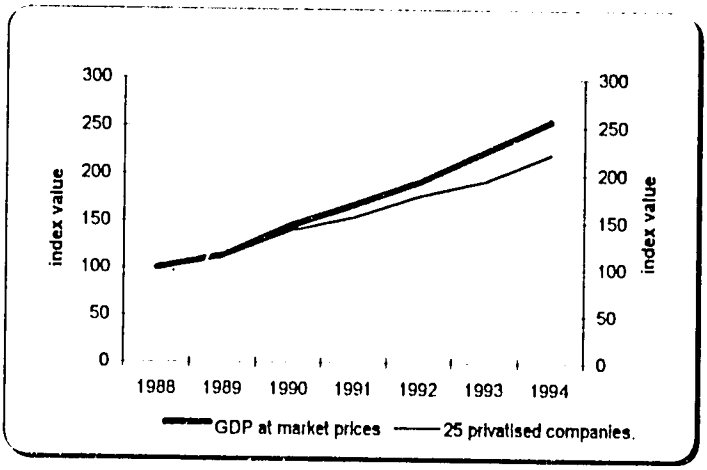
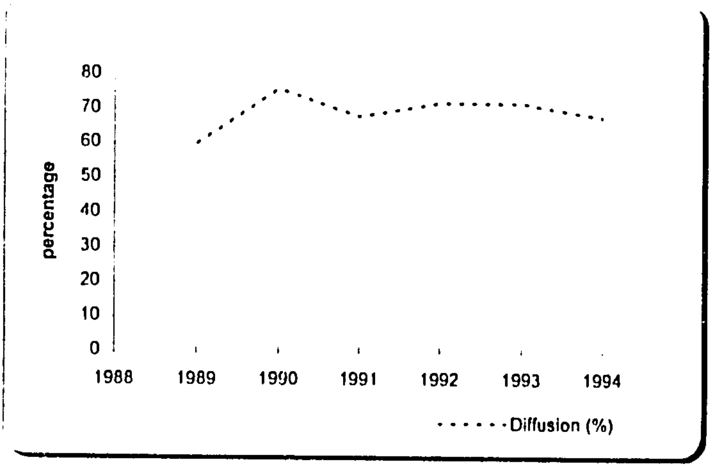


Chart 16: Turnover - Diffusion Index



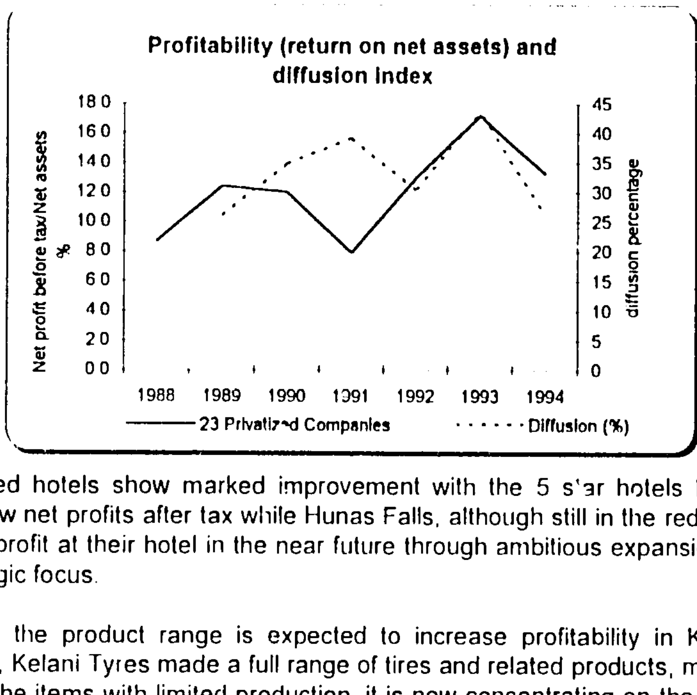
International competitiveness

While most of the privatized companies that were interviewed had a long way to go before they could compete in international markets, it is clear that the management of the companies were looking into the possibility of doing so in the future. Kabool Textiles is producing largely for the export market. Ceylon Leather Products is exporting on an ad-hoc basis. Veytex is exploring an expansion program with the possibility of exporting. While Kelani Tyres currently needs a tariff rate of at least 45% to be profitable, in the long term, it is expected that technical improvement will make the company competitive in the export market.

Performance

Return on Net Assets has been examined for the 21 companies for which data was available. The absolute rate of the return in these cases would not be significant as the price and terms of payment and not the net assets of the companies would determine the return to investors. For the purpose of this study, the return on net assets is compared over time to identify whether the companies improved their performance. Levels of profitability are affected by strategic decisions which may not give improved returns in the short term. It is therefore too soon to come to a definitive conclusion. However, it is seen that over the period studied, 53% of the companies improved their profitability. Attachment 5.7 shows the individual results of companies. The diffusion index shows the percentage of companies that have increased profitability over the previous year.

Chart 17: Return on net assets



The privatized hotels show marked improvement with the 5 star hotels being turned round to show net profits after tax while Hunas Falls, although still in the red, is confident of turning a profit at their hotel in the near future through ambitious expansion plans and a new strategic focus.

Rationalizing the product range is expected to increase profitability in Kelani Tyres. While earlier, Kelani Tyres made a full range of tires and related products, making losses on some of the items with limited production, it is now concentrating on the manufacture of light truck tires which will increase profitability.

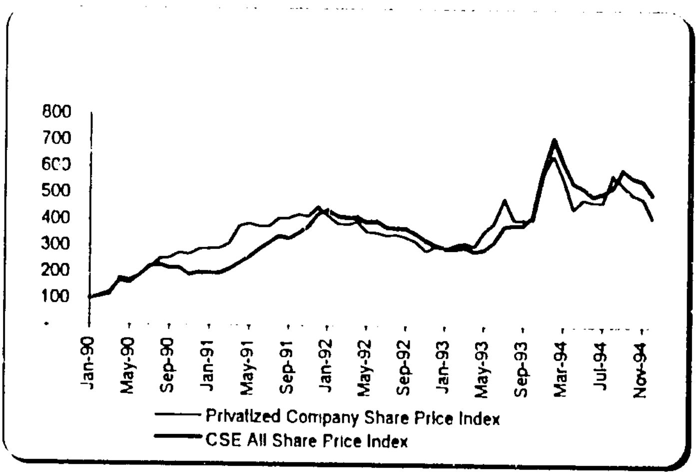
Lanka Loha bought the State Hardware Corporation with the intention of using the facilities for manufacturing containers at a time when there was an acute shortage of containers world wide. But by the time the company was handed over, nearly 2 years later, the shortage had eased and many factories were supplying the market from other parts of the world. The company has since been beset by many problems, including the fact that the cost of production of the main product, mammoties, is uncompetitive in the world market. Meanwhile the government has been engaged in importing and distribution of mammoties in competition through the CWE and State Trading

Corporation networks, making it almost impossible for Lanka Loha to engage in profitable operations.

Share prices

The index of privatized company share prices and the CSE all share price index is compared in the chart below. We see the two indices moving in much the same manner.

Chart 18: Index of privatized company share prices and all share price index



Analysis of the sectoral indexes for privatized companies as compared with the All share sectoral index

Chart 19: Privatized company sectoral indices

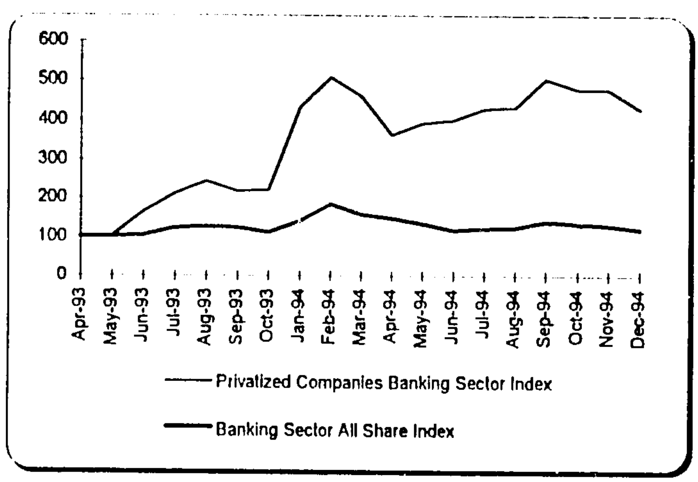
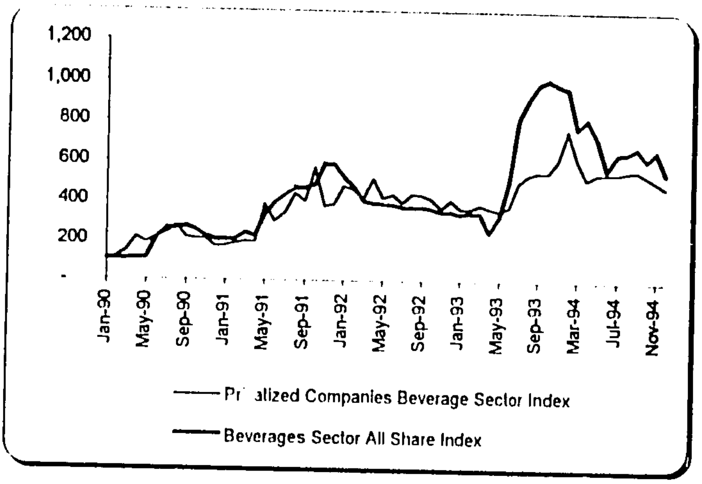
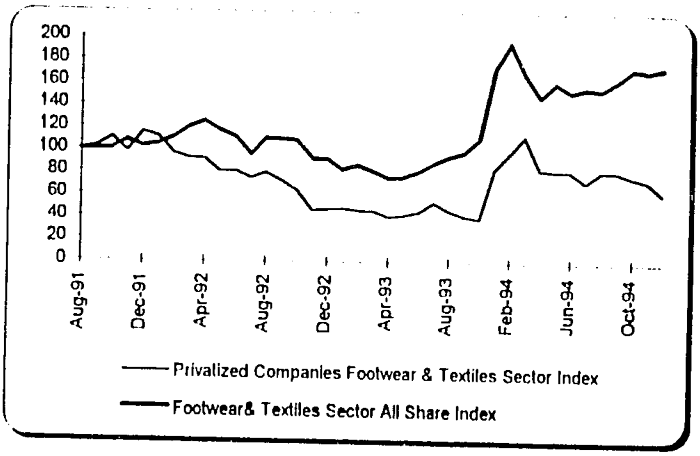


