

Let's _____
reset
— Sri Lanka
#reformnow conference

The State of State-Owned Enterprises

05 August 2022

ADVOCATA INSTITUTE

www.advocata.org

Let's Reset Sri Lanka Conference

Advocata Institute

05 August 2022

1.

Why is a Discussion on SOEs Important ?

**Mismanagement of
Public Finance**

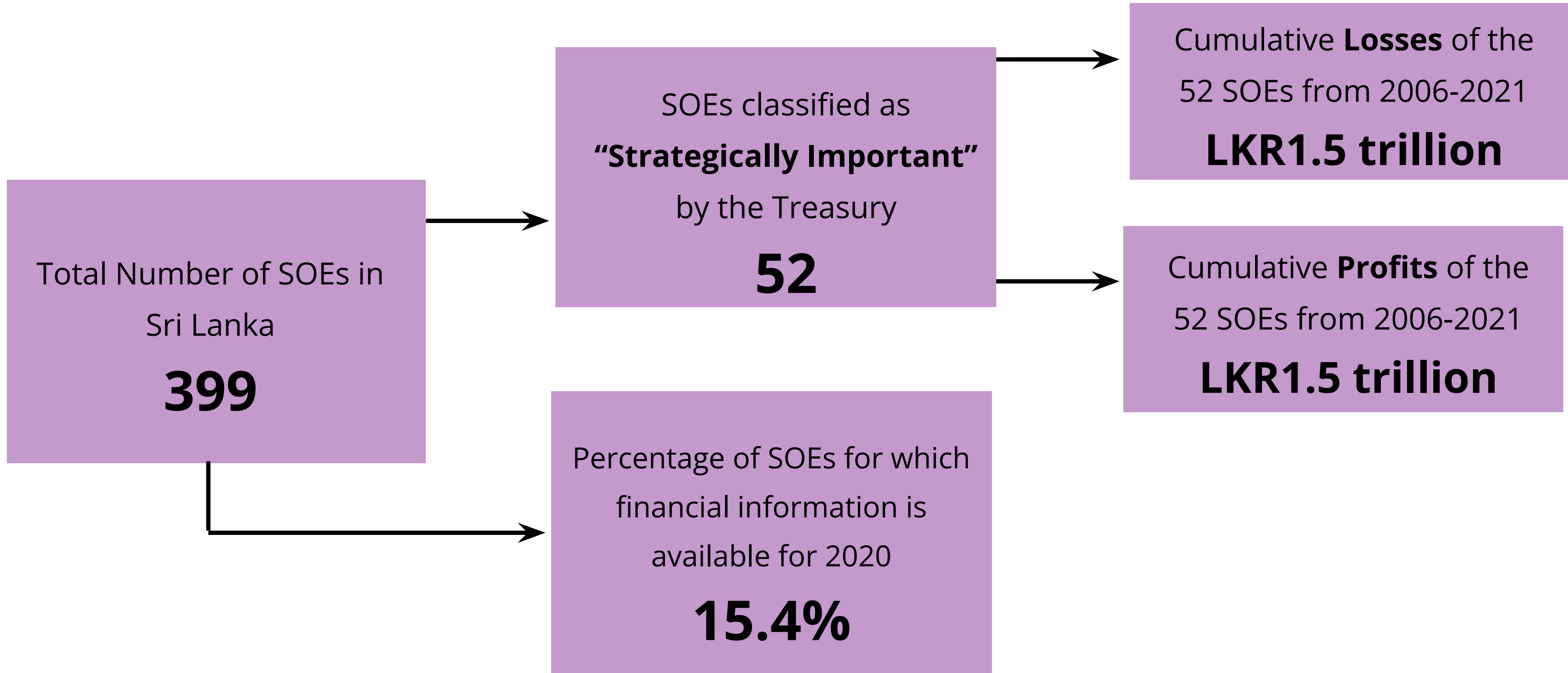
**Recurrent
Expenditure**

**Contribution to the
Debt Crisis**

Corruption

2.

The State of State Owned Enterprises?



3.

SOE Performance Indicators

Based on data for

13.7%

Combined turnover to GDP

6.1%

Combined losses as a percentage of the budget deficit

7.6%

Combined profits as a percentage of the budget deficit

8

Total SOE debt as a percentage of public debt.

