SOE Reforms in Sri Lanka
From Policy to Action

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**State owned enterprises: scale & scope**

- **277 (?) SOEs**
  - **29** Regulatory Agencies
  - **17** Promotional Institutions
  - **14** Research and Development Agencies
  - **57** Educational Institutions
  - **160** Commercial & Other SOEs

- **55 State Owned Business Enterprises (SOBEs)**

- **105 Other SOEs**

- **Income = 13% of GDP**
- **Debt = 11% of GDP**
Need for reform: multiple dimensions

**Efficiency Dimension**
- Management weaknesses
- Lack of competitiveness
- Lack of transparency
- Political interference in SOE activities
- Lack of modernization

**Fiscal Dimension**
- Operating losses
- Financial obligations
- Circular debt
- Cost reflective pricing

**Distributional Dimension**
- PSOs
- Large workforce
- Politicization of unions
- Environmental impacts
Looking back: a history of reforms

1977-1988
- 1st wave of privatization
- “Peoplization”
- “Consolidated fund”
- NTC in 1991
- Policy gaps
  - Competition policy
  - Regulatory governance

1989-1993
- 2nd wave of privatization
- Increased competition
- TRC in 1996
- Policy gaps
  - Rent seeking impacts
  - Regulatory governance

1994-2000
- Multi sector regulation
  - PUCSL in 2002
  - SEMA in 2004
- Policy gaps
  - Privatization
  - Competition policy

2001-2004
- Privatization ruled out
- Renationalization of major enterprises
- Ministry of State Resources & Enterprise Development (2010)
- Holding company (SRMC)
- Policy gaps
  - Regulatory governance

2005-2014
- SOE reform policy platform
- Holding company, Public Enterprise Board legislation draft in process

2015 onwards
National policy priorities: the last three years

2016
- Government Holding Company
- Public Enterprise Act
- PPPs
- Divestiture of Non-strategic Assets
- KPIs

2018
- Public Enterprise Act
- PPPs
- Divestiture of Non-strategic Assets
- KPIs & Statements of Corporate Intent
- Partial Divestiture of State Banks
- Cost Reflective Pricing
  - Vision 2025 (Sep 2017) & 2018 Budget Speech (Nov 2017)
Three complexities of SOEs

- **Complexity of identity** – competing expectations of the role of SOEs

- **Complexity of SOE interdependence** – interactions between SOEs affecting overall performance

- **Complexity of institutions** – decentralization of government oversight & politicization of unions
Identity: competing interests

Non-commercial Social Obligations
CEB -> Rs. 56 bn (2017)
CPC -> Rs. 12 bn (2016)

Commercial Viability

Cost Reflective Pricing Formulas
Fuel – March 2018
Electricity – September 2018
**SOE interdependence: circular debt**

Circular debt impacts the liquidity of the bank sector and of the Treasury.
Institutions: multiple stakeholder contestation

1. Supporting Much Needed Reform

2. Evaluating Suggested Reforms

3. Objecting Critical Reforms
SOE reform modalities

COMMERCIALIZATION PERFORMANCE
PRIVATE COMPETITION CONTRACTING

PRIVATIZATION GOVERNMENT HOLDING COMPANY
MANAGEMENT CONTRACTING PPPS
SOE reform: inclusive growth

- PSOs (public goods)
- Competitiveness
- Independent regulation
- Transparency / hard budget constraints
Sustainable SOE reform: no blanket solutions

- **Role of government clearly defined:** PSOs, natural monopolies etc.
- **Avoid reinventing the wheel:** look back to go forward
- **Sequencing:** competition/liberalization & independent regulation before ownership change
- **Management reforms:** performance-based incentives, hard budget constraints
- **Political ownership/commitment:** over the reform process
- **Broad stakeholder buy-in:** communication strategy, branding, open public dialogue
Thank you