Chart 19 ctd: Privatized company sectoral indices





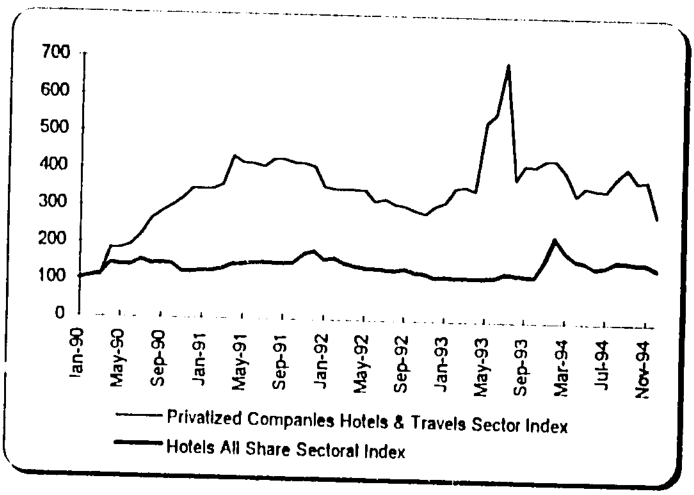
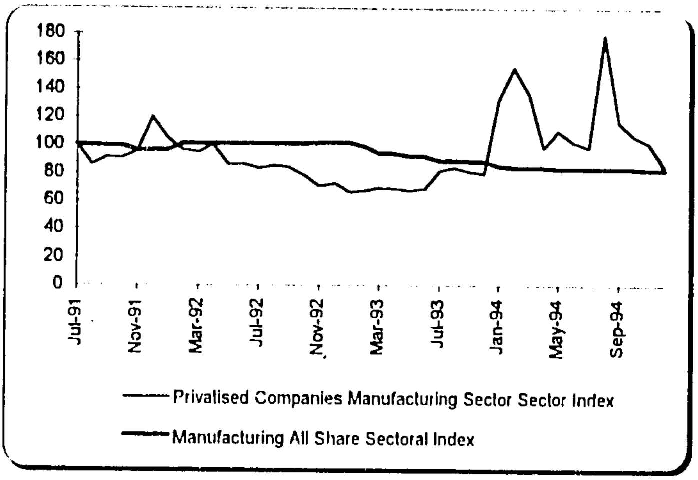
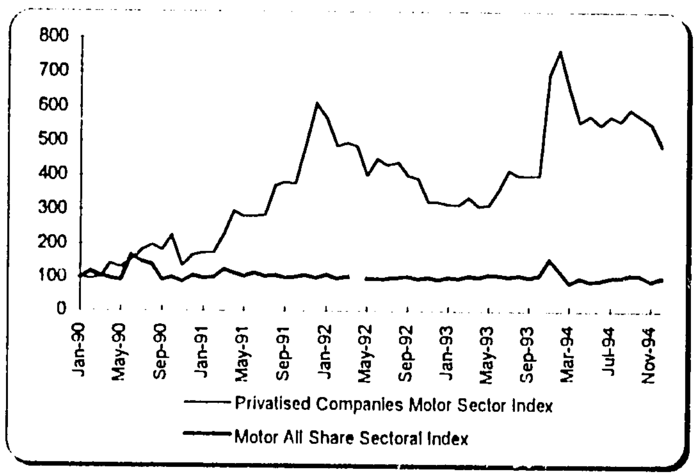


Chart 19-ctd: Privatized company sectoral indices





The privatized companies are performing worse in the beverage, footwear and textiles sector and performing better in the motors and finance sectors. The manufacturing sector is showing improved performance after January 1994, due to the rapid increase in price in Lanka Ceramics.

Table 20 shows the initial offer price to the public through the stock exchange and the price one month after the share opened for trading on the exchange. The price is chosen as one month after the date of opening to allow initial price volatility to abate before analyzing the price. Much of the gains made on privatized company shares come from the difference between the initial public offering price and the price at which it is initially quoted in the market.

Table 20 : Capital Gain on Initial Public Offer

Company Name	Date of Issue / Divestment	IPO Price/ Price on date of divestment*	Stock market price at the end of the 1st of month of trading	% Appreciation/ (Depreciation)
National Development Bank	Feb-93	50.00	95.00	90
People's Merchant Bank	Jun-93	20.00	39.00	95
Veyangoda Textile Mills	Aug-94	18.00	22.25	24
Kelani Tyres	Jan-92	26.00	86.00	231
Distilleries	Jun-92	11.00	11.25	2
Ceylon Oxygen	Mar-91	15.00	85.00	467
Pugoda	Jun-91	10.00	28.60	186
Lanka Ceramics	Dec-92	25.00	33.00	32
Bogala Graphite	Feb-92	10.00	11.00	10
Sathosa Motors	Sep-93	55.00	193.00	251
Hunas Falls	Aug-93	16.00	43.00	169
United Motors	Dec-89	10.00	10.00	0
Hotel Services*	May-93	20.00	27.00	35
Asian Hotels*	Dec-91	50.00	40.00	(20)
Trans Asia Hotels*	May-93	32.00	30.00	(6)

* Divestment of shares in public quoted companies

2.4 PEOPLE IMPACT

We conducted interviews with 12 employees from privatized companies and 18 dealers of products to identify the impact on motivation, incentivization, service levels and general impressions on privatization. We also interviewed some trade unions and persons connected with the trade union movement in Sri Lanka. (see box) The interviewers were very responsive but sometimes had diverse views. Many of them did not have very definitive views on the privatization process. Workers spoke about efficiency increases, incentives for production reduced political interference and flexibility in the decision making process while the dealers in the products were of the view that there was increased competition, more disciplined administration, improvement in quality and improved availability of goods and increased prices.

Trade Unions in Sri Lanka

Labor resistance has had a significant impact on the progress of the privatization program. For instance, the privatization of the telecommunications Department in the late 1980's was hampered by labor-union agitation (Jayawardene 1992) as was the privatization of the State Banks. The perception that privatization means wholesale deregulation resulting in an increase in prices was also mentioned in the course of our interviews

Most major trade unions in Sri Lanka have a tie with political parties. Workers generally shift to a Trade Union affiliated to the Political Party in power. Worker demands in the public sector become a political issue and are rarely subject to a process of bargaining or negotiation. As a result, unions tend to endorse the policy of the political party rather than being independent representatives of the workers. This feature of trade unionism in Sri Lanka contributed to the successful privatizations in the 1989-1994 period with the Jathika Sevaka Sangamaya, the UNP trade union with a significant membership in the manufacturing and commercial enterprises, backed these privatizations

Some of the major trade unions that are directly affected by the privatization process is listed below, a more comprehensive list is attached.

	Members - 1994
Ceylon Workers Congress	417,188
Jathika Seva Sangamaya (UNP affiliation)	261,892
Ceylon Mercantile Industrial and General Workers Union (CMU) (Independent)	33,493
Sri Lanka Nidahas Seveka Sangamaya (SLFP affiliation)	29,169
Sri Lanka Railway Services Union	10,123
National Post and Telecommunication Services Union	8,781
Ceylon Bank Employees Union	n.a.

n.a. not available

Source Ministry of Labor * upto 7/12/94

Strikes in non plantation enterprises

1988	10	
1989	7	
1990	8	
1991	19	The rise in labor unrest in 1994 after a period
1992	17	of relative tranquillity is associated with the change in
1993	23	government and a resurgence of political activity in the
1994*	70	work place.

Labor resistance has had a significant impact on the progress of the privatization program. For instance, the privatization of the telecommunications Department in the late 1980's was hampered by la' ~r-union agitation. (Jayawardene 1992) as was the privatization of the State Banks.

The major Trade Unions in Sri Lanka have a tie up with political parties. Workers generally shift to a Trade Union affiliated to the Political Party in power. Worker demands in the public sector become a political issue and are rarely subject to a process of bargaining or negotiation. As a result, unions tend to endorse the policy of the political party rather than being independent representatives of the workers. This feature of trade unionism in Sri Lanka has contributed to the successful privatization process with the Jathika Seveka Sangamaya, the UNP trade unior with a significant membership in the manufacturing and commercial enterprises backing the privatization process in the past.

The workers resist privatization for many reasons. The main reason being the fear of retrenchment of labor as these enterprises are known to be over staffed. This is a valid concern, unemployment being as high as 14% (1993) in Sri Lanka. In addition, workers fear that they would not have the same privileges enjoyed as a state employee which included numerous benefits and high salary scales in the lower grades. There is also the perception of government service being a more respectable occupation than work in the private sector with a guarantee of life time employment. The perception that privatization means wholesale deregulation resulting in an increase in prices was also mentioned.

Subsequent to privatization the workers realized the importance of being able to conduct negotiation with management and achieve their demands through a process of bargaining and workers started to shift to unions that could provide them with this ability.

To enable the privatization program, the government gave an assurance of commensurate payment and a sweetener to employees in the form of 10% or 5% of total shares free of charge, the basis of distribution was the length of service, irrespective of the position of the employee in the corporate hierarchy. Table 20 shows the average value of the employee shares received free in terms of the average employee's annual wage (based on share prices in December 1994)

Table 21: Employee shares in Privatized Enterprises

Company	no of average shares received by a worker	average number of years wages represented by the free shares
Hunas Falls	4,000	3
Ceylon Oxygen	1,700	2
Trans Asia	5,000	2
Distilleries	10,000	3
Asian Hotels	9,000	3

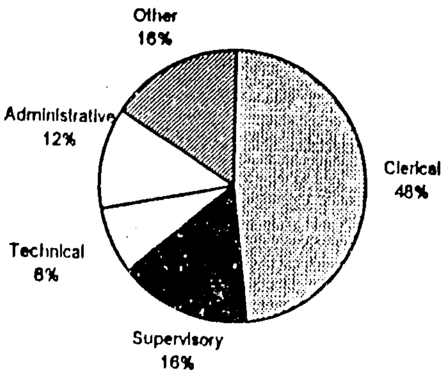
Source: interviews with management

A voluntary retrenchment package was offered to some employees depending on the length of service (see box) despite its seeming attractiveness, inflationary perceptions in the economy were high, making it less attractive to the employees. The offer of 10% shares free of charge was designed as a sweetener to assist the state to sell the privatization package to workers.

Retrenched persons in public sector institutions
Analysis of survey results (SLBDC 1992)

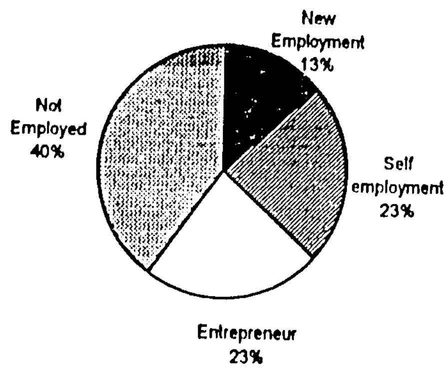
This survey carried out in 1992 covers a sample of 30 persons from those retrenched form the Leather Corporation, Ceylon Oxygen and United Motors. Nearly 75% of the respondents had work experience of over 5 years with some having as much 25 years of experience

Profile of the sample



Some conclusions from the survey are as follows:

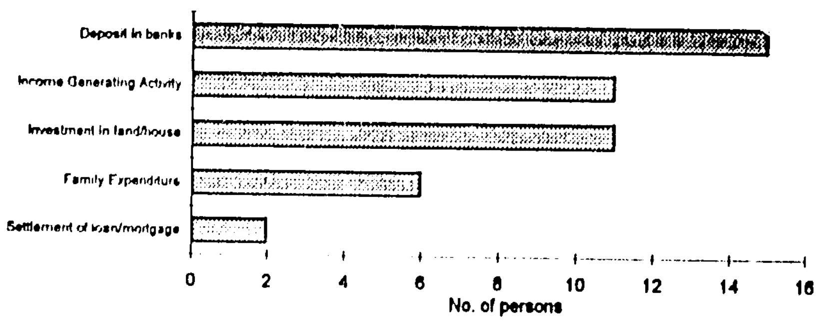
1. Present activities



2. Amounts received as compensation

Rs	Number of persons
<50,000	9
50,000 <75,000	6
75,000 <100,000	8
100,000 < 150,000	3
over 150,000	4

3. Utilization of Funds



3. STRENGTHS AND WEAKNESSES

The qualitative and quantitative evidence presented in this assessment portray a variety of responses to privatization. Many impacts clearly are favorable, but some are not. Summing across these patterns to give overall results - especially ones that could be put forth with any degree of confidence - is risky given the short history of the active privatization phase in Sri Lanka. Even with that caveat, however, there are several features of the privatization that appear to stand out as hallmarks of the process as it has been pursued to date in Sri Lanka.