%

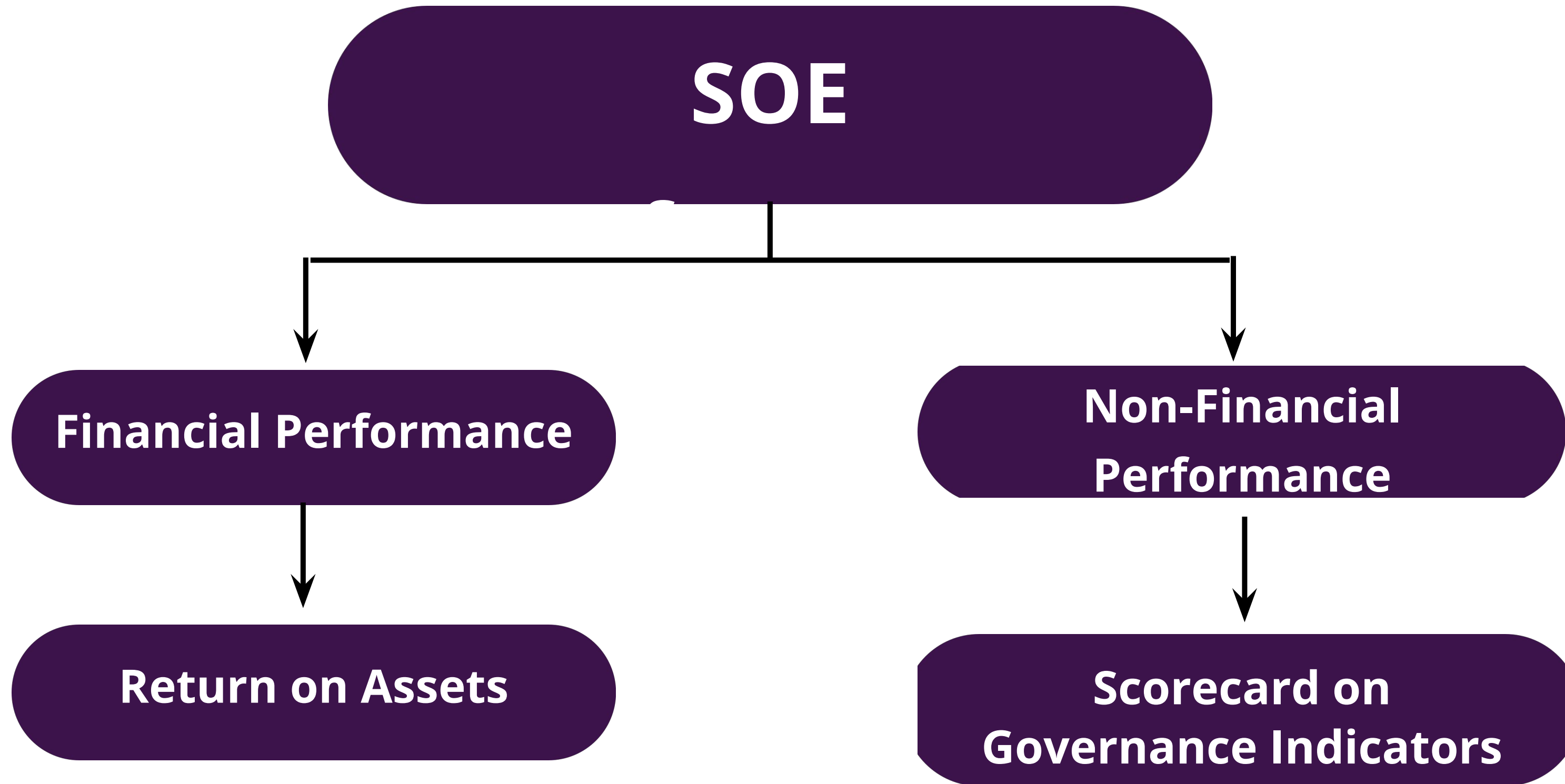
6

Contingent liabilities

the total value of treasury guarantees issued as a percentage of public debt

%

4. Measuring SOE Performance



5.