Among the many strengths are:

- the vital boost given to Sri Lanka's emerging capital markets, which is opening the economy to international portfolio investment:

- Introduction of stock ownership to a small cadre of middle level management, including some who retained their peoplisation shares;

- substantially increased productivity, and sensitivity to market demands, for perhaps a score of firms;

- marginally enhanced government revenues, directly through privatization proceeds, and prospectively via higher values for government-owned shares and improved revenue prospects;

  and in the long run, perhaps most importantly;

- paving of the way for alternative, larger scale privatization initiatives (managerial contracts, long term leasing, public private cooperation on infrastructure, minority private ownership of government facilities and large public enterprises, and others). The new government has taken a number of steps in this direction, as discussed in the epilogue.

Set against these gains are the hard realities of the process; on balance, most comments and data indicate significant weaknesses in Sri Lanka's privatization efforts, which were described as:

- slow, and poorly integrated into the economy;
- not generally igniting basic changes in suppliers, customers or competitors except in financial markets;
- lacking a strong constituency of supporters outside the formal private sector;
- doing little to increase knowledge, or acceptance, of the role of markets in setting prices or allocating resources; and
- adding disappointingly little to government coffers.

4. LESSONS LEARNED AND THEIR IMPLICATIONS FOR FUTURE PRIVATIZATION

Insights drawn (albeit tentatively) from the assessment, and the strengths and weaknesses scorecard, give some useful guidance on what should be continued, avoided, or altered as privatization moves ahead in Sri Lanka. The lessons learned (large and small) and their implications, are provided below.

Lesson:

The first and most fundamental lesson is that privatization bucks a strong head wind in an economy with firmly entrenched public sector production and distribution systems. As long as the existing regime contains economic hardships within acceptable limits, as it has done in Sri Lanka, there is a built-in reluctance to change.

Implication:

Change will come slowly, most of the means of production and distribution are likely to remain under direct public control for the foreseeable future. Full privatization outside the current public sector economic mainstream should continue, large public enterprises should be made more efficient through a mixture of public and private ownership, and market oriented decision making should be introduced/reinforced wherever possible by encouraging competing private sector firms.

Lesson:

An equally important corollary lesson is that an economy with severe macroeconomic imbalances presents a difficult transition environment; eg. newly privatized firms face uncertain availability and a high cost of capital as a result of a government that both borrows heavily and directly controls most financial intermediation.

Implication:

For privatization to take root, the government must simultaneously reduce its role in the economy indirectly; for example, through improved fiscal and monetary management.

Lesson:

The most immediate impact of privatization, as is shown in datafor Sri Lankan firms, is often a reduction in employment. This is a serious deterrent to privatization in an economy like Sri Lanka that is not growing fast enough to produce adequate numbers of new jobs. The jobs issue, and employer-employee relations, dominated most of the discussions on privatization.

Implication:

The principal unions must be courted and won on both a philosophical and economic level; this will not be easy since many represent workers that are extracting heavy economic rents under the present system. The key to success is buying out the rent positions in the short run via more acceptable (and certain) cashable benefits and creation of more truly productive jobs over time.

Lesson:

There was a widely expressed view that the supporters of privatization inside and outside of government had failed to fully inform the public as to the basic goals and methods of the privatization process.

Implication:

Education will be helpful, but cannot quickly convert long standing ideological opposition.

Lesson:

It was often argued that the public had no knowledge of share ownership; and consequently, little positive effects came from either gifting shares of privatized companies to employees, or setting aside a portion of the shares for broad public distribution, under the standard peoplisation formula of ten percent for employee shares thirty percent for the public at large and sixty percent for the core owner/operators. Some felt that poorly informed workers were induced to sell their shares at initial (low) prices, by profit seekers who had at least the tacit co-operation of the new major shareholders.

Implication:

Although allegations of chicanery seems to have limited justification, most employees choose not to hold on to their gifted shares. Despite the considerable compensation involved,-even for those who made the likely rational economic choice of selling early on-there was no indication that the gifted shares influenced employees to accept the privatization process. Efforts of management to encourage employees to hold shares and inform them generally about markets seemed to make little difference in this regard. These reports cast some doubt on the frequently expressed opinion that privatization efforts suffered greatly from the lack of public information. (see box for procedures for divestiture of public enterprises) The universe of potential direct share owners in Sri Lanka is small: most people will come to own shares - if at all - indirectly through pension plans or other collective portfolios. Additional formal educational effort to encourage share ownership may experience rapidly diminishing returns.

Procedures for divestiture of Public Enterprises

This was a modified version of the tender (procurement) procedures of the Government's Financial Regulations which was systematized by Cabinet decision and practice. These rules could be considered as a minimum set of rules which could be used. Jayawardene (1993) notes that unfortunately, this set of procedures did not set out a procedure to inform the public of the privatization process and as a result, may have resulted in some misinformation /disinformation.

1 The relevant Minister will choose the priorities and will recommend to the Cabinet the appointment of a Cabinet Appointed Divestiture Committee (CADC), headed by his own Secretary and with representations of concerned Ministries and the Commercialization Division of the Treasury (CDT).

2 The CADC with own Ministry and CDT assistance will prepare the firm for privatization by -

a) transfer of debt overhang to the Treasury
b) compensated retrenchment of excess staff so that post privatization retrenchment could be avoided
c) valuation by the Government's Chief Valuer
d) determining share capital of the firm as a going concern
e) preparation of up-to-date accounts

3. The CADC will also determine the mode of divestiture

I. Where strong leadership, new technology and public confidence were paramount for future success, it will offer a majority share (generally 51-60%) to a single corporate bidder, reserving 10% to be given to workers free of charge and the remaining 30-39% to be issued to the public
II. Where viability of the firm required a strong financial commitment by the buyer, shares up to 90% will be offered, receiving 10% to the workers, to be given free
III. Where the chances of continued operation of the firm were in doubt but there were valuable assets which could be profitably employed elsewhere, the assets of the firm will be put up for outright sale

IV. Thereafter the CADC will invite sealed offers giving 42 to 60 days notice, published in local newspapers or where useful abroad. The offers should indicate the proposed development plans, the credentials of the bidder and labor employment plan

V. With the assistance of professional financial institutions such as the Development Finance Corporation of Ceylon, the National Development Bank and leading accounting firms, the CADC will evaluate the offers, giving primary weight to the financial offer or proposed buying price. Two offers being similar the CADC could give weightage to the competence and the track record of the bidder and the wisdom of the development plans.

VI. The best financial offer will be recommended to the Cabinet. If not, reasons will have to be given as to why a lower offer is recommended.

VII. If the CADC wishes to negotiate for better terms, it should seek Cabinet approval.

VIII. Once the Cabinet decides, the line Ministry of CDT will sign a Memorandum of Understanding (MOU) with the successful party, indicating the time schedule of payments and actual divestiture, which will have to be backed by a performance bond.

Where the CADC feels, for given reasons, a good financial offer could be obtained by bidding in the Colombo Stock Exchange, it should be recommend and obtain Cabinet approval to do so.

Source Jayawardene (1993)

Lessons:

The toughest lesson to capture correctly is that of the need for fairness, transparency and trust in the privatization process. Outright dishonesty has been identified as a pervasive characteristic of Sri Lankan privatization, especially by those outside the process, those who were adversely affected (workers who lost their jobs, unsuccessful or would be bidders). The most vocal opposition currently comes from those most likely to be affected adversely by future privatization (mostly entrenched unions and workers). Our assessment did not attempt to determine the validity of these claims; to do so was both outside the scope of work and the capabilities of the investigators. Perhaps by bias in selection of interviews, or from reservation on the part of supposedly neutral parties contacted, the interviews did not uncover the alleged widespread abuses.

Implication:

Privatization in Sri Lanka is predominantly a political issue; issues of resource utilization and efficiency are secondary. Stated differently, how the pie gets divided (or how it is perceived to be divided), takes precedence over its size. Given the grave difficulties in determining exactly what something is worth, especially in an economy where markets signals are often discouraged, it will be hard to expedite the privatization process, outside of curtailing obvious deceit and fraud. Politically motivated caution, reinforced by the need for continuing consensus, is another factor pointing to low rates of new privatization.

Lesson

Prior to the recent allegations of impropriety, much attention on privatization methods centered around the use of tenders for sale of firms, versus sale on the stock exchange. The obvious advantage of the stock exchange sale was that it was more open; the disadvantage was that the state had less control over the ultimate purchaser and the conditions surrounding the sale. In practice, both methods appear to have been necessary, depending on the firm being sold. When either method is possible, most people interviewed favored the stock exchange route; since such sales are both easily policed and immediately supportive of that capital market.

Implication:

The privatization already in place has produced some productive dialogue, often between groups initially holding diverse views. There seems to be a growing appreciation of the practical, procedural problems that accompany any privatization, and a growing willingness to adapt to the needs of the transaction.

Lesson:

While the assessment is not primarily about USAID's involvement, the specific lesson for this organization is that donor assistance can help move privatization along, albeit at a pace likely to be seen as quite slow; the further removed the assistance is from the actual transaction the more effective it is likely to be. Redundancy payment made to encourage privatization may have improved USAID's access to the privatization process, but assistance to the stock exchange was far more leveraged in terms of making the most of a little privatization. Although the assessment team did not review extensively the details of the assistance provided through the Commercialization of Public Enterprises Division (COPED), the interviews produced mixed views on the effectiveness of this organization, in contrast to the virtual universal acclaim for USAID's support for the stock exchange.

Implication:

The implications are incorporated in the recommendations for future assistance provided below. In general, the assessment team recommends that USAID evolve away from direct new privatization assistance, moving toward specific company assistance to improve productivity (e.g. TIPS) and broad support for financial markets whenever possible USAID should lend weight to donor community assistance for economic reform, especially of fiscal policy and financial institutions.

5. RECOMMENDATIONS FOR FUTURE ASSISTANCE

Although not specifically soliciting advice on USAID funding (which may have unduly biased or side tracked the discussions), the team attempted to determine indirectly ways in which future assistance would be most beneficial. Areas identified were:

1) there seems to be a role for continuing mediation between management and employees/unions among the privatized firms. We were impressed with the confidence expressed by all sides in the capabilities of the Employer's Federation and recommend exploring with that organization the forms of assistance that would be most useful management and labor.

2) capital markets support has been extremely helpful in magnifying the benefits of privatization; broadening the support to include other financial markets, already included in USAID's financial markets project, makes sense and should continue. Although it may be the toughest row to hoe, USAID should look for ways to assist the government to privatize government owned financial institutions - especially the two large commercial banks. Based on experience to date, this will require new approaches, so some USAID support might be given to exploring successful state bank privatization elsewhere.

3) USAID, already deeply involved in public/private partnerships for infrastructure (built-own-operate, built-own-transfer, and similar devices), may want to concentrate further on this effort. Especially needed by government participants in such deliberations is assistance from very experienced, technically qualified experts with good track records on similar projects.

4) the privatization of Air Lanka, Telecommunications and other big public enterprises will be the battleground for the coming post small-medium firm privatization period. Frankly, based on the collective opinions of those interviewed, this is probably an area to avoid. To do otherwise risks undermining the relatively solid contributions USAID has made to privatization to date. Now is the time to extend and shore up earlier contributions, and possibly reach out for increasing privatization of financial intermediaries, as opportunities arise.

EPILOGUE

Privatization activities in Sri Lanka remain controversial; their net benefits hotly debated. In late 1994, a new government was elected partly on the basis of a campaign that severely criticized past privatization policies and actions. As we enter 1995 there is a haze of uncertainty over the course of future privatization efforts, one that is unlikely to lift until the new government demonstrates the nature of its voiced strong support for the private sector.

Pronouncements in the new government's first budget, and related follow on statements, are encouraging. Especially welcome are the emerging details on future privatization, as in the case of the proposed capitalization and sale of long term leases in the plantation sector and the creation of the Public Enterprise Reform Commission. Still to be learned is the nature of the government's proclaimed strategic alliance with the private sector, and the success or failure of budget deficit reduction measures.

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Attachment 1

Scope of Work

Impact Assessment of Sri Lanka's Privatization Program

1.0 Title of Study.
Impact Assessment of Sri Lanka's Privatization Program.

2.0 Purpose of Study.
The purpose of this study is to provide the USAID/Sri Lanka Office of Private Sector Development and Housing (PSDH) with: (1) an assessment of the impact of the Government of Sri Lanka's privatization program; (2) an analysis of the successes and failures of the privatization program; (3) a review of the policy measures taken by the Government to support the privatization program (e.g. tax incentives, tariff concessions, labour policies); and, (4) a review of "lessons learned" from the program to date which could be reflected in the Government's ongoing privatization efforts.

3.0 General Background - The Government of Sri Lanka's Privatization Initiative.
Following independence, the Government of Sri Lanka chose to establish State-Owned Enterprises (SOEs) as a means of driving economic growth. In the late 1950's a public act was passed creating SOEs in the mining, agriculture and textile sectors, among others. From 1970-77 the government implemented a nationalization program, following the 1971 passage of The Business Undertakings (Acquisition) Act which provided the legal basis for nationalization. This Act was amended several times thereafter, and continued to provide the basis for the establishment of Government-Owned Business Undertakings (GOBUs). Overall economic liberalization was initiated in 1977, and included a commitment to privatization, albeit tentative, due to the realization that various public enterprises were having an increasingly difficult time competing with private sector enterprises. GOBU's were converted into limited liability companies, registered with the Registrar of Companies and shares vested with the Secretary to the Treasury in preparation for divestiture.

Sri Lanka's privatization program now covers the major sectors of the economy i.e. industry, agriculture and services. In the industrial sector, 42 state owned enterprises (SOEs) have been privatized to date (July 31, 1994). In agriculture, the management of government owned plantations in the tea sector have been privatized. In the service sector, the bus transport subsector has already been partially privatized and in the banking sector the two state banks, People's Bank and the Bank of Ceylon, are to be managed on more commercial lines in the future.

The privatization of state owned enterprises (primarily manufacturing industry) effectively commenced during the period 1987-1990 under the Presidential Commission on Privatization. This commission designed the general framework for privatization, established criteria and drew up a list of state enterprises to be privatized. In January 1990, small enterprise privatization was entrusted to the Commercialization of Public

YB

Enterprises Division (COPED) of the Ministry of Finance. COPED's list of enterprises to be privatized has grown consistently since then and presently contains 70 SOEs. As mentioned above 42 of these SOEs have been privatized and of these, a total of 12 were completed during the year 1993. The Government of Sri Lanka (GSL) has a commitment to completing those privatizations that are presently in the pipeline during 1994. However, the future of the remaining enterprises earmarked for divestiture will depend on the results of the upcoming election. The larger enterprises to be privatized are presently handled by the Ministry of Industries or other specialized bodies with support from the World Bank.

The usual mode of privatization of the SOEs on COPED's list is that 10 per cent of the shares are allocated free of charge to the employees of the company, then 60 per cent (or more in some cases) are offered to a corporate investor either through a tender process or on the Colombo Stock Exchange. Finally, the remaining 30 per cent of the shares are sold to the public through the Colombo Stock Exchange. In general, the government's chief valuer values the companies to be privatized using both the "net asset" method and the "cash flow" method.

4.0 USAID/Sri Lanka Support to Privatization.

In 1988, USAID established the Private Sector Policy Support Project (PSPS) to provide assistance to the GSL and Sri Lanka's private sector in the following areas: strengthening private sector chambers and business associations; capital market development; venture capital firm development; and, privatization. The privatization component of the PSPS was initially expected to work with the Presidential Commission on Privatization. A lack of progress there resulted in a shift to assisting the Commercialization of Public Enterprises Division (COPED) of the Ministry of Finance in implementing GSL's medium-term privatization (3-5 years) program. Approximately $ 9 million of the overall $15 million PSPS project was allocated to provide technical and financial assistance to COPED. USAID assistance for privatization has been directed toward four stages in the privatization process: technical assistance; certain operating cost support for COPED; expenses related to the preparation of SOEs for divestiture; and, some of the actual costs of divestiture, including severance payments for redundant labour.

As part of the project, USAID entered into a three year contract with Ernst & Young's (USA) International Finance and Investment Consulting Services Group to work directly with COPED to produce on-going valuations and company profiles of public enterprises selected for privatization. The project was initially projected to run from September 1989 through July 1993, but the contract was amended in April 1992 and thus terminated on December 31, 1992. Ernst and Young performed several initial valuations and then trained the staff of Ernst & Young/Colombo, COPED and the Valuation Depa ment to continue the work, with minor additional support provided by Equity Expansion International Inc. and Intrados.

Continuing support for privatization under the PSPS project includes a host country contract with a local accounting firm to continue the remaining preparatory work related to the privatization of the remaining 28 companies earmarked by the Government. Also, training of executives and managers of privatized SOEs was expected to be significantly more under PSPS than was actually carried out. This has been due, in part, to the fact that it is only within the past two years that a large number of SOEs have completed the privatization process. To date, five senior executives from the Ceylon Leather Corporation, Asian Hotels Corporation, Ceylon Oxygen, Pugoda Textiles Ltd. and United Motors Ltd. have been sent to a post-privatization management course conducted by INTRADOS in Washington. It is expected that USAID will support a post-privatization course to be held in Colombo for the management of newly privatized enterprises during September,1994.

5.0 Study Objectives and Statement of Work

As stated in Section 2.0, the purpose of this study is to provide the Government of Sri Lanka (GOSL) and the USAID/Sri Lanka Office of Private Sector Development and Housing (PSDH) with an assessment of the impact of the Government of Sri Lanka's privatization program, and, make recommendations which can be considered in the Government's future privatization efforts.

5.1 Issues and Questions for Study

The study will be designed and implemented in a manner that will provide empirical findings (i.e. evidence), conclusions (i.e. interpretations and judgements about findings) and recommendations related to the privatization process, while answering the questions listed below:

a. Program Impact on the Government: What are the major accomplishments of the privatization program? The major strengths and weaknesses? Has the privatization program had a significant budgetary impact on the GSL? If so, of what magnitude? What is the continuing financial burden on the Government of maintaining the remaining State Owned Enterprises?

b. Program Impact on Individual Firms: What has been the impact of the privatization program on individual firms - particularly in the areas of employment, technological improvements, financial management, human resource development, strategic planning and product marketing? Are these enterprises viable as privatized entities? Are they becoming internationally competitive? What policies/conditions continue to constrain the development of newly privatized enterprises?[1]

c. Economic Impact: The benefits of privatization are usually expected to include more competitive behavior and efficient performance of firms, with longer term benefits felt in terms of increased income and employment, competitive prices to consumers, and so forth. Are these benefits being felt in Sri Lanka? If not, why? To what extent has privatization of State Owned Enterprises changed the structure of industry in Sri Lanka? Have anti-competitive arrangements (tariff protection, market share guarantees, etc) been made in the process of privatization in Sri Lanka that significantly

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[1] We anticipate that the consultant will survey a cross-section of around 10 privatized companies, relying on previous studies to supplement the field work.

reduce the benefits that society at large gains from the process?[2] Have public monopolies simply become private monopolies? Is there an effective regulatory mechanism in place to ensure a competitive environment and oversee monopolies, mergers and restrictive business practices. Has the program had any impact on liquidity on the Colombo Stock Exchange?

d. People Impact: What impact has the ten per cent share issue to employees had in terms of broad basing the structure of share ownership in the country? What is the overall effect of privatization on employment in firms? To what extent has the average consumer and worker benefitted from the impact of the privatization program.

e. Lessons Learned: What are the principle "lessons learned" with respect to the GSL's privatization program? What options and recommendations could be derived from this analysis to improve and facilitate the program? What future role exists for USAID in the GSL's privatization program?

5.2 Statement of Specific Evaluation Tasks:
In addressing the questions and issues listed in Section 5.1, the contractor will perform the following tasks:

Task 1: Carry out Preparatory Work
The contractor shall become familiar with Sri Lanka's privatization program and issues by reviewing the following documents to be provided by USAID:

a. PSPS project paper (PP)
b. PSPS Project Evaluation Reports
c. Ernst & Young Final Report
d. Selected independent studies on privatization in Sri Lanka.
e. World Bank reports on Sri Lanka's privatization program.

The contractor will finalize a work plan for the field work. This will include selection of the local management consultant, preparation of evaluation instruments, criteria and interview forms. The local management consultant will be selected from among management consulting firms in Colombo. The selection will be concurred upon by the PSD/H office.

[2] It is not expected that the consultant will be able to answer these questions with great certainty or precision. At a minimum, however, they will summarize any anti-competitive arrangements that have been introduced and make rough, illustrative estimates of the economic costs these arrangements may have had on the overall benefits of the program.

Task 2: Carry out Study.
The contractor shall conduct interviews, gather information, present interim and final briefings and prepare draft and final reports. The contractor shall conduct interviews with individuals from the following groups involved directly or indirectly with the Privatization Program (USAID will assist the contractor in setting up appointments for these interviews):

a. GSL counterpart agencies: staff of the Ministry of Industries, the Commercialization Division and Public Enterprises Divisions of the Ministry of Finance.
b. USAID/Sri Lanka staff;
c. Ernst & Young (Colombo) privatization unit staff.
d. Representative of the World Bank, Colombo office, as well as Sri Lanka country officer in Washington, if possible.
e. Management of a cross section of privatized firms.