Scorecard for SOE Governance Indicators

0

Annual Report

- Year of the most recent Annual Report available online?
- Have Annual Reports for the last 5 years been tabled in Parliament?
- Does the Annual Report contain mandatory provisions set out in the PED Guidelines?

10

Auditing Standards

- Is the Audit Clean?
- Is the Audit a Qualified?
- Is the Audit a Disclaimer?

20

Right to Information

- Is the information pertaining to the RTI officer available online?
- Does the SOE respond to an RTI within the timeframe specified in the Act?

30

Accessibility of Information

- Does the SOE have a website?
- Does the SOE website contain sufficient organisational details?
- Does the SOE website contain Tender and Procurement details?

4

Why do we need a SOE Scorecard?

- **Draw the public and the government's attention to the performance of SOEs.**
- **Highlight the absence of targets for performance measurement.**
- **Highlight the lack of information- the inability to evaluate more deeply.**
- **Pose the question as to the role that the government should play in the economy.**
- **How does government involvement in these SOEs improve public welfare?**

The Return on Assets Analysis

ROA

ROA is a financial ratio that shows the percentage of profit a company earns in relation to its overall resources.

$$\text{ROA} = \text{Net Income} / \text{Total Assets} * 100$$

Effective Borrowing Cost of Government Debt

The Effective Borrowing Cost of Government Debt was derived by calculating the interest expense for debt during a period, expressed in domestic currency and dividing it by the Debt stock of the previous year.

$$i_t = i_t / D_{t-1}$$

Comparing ROA against A.E.I.R

- SOEs with negative ROA
- SOEs with positive ROA but below the government cost of borrowing
- SOEs for which the ROA exceeds the government cost of borrowing

8.

Worst Performing SOEs on ROA

SOE	ROA
Agriculture and Agrarian Insurance Board	-52.9
Sri Lankan Airlines Ltd	-35
Lanka Sathosa Ltd	-33.6
SL Rupavahini Corporation	-11.9
Sri Jayawardenapura General hospital	-10.3
Janatha Estates Development Board	-10.1
Ceylon Fisheries Corporation	-5.1
State Engineering Corporation of Sri Lanka	-5
State Printing Corporation	-4.5
Ceylon Petroleum Corporation	-4.2
National Livestock Development Board	-3.7
Ceylon Electricity Board	-3.4
Sri Lanka State Plantations Corporation	-2.4