Attachment 2

List of People interviewed

Companies

L.U.D.Fernando
Finance Manager
Distilleries Co, of Sri Lanka Ltd
110, Norris Canal Road
Colombo 10
Telephone 696794

J.R.P.Dissanayake
Asst General Manager
Ceylon Leather Products Ltd
141, Church Road
Colombo 15
Telephone Nos 522776-8

Mrs Bandara
Pugoda Textile Mills Ltd
70, Mandawela Road
Pugoda
Telephone 036-5232,5236

Rohan Fernando
Kelani Tyres Ltd
P.O Box 08
Kelaniya
Telephone 438329, 521241

Ms Mallika Chandrasekera,
Director Planning and Supplies
Veyangoda Textile Mills Ltd
323, Galle Road
Colombo 4

P. S. Illesinghe
Human Resource & Administration
Ceylon Oxygen Ltd
50 Sri Pannananda Mawatha
Colombo 15

Shiran Dissanayake
Lanka Loha Ltd
117, Hunupitiya Road
Colombo 2

H Nagashima
Director/Addl General Manager
Sathosa Motors Ltd
25, Vauxhall Street
Colombo 2

Mr Gunanandan,
Asian Hotels Corporation
95, Steuart Place
Colombo 3
Telephone 436878

Basil de Silva
Managing Director
Hotel; de Buhari
15, Panchikawatte Road
Colombo 10

Romesh Lokuge
Hunas Falls Hotels
Hayley Jetwing
457 & 503 Union Place
Colombo 2

G A Hidelarachchi
Chief Executive
United Motors Lanka Ltd
100, Hyde Park Corner
Colombo 2

B.D Y.Seneviratne
Chairman
Sathosa Motors Ltd
25 Vauxhall Street
Colombo 2

Sunil Peiris
Finance Controller
Trans Asia Hotel
Colombo Rennaisance
Colombo 2

N.C.W.Attanayake
Director/General Manager
Lanka Ceramic Ltd
696, Galle Road
Colombo 3

List of People Interviewed

Government:

Y. A. Piyatissa
Central Bank of Sri Lanka
Janadhipathi Mawatha
Colombo 1

Aritha Wickramanayake
Director General
Securities & Exchange Commission of Sri Lanka
73, W.A.D.Ramanayake Mawatha
Colombo 2.

A.D.K.Perera
Chairman
Fair Trading Commission

321 Galle Road
Colombo 3

Chandi Chanmugam
Institute of Policy Studies
99, St Michaels Road
Colombo 3

Indrani Jayasinghe
Director General
Public Enterprises Division
General Treasury
Ministry of Finance, Planning, Ethnic Affairs and National Integration
Colombo 1

A S Jayawardene
Secretary
Ministry of Finance, Planning, Ethnic Affairs and National Integration
Colombo 1

Business/Professionals

Dr. J. Uyangoda
Political Scientist
Social Scientists Association
129/6 Nawala Road
Colombo 5

Dr. H Nicholas
UC-ISS Project
University of Colombo
Colombo 3

Ranjith Fernando
General Manager
National Development Bank
40 Navam Mawatha
Colombo 2

Thilan Wijesinghe
Asia Stock Brokers (Pvt) Ltd
108, W A D Ramanayake Mawatha
Colombo 2

Manohan Nanayakkara
Chief Executive Officer
CF Venture Management Co Ltd
14 A (Third Floor), 16th Lane
Colombo 3

Justin Meegoda
President & Chief Executive Officer
Vanik Incorporation Ltd
108, W. A. D. Ramanayake Mawatha
Colombo 2

Professor W.D.Lakshman
Vice Chancellor
University of Colombo
Colombo 3

Saman Kelegama
Institute of Policy Studies
99, St Michaels Road
Colombo 3

G.C.B.Wijesinghe
Partner
Ford Rhodes Thornton & Co,
32, Macan Markar Building
Colombo 3

List of People Interviewed

USAID/Embassy

Nick Reigg
Economist
US Embassy
356 Galle Road,
Colombo 3

Bruce Neuling
Deputy Director
USAID
356 Galle Road
Colombo 3

David Cohen
Director
USAID
Galle Road
Colombo 3

Donors

Thomas Maxwell
UNDP
Ministry of Industries, Science & Technology
73/1, Galle Road
Colombo 3

Robert England
UNDP
202-204 Baudhaloka Mawatha
Colombo 7

Jim Robertson
Policy Advisor
Ministry of Industries, Science & Technology
73/1 Galle Road
Colombo 3

John Ryan
Director
Colombo Plan Bureau
12 Melbourne Avenue
Colombo 4

C Sassenpour
IMF Representative
IMF office, Central Bank of Sri Lanka
Colombo 1

Employer\Employee

Franklyn Amerasinghe, Secretary General
Employers Federation of Ceylon
30 Sulaiman Avenue
Colombo 5

Timothy Ryan
Country Programme Director
Asian American Free Labor Institute
9 Kinross Avenue
Colombo 4

Patrick Amerasinghe
President
Federation of Chambers of Commerce & Industry
29 Gregory's Road
Colombo 7

M Chandran
Activities Coordinator
Asian -American Free Labor Institute
9 Kinross Avenue
Colombo 4

Palitha Atukorale
Deputy Chief Organiser
Jathika Sevaka Sangamaya
416, Kotte Road
Pita Kotte

Bala Tampoe
General Secretary
Ceylon Mercantile Union
3 22nd lane
Colombo 3

List of People interviewed

Hemantha Weerakoon
General Secretary
Telecommunication Officers Union

S. K. Adhikari
Friedrich - Eber - Siftung
14 Rotunda Gardens
Colombo 3

Dealers

Ceylon Oxygen -
Oxygen House, Kotahena
A.Gunawardene
Saifee Distributors, Maligawatte

Lanka Ceramics -
Wataraka Stores, Maharagama
Sinha Ceramics, Maharagama
Dehiwela Ceramics

Kelani Tyres -
Mt Lavinia Tyre Centre
Three Star, Ratmalana
Broadway Tyre House, Dehiwela

Veyangoda Textiles -
Apsara, Dehiwela
Sausiri, Nugegoda
Apple Blossom, Nugegoda

Sathosa Motors -
Saman Motors, Colombo 10
Sathosa Dealers, Colombo 10
Hemantha Motor Stores,Colombo 10

Distilleries Company -
Prince, Bambalapitiya
Duroi Wine Stores, Borella
Borella Wine Stores

Lanka Ceramics -
2 Supervisors
1 Worker
I Officer

Veyangoda Textile Mills -
2 Officers
2 Workers

United Motors -
1 Worker
2 Executives

Attachment 3

Privatized Enterprises in Sri Lanka
(Excluding plantations and transportation)

	Employment. No	Completed Divestiture(date)
1. United Motors Ltd	554	Dec.'89
2. Hotel de Buhari Ltd	102	Dec.'90
3. Ceylon Oxygen Ltd	427	Dec.'90
4. Dankotuwa Porcelain Co. Ltd.	658	Dec.'90
5. Thulhiriya Textile Mills Ltd.	3,000	Feb.'90
6. Hunas Falls Hotels Ltd	35	Aug.'92
7. Ceylon Leather Products	1,054	Jul '91
8. Lanka Loha Hardware	537	Oct.'91
9. Ceylon Oils and Fats Co. Ltd.	1,116	Jan.'92
10. Bogala Graphite Lanka Ltd.	855	Feb.'92
11. Nylon 6 Plant (Lanka) Synthetic Fibre	484	Feb '92
12. Veyangoda Textile Mills Ltd.	2,448	Mar.'92
13. Lanka Milk Food Ltd	418	Mar.'92
14. Kelani Tyres Ltd	2,000	Apr.'92
15. Acland Insurance Service Ltd	47	May.'92
16. Distilleries Co. of Sri Lanka Ltd.	1,789	Jun.'92
17. Puttalam Cement Ltd	n.a	Jun.'92
18. Lanka Ceramics Ltd	2,998	Jul.'92
19. Asian Hotels Corporation Ltd.	954	Jul.'92
20. Sathosa Motor Co. Ltd	172	Aug.'92
21. CCC (Fertilizer) Ltd	690	Sep.'92
22. Lanka Porcelain Ltd	n.a	Sep.'92
23. Kahatagaha Graphite Lanka Ltd.	737	Sep.'92
24. Pugoda Textile Mills	2,810	Sep.'92
25. Sathosa Computers Ltd.	57	Nov.'92
26. Ceylon Shipping Lines Ltd.	n.a	Dec.'92
27. National Development Bank	176	Mar.'93
28. Hingurana Sugar Co. Ltd.	1,330	Mar.'93
29. Trans Asia Hotels Ltd	520	May '93
30. Hotel Services (Ceylon) Ltd	420	May '93
31. Colombo International School (SL) Ltd.	n.a	May '93
32. Mahaweli Marine Cement Co. Ltd.	166	Jun.'93
33. Ruhunu Cement Company Ltd	n.a	Jun.'93
34. People's Merchant Bank Ltd	n.a	Jun.'93
35. Hevyquip Ltd. & CCC (Eng) Ltd.	1,481	Jul.'93
36. Mattegoda Textile Mills Ltd	956	Oct.'93
37. Lanka Canneries Ltd	375	Nov.'93
38. State Trading (Tractor) Corporation	440	Jan.'94
39. Wayamba Agro Fertilizer Co. Ltd.	46	Mar.'94
40. Tea Smallholder Factories Ltd	194	Apr.94
41. Ruhunu Agro Fertilizer Co. Ltd.	67	May '94
42. Lanka Lubricants	n.a.	Jul.'94

n.a =not available

Source: Ministry of Finance

PRIVATISED COMPANIES - SECTORAL ANALYSIS AND SHARE HOLDING

Q= quoted public company

Sector		Privatised Companies in the Sector	Nature of Business	Date of Privatisation	Proceeds (Rs. mn)	Shareholding Pattern
Banks, Finance & Insurance	Q	National Development Bank	Development Banking Services	Mar-93	182.9	39.7% Government 5% Asia Pacific Ventures Ltd. Singapore 5% Citicorp Investment Bank Singapore 5% Commonwealth Development Corp. 5.9% Asian Development Bank 34.4% sold on the Colombo Stock Exchange 5% Employees
	Q	People's Merchant Bank	Merchant banking	Jun-93		
		Acland Insurance Services Ltd.	Insurance agency	May-93	13.8	90% P&I Insurance Brokers (Pvt.) Ltd. 10% Employees
Beverages, Food & Tobacco		Lanka Canneries	Fruit Processing and canning	Nov-93		60% Heath & Co.(Ceylon) Ltd. 30% to be sold on the stock exchange 10% Employees
	Q	Lanka Milk Foods	Packeting of milk powder	Oct-91	527.8	51% to Stassen Exports Ltd. (Milford Exports Ceylon Ltd.) 39% sold on Colombo Stock Exchange 10% Employees
	Q	Distilleries Company of Sri Lanka	Liquor distiller and bottler	Mar-92	1548	51% Stassen Exports Ltd. (Milford Exports Ceylon Ltd. with Lanka Milkfood) 9% Smith New Court Far East Ltd. 30% sold on the Colombo Stock Exchange 10% Employees

Attachment 4

Attachment 4 ctd I

Sector		Privatised Companies	Nature of Business	Date of	Proceeds	Shareholding Pattern
Chemicals & Pharmaceuticals	O	Ceylon Oxygen Ltd.	Manufacturers of Ind. and mechanical gases	Nov-90	87	60% Norsk Hydro A.S. of Norway 30% Public Issue 10% Employees
		Prigo Industries Ltd	Feed mill for livestock	Jan-92	191.2	55% Prigo Agro Products Ltd. 5% Free Lanka Trading Co. Ltd. 30% retained by secretary to the Treasury (To be floated on the stock exchange) 10% Employees
		Mahaweli Marine Cement Ltd.	Manufacturing and bagging of cement	Jun-92	32	60% Marine Cement of Switzerland (27% Of this Transaction) 30% to be floated on the Colombo Stock Exchange 10% Employees
		Kahatagaha Graphite Lanka Ltd.	Mining and Processing	Sep-92	16.5	90% Ceylon Graphite Mining Co. Ltd. 10% Employees
		Puttalam Cement	Cement production	Dec-93		90% Tawakkal Ltd. - Pakistan 10% Employees
		Ruhunu Cement	Cement production	Jun-93		60% Yasodha Enterprises 30% to be sold on the CSE 10% Employees
Construction & Engineering		CCC (Engineers) Ltd.	Trade and Manufacturing of Tea machinery	Jul-93		60% Informex Construction Ltd. 30% to be sold on the CSE 10% Employees

Sector		Privatised Companies	Nature of Business	Date of	Proceeds	Shareholding Pattern
Footwear & Textiles	Q	Pugoda Textile Mills	Textile Manufacturing	Jun-90	90	60% to Lakshmis Textile of India 30% Public Share issue 10% Employees
		Ceylon Leather Products	Leather tannery and manu: of leather gds	Jul-91	90	90% S.A. Perera & Co. Ltd. 10% Employees
	Q	Veyangoda Textile Mills	Textile Manufacturing	Mar-92	270	48% East-West Clearing and Forwarding Ltd. 12% Merchant Bank of Sri Lanka 30% Public Issue 10% Employees
		CPC Nylon 6 Plant (Lanka Synthetic Fibre)	Manufacture of nylon yarn, net	Feb-92	227.7	90% to a consortium representing 'a Korean Company. (Tongyang Nylon Co. Ltd. / South Korea) and the Nawaloka group of co.s 10% Employees
		Kabool Lanka Ltd. (Thulhiriya Textile Mills)	Textile Manufacturing	Feb-90	260	Sale of Assets only to Kabool Lanka (Pvt)Ltd
		Mattegama Textile Mills Ltd	Textile Production	Oct-93		90% Embassy of the People's Republic of China in Sri Lanka 10% Employees
Hotels & Travels		Hotel De Buhari	Restaurant	Dec-90	6.3	90% Jathika Sevaka Sangamaya (JSS) the UNP sponsored trade union (Workers Investments Ltd) 10% Employees
	Q	Asian Hotels	5 Star Hotel in Colombo	Jan-92	597.2	51% Hong Kong Group of Investors Asia Investment Management Services Ltd. UK 39% Sold on the Colombo Stock Exchange 10% Employees

Attachment 4 ctd II

Sector		Privatised Companies	Nature of Business	Date of	Proceeds	Shareholding Pattern
Hotels and Travels ctd	Q	Trans Asia Hotels	5 Star Hotel	May-93	1124	38.4% Asian Hotels Corporation Ltd. 38.5% Hotel Properties (Pvt) Ltd. Singapore 11.38% Ramada International 1.35% Design Consortium (Pvt) Ltd. (Sri Lankan) 10% Employees
	Q	Hunas Falls	Hotel	Aug-91	18	60% to Hayleys Group Haycarb(45%) + Jetwing Management(15%) 30% Sold on the Colombo Stock Exchange 10% Employees
Land & Property		Hotel Services (Ceylon) Ltd	5 Star Hotel	May-93	181.1	51.4% Asian Hotels Corporation Ltd. 10% employees
Manufacturing	Q	Bogala Graphite Lanka Ltd	Mining & processing	Feb-92	111.8	50% Government of Sri Lanka 40% Public share issue 10% employees
	Q	Kelani Tyres	Tyre Manufacturer	Feb-92	602.8	60% Consortium led by Nova Lanka Ltd including British(Avon Tyres) and Hong Kong interests 30% sold on the Colombo Stock Exchange 10% Employees
		Lanka Porcelain	Manufacturing of porcelain ware	Sep-92		51% Noritake Co. Ltd Japan (11% of this transaction) 49% Lanka Ceramic
		Wayamba Agro Fertilizer Co	Production and marketing of fertilizer	Mar-94	27.33	90% CIC Fertilizer Co. Ltd 10% Employees

Attachment 4 ctd III

Attachment 4 ctd iv

Sector		Privatised Companies	Nature of Business	Date of	Proceeds	Shareholding Pattern
						.
Manufacturing ctd		Tea Small Holders Factories Ltd	Tea Processing	Apr-94	76.36	51% John Keells Holding Ltd. NDB, C.F. Co. Ltd 39% To be issued to the public 10% Employees
		Ruhunu Agro Fertilizer Co	Production and marketing of fertilizer	May-94	29	90% Yasodha Enterprises 10% Employees
		Lanka Lubricants Ltd	Petroleum processing	Jul-94	497.61	51% Caltex Trad. Corp, Dubai 39% Secy. to the Treasury 10% Employees
		Colombo Commercial (Fertilizer Co) Ltd		Jul-94	85.05	90% Jayagiri Transport Ltd 10% Employees
		State Hardware Corporation (Lanka Loha)	Hardware Items	Oct-91	30	90% A.B.C. Management Services (Pvt) Ltd (a local consortium) 10% Employees
		Dankotuwa Porcelain (Pvt.) Ltd	Manufacturers of Ceramic ware	Dec-90	102	50% International Ceramic Inc. - Japanese Consortium 40% Retained by Employees Trust Fund 10% Employees
		Hingurana Sugar Industries Ltd	Growing and processing cane	Mar-93	25	90% S.Arumugam & Bros. 10% Employees
		Lanka Ceramics Ltd.	Manufacturing of Ceramic ware	Jun-92	300	15% sold to Noritake of Japan et al (7.5% of Noritake of Japan; 1.5% Electronic Ceramic Ltd.; 6% Lanka Porcelain (Pvt.) Ltd. 50% Secretary to the Treasury 25% sold on the CSE 10% Employees

Sector		Privatised Companies	Nature of Business	Date of	Proceeds	Shareholding Pattern
Motors	Q	United Motors	Importers of motor vehicle & agents of Mitsubishi Motor Corp	Dec-89	95	5% Mitsubishi Motor Corp. of Japan 90% Public Share Issue 5% Employees
Motors ctd	Q	Sathosa Motors	Motor car agency	Aug-92	74.25	60% C.Itoh of japan 30% sold on the Colombo Stock Exchange 10% Employees
Services		Sathosa Computer Services Ltd	Software development and sales	Nov-92	1.5	90% Hayleys Ltd 10% Employees
		Ceylon Shipping Lines Ltd	Shipping services	Dec-92	51.3	51% C&A Consultants (Pvt.) Ltd. Singapore 39% Ceylon Shipping Corporation 10% to be given to employees
		Colombo International School (Sri Lanka) Ltd	School	Nov-93		51% Munchmeyer Petersen GMBH & Co. KG of West Germany 39% Parent Teachers Association 10% Undecided (to be given to staff)
Stores & Supplies		Lanka Tractors Ltd	Sales & marketing of farm machinery	Jan-94		60% Globe Commercial Trading Ltd. (Sri Lanka) 30% to be sold on the CSE 10% to be given to employees

source: Ministry of Finance

Attachment 5

Company Performance Data

Mailing	42 Companies
Replies received	24 Companies
Response Rate	57% of the total number of firms privatized 77% of firms with at least 9 months post privatization data

Data received was supplemented by information from other sources. Where information was lacking, estimates have been made. The companies for which data for key indicators were available for time series analysis for the period 1988-1994 is listed below. Data had to be adjusted in some cases to enable time series analysis i.e. when 15 months or 3 months data was available.

Key Indicator	No. of Companies with data
Employment	25
Productivity	19
Investment	25
Price	15
Taxes	23
Turnover	25
Profitability	23

EMPLOYMENT

Attachment 5.1

No. of persons employed (thousands)

	1988	1989	1990	1991	1992	1993	1994
Selected sectors			1660	1529	1576	1636	1782
25 Privatized Companies	30	28	28	27	27	26	25
Diffusion (%)		40	28	40	16	24	20

Employment Index

	1988	1989	1990	1991	1992	1993	1994
Acland	100	122	131	135	131	131	131
Ceylon Agro	100	98	87	5			
Asia Hotels	100	94	85	83	93	93	82
Bogala	100	100	100	100	100	100	75
Lanka Ceramic	100	71	68	66	60	51	51
Dankotuwa	100	128	129	140	137	151	160
Distilleries	100	98	97	96	90	80	79
Kabool	100	100	100	115	119	118	118
Kelani Tyres	100	99	95	93	93	74	74
Hotel Services	100	103	115	104	107	101	101
Hunas Falls	100	100	120	123	131	166	166
Ceylon Leather	100	97	93	90	63	63	63
Lanka Loha	100	99	96	92	89	83	82
Mahaweli Marine Cement	100	109	135	126	126	126	148
NDB	100	99	89	91	102	102	102
Ceylon Oxygen	100	100	99	85	74	69	65
Lanka Milkfoods	100	104	106	104	101	94	98
People's Merchant	100	118	118	145	145	155	155
Pugoda	100	101	101	102	102	103	104
Ruhunu Cement	100	100	100	95	90	99	103
Sathosa Motors	100	112	108	109	106	106	104
Sathosa Computers	100	104	132	149	138	128	111
Trans Asia	100	104	102	116	113	115	106
United Motors	100	98	90	82	79	78	78
Veyangoda	100	96	96	94	92	91	89
25 Privatized Companies	100	102	104	102	104	103	102

Index of Total Employees	100	96	96	93	91	87	85

	1990	1991	1992	1993	1994
National Employment	1660409	1628898	1576333	1635811	1782176

Numbers reflect the following sectors: mining & quarrying,
manufacturing, trade & hotels, transport, storage and communication, insurance & real estate.
The figures for 1990 - 1993 are based on averages of quarterly data, while the figure for 1994 is a projection using first quarter data.
Source: Quarterly Labour Force Surveys, 1990 - 1994.