Top Performing SOEs on ROA

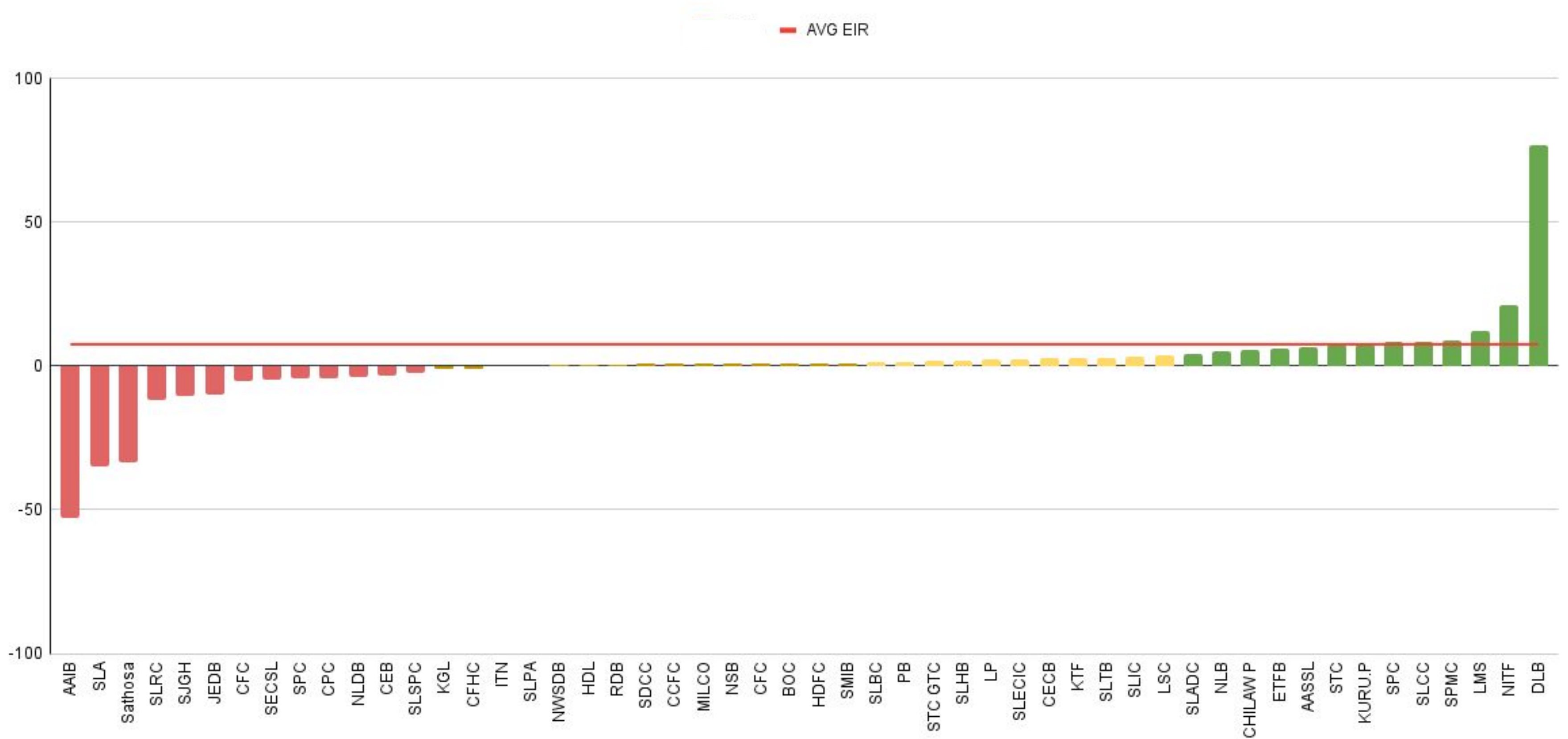
SOE	ROA
SL Ayurvedic Drugs Corporation	4.1
National Lottery Board	5
Chilaw Plantations Ltd	5.6
Employee's Trust Fund Board	6.2
Airport and Aviation Services (SL)Ltd	6.4
State Timber Corporation	7.6
Kurunegala Plantations Ltd	7.6
State Pharmaceuticals Corporation	8.3
Sri Lanka Cashew Corporation	8.6
State Pharmaceuticals and Manufacturing Corp.	8.9
Lanka Mineral Sands Ltd	12
National Insurance Trust Fund	21.1
Development Lottery Board	76.9

SOEs Compared against the Private Sector

	Average ROA	Industry Average
Banking and Finance		
Licensed Commercial Banks		
Bank of Ceylon	1.0	1.31
People's Bank	1.3	1.31
Licensed Specialized Banks		
National Savings Bank (NSB)	0.9	1.54
State Mortgage & Investment Bank (SMIB)	1.0	1.54
HDFC Bank (HDFC)	1.0	1.54
Pradeshya Sanwardhana Bank (RDB)	0.6	1.54
Employee's Trust Fund Board	6.2	1.54
Energy		
Electricity		
Ceylon Electricity Board	-3.4	4.3
Power		
Ceylon Petroleum Corporation	-4.2	4.5
Ports		
Sri Lanka Ports Authority	-0.1	28.09

The Return on Assets Analysis

ROA of 52 Strategic SOEs



Why Do SOEs Underperform?



Why Privatisise?

- **Raises revenue to the government through sale of assets.**
- **Removes the burden of funding losses from the government.**
- **Reduces the risk to the banking sector.**
- **State withdrawal and private participation can improve the competitiveness of markets and therefore productivity.**



15.