Index of employment

	1988	1989	1990	1991	1992	1993	1994
Privatized Hotels	100	100	106	106	111	119	114
Tourist Industry	100	114	125	135	144	150	155
Privatized Textile Mills	100	99	99	104	105	104	104

PRODUCTIVITY

Attachment 5.2

Productivity Index - Deflated Turnover / No. of Employees

	1988	1989	1990	1991	1992	1993	1994
19 Privatized Companies	100	101.9	100.2	104.2	118.7	122.7	126.6
National			100.2	107.9	119.1	123.9	121.5
Diffusion (%)		42	47	58	58	63	74

Productivity Index Based on Production Figures (output per employee)

	1988	1989	1990	1991	1992	1993	1994
Lanka Ceramic	100	98	160	164	158	214	214*
Dankotuwa	100	101	112	111	100	117	110
Distilleries	100	88	109	118	124	149	157
Kelani Tyres	100	100	117	118	112	81	81
Ceylon Leather	100	92	81	56	107	76	91
Lanka Loha	100	114	134	56	73	71	72
Mahaweli Marine Cement	100	96	85	84	70	77	87
Pugoda	100	96	96	118	97	127	112
Veyangoda	100	91	110	119	115	135	153
9 Privatized Companies	100	97	111	105	106	116	108
Diffusion (%)		22	66	55	33	66	55

Productivity Index - Deflated Turnover / No. of Employees

	1988	1989	1990	1991	1992	1993	1994
Acland	100	85	77	81	78	75	72
Asia Hotels	100	94	73	107	116	133	153
Bogala	100	79	112	85	62	51	60
Lanka Ceramics	100	130	153	172	160	171	171*
Dankotuwa	100	123	123	123	137	140	142
Distilleries	100	90	106	116	130	140	167
Hunas Falls	100	92	63	64	64	47	106
Kelani Tyres	100	103	114	104	92	84	89
Ceylon Leather	100	92	70	48	135	146	139
Lanka Loha	100	167	125	87	175	202	85
Mahaweli Marine Cement	100	93	74	73	73	83	92
Lanka Milkfoods	100	127	133	149	171	172	194
Pugoda	100	96	106	106	113	108	108
Ruhunu Cement	100	113	88	134	170	173	183
Sathosa Motors	100	78	76	99	87	79	106
Sathosa Computers	100	83	60	61	75	85	103
Trans Asia	100	102	103	111	122	127	137
United Motors	100	86	141	156	195	195	201
Veyangoda	100	103	108	105	100	120	141
19 Privatized Companies	100	102	100	104	119	123	127
Kabool	100	92	75	789	1029	1432	1285
Diffusion (%)		42	47	58	58	63	74

*Calculation uses the 1993 turnover and employee figures.

Attachment 5.2 ctd

Sectoral contribution to GNP at 1982 constant factor cost prices

	1988	1989	1990	1991	1992	1993	1994**
Mining & Quarrying	3392	3576	3901	3511	3300	3693	3915
Manufacturing	19622	20488	22427	23949	26059	28806	31399
Transport, Storage & Com	13619	13883	14410	15534	16606	17287	17978
Banking, Insurance & Rea	5819	6168	6556	6831	7241	8023	8745
Services (n.e.s.)	4423	4530	4940	5355	5714	5828	5968
Total	46875	48645	52234	55180	58920	63637	68005

**Projections for 1994 are based on the 1995 Budget Speech.

INVESTMENT

Attachment 5.3

	1988	1989	1990	1991	1992	1993	1994
Gross Domestic Fixed Capital Formation	100	108	141	168	199	253	316
Indexed total investment value	100	138	307	313	785	838	504

Investment Index

	1988	1989	1990	1991	1992	1993	1994
Acland Insurance	100	100	6717	17	33	33	33
Asian Hotels	100	9	106	1	4	53	251
Hotel Buhari	100	240	100	236	429	100	100
Lanka Ceramics	100	130	128	332	154	230	230
Ceylon Shipping Lines				100	16	456	
Dankotuwa Porcelain	100	240	1600	753	4093	11100	1467
Distilleries	100	100	3600	11700	600	30900	12900
Hotel Services	100	150	100	179	236	132	164
Hunas Falls	100	0	138	22	22	295	148
Kabool			100	109	349	202	174
Kelani Tyres	100	100	89	12	2141	135	312
Ceylon Leather	100	82	30	15	109	183	48
Lanka Loha	100	1	7	0	0	4	961
Mahaweli Marine Cement	100	24	1010	4753	1376	261	1099
Lanka Milkfoods	100	94	92	86	150	147	71
NDB	100	112	283	240	494	800	524
Oxygen	100	167	167	475	175	417	167
People's Merchant		100	142	168	172	280	377
Pugoda	100	195	134	561	919	68	144
Ruhunu Cemenet	100	104	0	2	2	4618	2
Sathosa Motors	100	32	91	105	77	212	137
Sathosa Computers	100	120	262	7	31	70	195
Trans Asia	100	316	70	50	10	102	29
United Motors		100	105	54	235	272	197
Veyangoda	100	85	8	13	14	458	475

Actual investment in 25 privatized companies (Rs. mn)	230	318	706	719	1803	1925	1158
Diffusion (%)		40	48	48	60	68	36

PRICES

Attachment 5.4

	1988	1989	1990	1991	1992	1993	1994
15 Privatized Companies	100	113	139	159	178	199	236
WPI All Items	100	109	133	145	158	170	178
Diffusion (%)		87	87	93	93	87	73

	1988	1989	1990	1991	1992	1993	1994
Privatized Hotels	100	118.6	145.8	182.9	218.1	257.6	318.0
Hotel Industry	100	111.8	147.5	174.4	198.3	271.2	**275.0**

	1988	1989	1990	1991	1992	1993	1994
Distilleries Company	100	122.0	143.9	154.5	162.6	182.1	
Alcoholic Drinks(WPI)	100	113.9	133.0	154.4	176.3	190.1	

Price Index

	1988	1989	1990	1991	1992	1993	1994
Asia Hotels	100	121	131	187	258	281	312
Hotel Services	100	121	196	241	259	295	344
Hunas Falls	100	105	111	120	128	204	341
Kelani Tyres	100	118	144	154	174	176	170
Trans Asia Hotels	100	127	145	184	227	250	275
Distilleries	100	122	144	154	163	182	185
Dankotuwa	100	121	170	200	229	263	263
Ceylon Leather	100	113	120	125	150	150	150
Lanka Loha	100	104	160	180	180	157	186
Mahaweli Marine Cement	100	101	124	150	160	172	195
Lanka Milkfoods	100	100	100	100	118	137	132
Pugoda	100	102	103	105	107	112	114
Ruhunu Cement Works	100	114	148	160	164	183	190
Sathosa Motors			139	169	191	236	238
Sathosa Computers	100	114	148	160	164	183	190
15 Privatized Companies	100	113	139	159	178	199	219

TAXATION

Attachment 5.5

Taxes (Rs mn)

	1988	1989	1990	1991	1992	1993	1994
National	35946	47513	61206	68157	76353	87274	100276
23 Privatized Companies	2910	2857	3866	4482	5216	5424	6422
Diffusion (%)		52	52	52	69	48	61

Indexed

	1988	1989	1990	1991	1992	1993	1994
National	100	132	170	190	212	243	279

Tax Index

	1988	1989	1990	1991	1992	1993	1994
Acland	100	100	81	115	44	44	44
Asian Hotels	100	98	79	127	170	988	1436
Hotel Buhari	100	85	75	67	254	270	295
Lanka Ceramics	100	147	245	200	239	142	157
Ceylon Shipping Lines	100	37	37	28	3	3	3
Dankotuwa	100	181	527	569	1087	962	742
Distilleries	100	96	136	159	178	188	230
Hotel Services	100	111	120	130	126	125	127
Kabool			223	730	1442	3885	2123
Kelani Tyres	100	143	256	237	253	257	265
Ceylon Leather	100	126	145	107	203	271	404
Lanka Loha	100	115	30	18	121	173	173
Mahaweli Marine Cement	100	66	59	47	45	59	77
Lanka Milkfoods	100	85	53	168	271	261	329
Ceylon Oxygen	100	158	780	1403	1098	1003	600
NDB	100	100	8100	12900	25050	21980	21500
People's Merchant bank	100	83	230	443	536	1241	2601
Pugoda	100	108	115	101	126	112	120
Ruhunu Cement					350	1446	1611
Sathosa Motors	100	102	119	170	180	169	296
Lanka Tractors	100	584	1268	672	672	672	672
Trans Asia	100	113	140	187	220	67	67
United Motors	100	100	155	180	260	350	450
Veyangoda	100	108	35	159	170	201	366

Turnover **Attachment 5.6**

	1988	1989	1990	1991	1992	1993	1994
25 Privatised Co:s.	100	111.8	139.3	154.4	177.4	193.2	220.8
GDP at market prices	100	113.5	144.9	167.7	191.6	223.7	**257.2**
Dispersion (%)		72	70	67	64	64	52

	1988	1989	1990	1991	1992	1993	1994
GDP at market prices	100	113.5	144.9	167.7	191.6	223.7	**257.2**
Value of Textile and leather	100	113.2	80.0	48.3	99.6	165.5	
Privatized Textile & Leather	100	99	125	431	625	868	835

	1988	1989	1990	1991	1992	1993	1994
Privatized Food Industries	100	111.1	124.6	116.1	157.7	161.1	183.7
Value of Food, beverages and tobacco	100	125.8	149.6	204.4	232.8	270.6	

	1988	1989	1990	1991	1992	1993	1994
Privatized Hotels Turnover	100	104	108	144	174	198	266
Official Receipts from Tourism	100	112	217	266	362	412	436

Attachment 5.6 ctd I

Turnover Index

	1988	1989	1990	1991	1992	1993	1994
Acland	100	113	133	159	161	167	167
Asia Hotels	100	97	83	129	170	212	223
Bogala	100	86	149	123	98	87	81
Hotel Buhari	100	100	138	175	221	234	251
CCC Engineers	100	114	196	163	163	146	141
Ceylon Shipping	100	94	82	44	14	33	35
Dankotuwa	100	172	211	249	298	359	406
Distilleries	100	97	136	162	184	191	236
Hingurana Sugar	100	156	176	138	138	138	138
Hunas Falls	100	100	100	115	132	134	315
Kelani Tyres	100	110	145	141	136	107	118
Lanka Ceramics	100	100	138	166	153	148	148
Ceylon Leather	100	98	87	63	134	156	156
Lanka Loha	100	109	164	79	146	124	124
Mahaweli	100	110	133	134	145	179	244
Lanka Milkfoods	100	144	188	225	273	276	338
NDB	100	117	180	240	355	490	594
Pugoda	100	106	142	157	184	190	200
Ruhunu Cement	100	123	118	178	187	209	225
Sathosa Motors	100	96	110	156	147	142	196
Sathosa Computers	100	94	106	131	165	184	204
Lanka Tractors	100	141	222	216	222	226	217
Trans Asia	100	116	141	187	218	249	259
United Motors	100	92	170	187	243	260	280
Veyangoda	100	108	35	144	147	187	224
25 privatised companies.	100	112	139	154	177	193	221
Kabool			100	1319	1939	2865	2706
People's Merchant Bank	100	155	454	874	1340	1579	1931
Index of Total Turnover	100	109	140	179	209	237	268
Diffusion (%)		60	76	68	72	72	68