Top Loss Makers (2015 -2020)



**Ceylon
Electricity
Board**

**LKR
197.7 Billion**



**SriLankan
Airlines**

**LKR
161.2 Billion**



**Ceylon
Petroleum
Corporation**

**LKR
74.8 Billion**



Lanka Sathosa

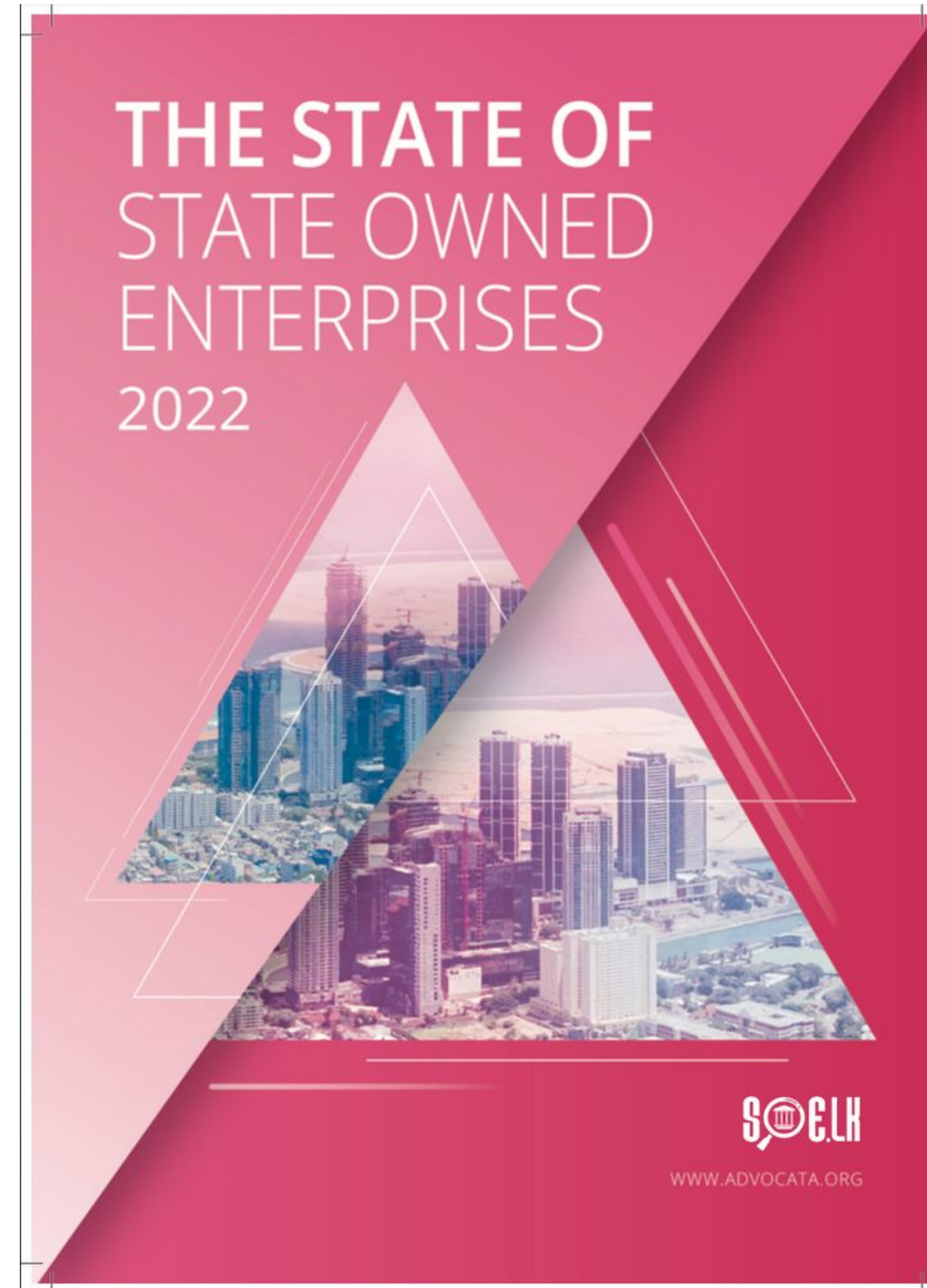
**LKR
16.3 Billion**



**State
Engineering
Corporation**

**LKR
5.95 Billion**

The State of the State-Owned Enterprises, 2022



Let's _____
reset
— Sri Lanka
#reformnow conference

Thank You

ADVOCATA INSTITUTE

www.advocata.org

Let's Reset Sri Lanka Conference

Advocata Institute

05 August 2022