Deflated Turnover Index

Attachment 5.6 ctd II

	1988	1989	1990	1991	1992	1993	1994
Acland Insurance	100	104	100	110	102	98	93
Asia Hotels	100	89	62	89	108	124	125
Bogala	100	79	112	35	62	51	45
Hotel Buhari	100	92	103	121	140	137	141
CCC Engineers	100	104	147	112	103	86	79
Ceylon Shipping	100	87	62	30	9	19	20
Dankotuwa	100	158	159	171	189	211	228
Distilleries	100	89	102	111	117	112	132
Hingurana Sugar	100	143	132	95	87	81	78
Hunas Falls	100	92	75	79	84	79	176
Kelani Tyres	100	101	108	97	86	63	66
Lanka Ceramics	100	92	104	114	97	87	83
Ceylon Leather	100	90	65	43	85	91	87
Lanka Loha	100	100	123	54	92	73	70
Mahaweli	100	101	100	92	92	105	137
Lanka Milkfoods	100	132	141	155	173	162	190
Pugoda	100	97	107	108	116	112	112
Ruhunu Cement	100	113	88	122	118	123	126
Sathosa Motors	100	88	82	107	93	84	110
Sathosa Computers	100	86	79	90	104	108	114
Lanka Tractors	100	129	167	149	140	133	122
Trans Asia	100	106	105	128	138	147	145
United Motors	100	84	127	128	154	153	157
Veyangoda	100	99	26	99	93	110	125
24 Privatised Companies	100	102	103	104	107	106	115
Kabool	100	92	75	907	1226	1683	1516
NDB	100	107	135	165	225	288	333
Peoples Merchant Bank	100	142	340	601	847	928	1082

	1988	1989	1990	1991	1992	1993	1994
Diffusion (%)		46	50	63	50	42	58
Index of Deflated Turnover	100	102	105	111	114	111	123
WPI (all item) Index	100	109	133	145	158	170	178

PROFITABILITY

Attachment 5.7

Net Profits Before Tax/ Net Assets(%)

	1988	1989	1990	1991	1992	1993	1994
23 Privalized Comp	9	12	12	8	13	17	13
NSB Savings Rate	12	14	16.2	14	14	14	14

Net Profits before tax / Net Assets (%)

	1988	1989	1990	1991	1992	1993	1994
23 Privatized Comp.	8.7	12.4	12.0	7.9	12.9	17.2	13.3
Diffusion (%)		26	35	39	30	43	26

Net Profit Before Tax / Net Asset (%)

	1988	1989	1990	1991	1992	1993	1994
Asian Hotels	(10)	(10)	(11)	(4)	3	3	1
Hotel Buhari	8	7	5	3	12	12	12
Lanka Ceramics	16	18	26	25	18	15	14
Ceylon Shipping Line	91	23	21	7	(76)	36	
Dankotuwa Porcelain	5	22	22	16	6	9	3
Distilleries	15	(4.4)	59	92	67	117	86
Hotel Services	(2)	(0)	(1)	(1)	(3)	(0)	1
Hunas Falls	(2)	(13)	(2)	(2)	(5)	(52)	(9)
Kabool			(25)	(10)	(2)	(3)	(3)
Kelani Tyres	8	18	38	18	6	(9)	0
Ceylon Leather	(10)	(30)	(9)	(10)	(7)	(25)	(7)
Mahaweli Marine	54	93	91	54	4	68	91
Lanka Milkfoods	23	14	(5)	18	86	50	88
NDB	7	7	14	20	28	30	30
People's Merchant	(320)	15	28	19	16	20	18
Pugoda	13	12	8	11	16	10	15
Ruhunu Cement	144	(7)	(1)	(1)	(2)	77	
Sathosa Motors	92	55	51	63	47	32	41
United Motors	31	33	18	19	24	18	21
Veyangoda				10	3	9	9
Ceylon Oxygen	5	(1)	14	18	28	32	29
Sathosa Computers	4	(1)	(90)	(190)	22	(59)	(165)
Trans Asia	(10)	(8)	(7.4)	(2.8)	7	5	6
23 Privatized Comp.	9	12	12	8	13	17	13

Attachment 6

Government Shareholding in Privatised Companies

Company	Goverment shareholding	no of shares	value per share at Dec 1994 Rs	Market Value as at Dec 1949 Rs mn
National Development Bank*# shares	15%	1,875,000	395	740
Lanka Ceramics*	50%	15,000,000	75	1,125
Bogola Graphite*	50%	139,805,000	4	559
Lanka Tractors	30%			72
CCC (Engineers)	30%			30
Lanka Canneries	30%			51
Prigo Agro Industries	30%			95
Mahaweli Marine Cement	30%			23
Ruhunu Cement	30%			110
				2,805

Source Company annual reports to 31 March 1993 and Ministry of Finance
approximate market value of shares that government owned in unquoted shares is taken as the proportion of the sale price of the majority holding
*quoted on the stock exchange
The balance government shares are held byCentral Bank of Sri Lanka The government also holds Rs 275mn in convertible stock in NDB This is convertible over the period 1993 - 2001

Attachment 7

Trade Union Response to Structural Adjustment

Frederich Eber Siftung Workshop
2nd & 3rd September, 1994.

Representatives of the major trade unions contributed to this statement which was formulated at the workshop.

RECOMMENDATIONS

1. As all groups agree that in the light of the experience, the Government to take back the management of the estates and re-structure the management in consultation with the Trade Unions.

   The CWC wants the following to be included.

   (i) Trade Unions to be amended to representative Trade Unions.

   (ii) The CWC Proposals

   As there are 23 Management Companies operating in the plantation sector and each of these companies manage 7,500 - 15,000 hectares of land:

   - should be broken into 66 management companies each catering for about 5000 workers.
   - each company should have at least Rs. 100 Million as capital.
   - Shares of these companies should be in the share market.
   - 20% shares should be in the hands of the state. 10% with the workers.
   - there should be a body to monitor these companies.
   - all conditions of work should be agreed upon.

2. If privatization is to take place in the future, the Government should stick to what they have proposed in the Election Manifesto of the Peoples Alliance. These should be done in consultation with the public and the Trade Unions.

3. The Trade Union Movement should oppose and resist Structural Adjustment Proposals (SAP)which are directed against the interests of the workers. Build solidarity and unity amongst the Trade Unions to resist S.A.P. which have adverse effects on the working class. This workshop in the context of the workers, wants the Government to ratify and implement in law, ILO Convention 87 and implement in law, ILO Con. 98 immediately.

4. All private and privatized road passenger transport operators be state regulated effectively and immediately. Adequate transport facilities be provided in the late hours in the interests of the workers and the general public. An integrated transport policy be adopted by the Government for Rail and Road transport services.

5. As the Post and Telecommunication industries are public utility services, these sectors should be kept under state ownership.

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Attachment 8

Major Trade Unions in Sri Lanka

Twelve Major Trade Unions in Sri Lanka

		Number of Members
1.	Ceylon Workers Congress	417,188
2.	Lanka National Estate Workers Union	381,657
3	Jathika Sewaka Sangamaya	261,892
4	The Democratic Workers Union	91,260
5	National Workers Congress	67,067
6,	Lanka Guru Sangamaya	47,472
7.	National Union of Workers	42,587
8	United Plantation Workers Union	34,677
9	The Ceylon Mercantile Industrial General Workers Union	33,493
10	Sri Lanka Nidahas Sevaka Sangamaya	29,169
11	The Ceylon Plantation Workers Union	28,120
12	Ceylon Bank Employees Union	n.a.

source Ministry of Labour

Public Sector trade unions with over one thousand members

		Number of Members
1	Lanka Guru Sangamaya	47,472
2.	The Government Clerical Services Union	16,063
3	Sri Lanka Health Services Union	14,637
4	National Education Services Union	14,160
5.	Elangaigannawelar Aiyarr Union	12,523
6.	Sri Lanka Railways Services Union	10,128
7	Sri Lanka Islamic Teachers Union	9,033
8	National Post & Telecommunication Services Union	8,781
9	Sri Lanka Union of Gramasevakas	8,010
10	All Ceylon Government Clerical Union	7,727
11	Sri Lanka Teachers Freedom Union	7,404
12	Union of Government Service Nurses	7,098
13	All Ceylon Post & Telegraph Union	6,864
14	Government Surveyors Labour Union	4,754
15	Government Family Health Service Union	4,150
16	Government Public Service Labour Union	3,626
17	Union of Railway Services	3,559
18	Union of Sri Lanka Freedom Railway Services	2,233
19	Sri Lanka Post & Telecommunication Trade Union	2,672
20.	All Ceylon Telecommunication Engineers Union	2608
20	All Ceylon Railway Engineers Labour Union	2,534
21	The Government Medical Officers Association	2485
22	The Government Health Service Nurses Association	2441
23	Ceylon Teachers Congress	2212
24	The Ceylon Sub Post Masters Union	2112
25	The Government National Typists Association	2[illegible]2
26	All Ceylon Government Typists Association	1963
27	Sri Lanka United Graduate Clerical Services Union	1829
28	National Union of Clerks	1715
29	Government Administrative Services Union	1684
30.	National Livestock and Health Services Association	1217
31	Lanka Railway Workers Union	1198
32.	Government Office Workers Union	1096
33.	All Ceylon Government Weavers Association	1096

Source Ministry of Labour
n.a. = not available

Attachment 8 ctd I

Major Trade Unions in Sri Lanka ctd

Number of Trade Unions and Membership

Year	Registrations during the year	No. of unions registered	No. of members
1981	73	1130	1,668,230
1982	73	1149	1,601,056
1983	66	1107	1,836,697
1984	63	1068	1,806,173
1985	76	957	1,563,394
1986	69	948	1,479,128
1987	77	903	1,677,431
1988	100	949	1,656,780
1989	89	1034	1,623,478
1990	68	1137	1,638,537
1991	88	1033	1,640,183

source: Ministry of Labour

Attachment 9

Questionnaire

IMPACT OF PRIVATISATION-

Non Firm - Government, other donor, professionals etc

What are the major accomplishments of the privatisation program?
What do you consider to be its strengths
What do you consider to be its weaknesses
What are the major constraints of privatisation of State Enterprises
Have anti competitive arrangements tariff protection, market share guarantees been made in the process of privatisation that reduce benefits to society?
Is there an effective regulatory mechanism in place to ensure a competitive environment
What are the main lessons learned
What should be done for the future SOE's to be privatised
In what way has this process increased efficiency
In what way has the process increased international standing as a place for investment
In what way has it affected Domestic politics
What is the impact on the budget expenditure? Revenue (only selected people
How could USAID help in the future?

IMPACT OF PRIVATISATION- Questionnaire

Firms

What are the major accomplishments of the privatisation in your enterprise?
What do you consider problems associated with the privatisation?
What are the major constraints for the privatisation of State Enterprises in general?
Have anti competitive arrangements tariff protection, market share guarantees been made in the process of privatisation?

Is there an effective regulatory mechanism in place to ensure a competitive environment?
What are the main lessons learned from this process?
What should be done for the future SOE's to be privatised
In what way has this process increased efficiency
How could USAID help in the future?

What is the impact of privatisation on (employment)
collective agreements,
recruitment policy,
levels of employment and lay off,
trade union arrangements
HRD policies
What investments have taken place since privatisation
What are the technological improvements done since privatisation process?
In what way has financial management changed since privatisation
How has strategic planning process changed since privatisation
How has product marketing methods changed since privatisation
What % of production is exports before/after
What policies and conditions continue to constrain the development of the organisations?
What are the significant price changes since privatisation
In what way did you change the organisational structure and why
What has been the impact on industry mix
What has been the impact on industry structure
Was there a change in the factor inputs and how ? procurement methods?
How many shares did an employee get on average?
How many years salary did it represent