

# The *State* of Sri Lanka's State Owned Enterprises

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# Sri Lankan SOEs: Expectations vs *Reality*

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# SOE landscape

Ministry of Finance

Dept of Public Enterprises

Dept of National Budget

**527**

State Owned  
Enterprises

**55**

Strategically important

**287**

With commercial interests

**185**

With non-commercial interests

**22**

Publicly listed

# Causes of SOE underperformance

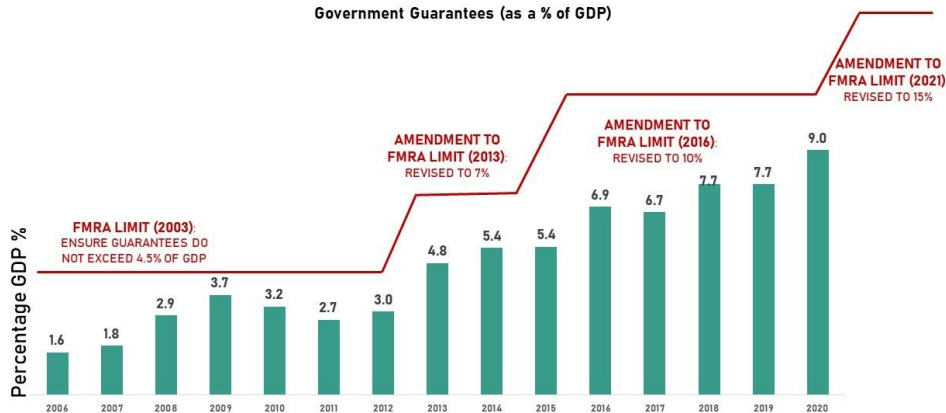
“The failures of SOEs are mostly attributed to the **failures in the governance of SOEs** coupled with **policy inconsistency** and a **non-commercial like approach**, especially with respect to commercial SOEs with no timely fusion of equity and lack of autonomy to respond to market dynamics.”

– **Director-General, Department of Public Enterprises, 2021**



# Soft budget constraints

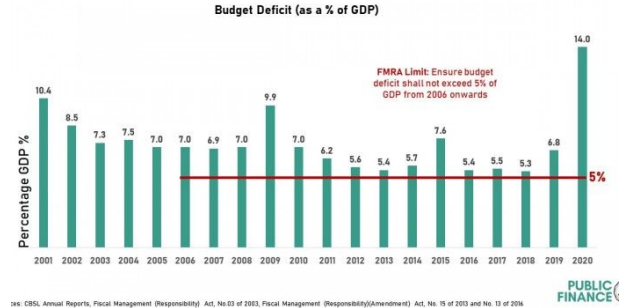
## Government Guarantee Limits in the FMRA Have Been a Moving Target



Sources: CBSL Annual Reports, Fiscal Management (Responsibility) Act, No.03 of 2003, Fiscal Management (Responsibility)(Amendment) Act, No. 15 of 2013 and No. 13 of 2016



## Budget Deficit Limit in the FMRA Has Never Been Complied



Sources: CBSL Annual Reports, Fiscal Management (Responsibility) Act, No.03 of 2003, Fiscal Management (Responsibility)(Amendment) Act, No. 15 of 2013 and No. 13 of 2016



**Rs 1.5 trillion**

Accumulated losses, 2006-2021

**Rs 1.8 trillion (9.4% of public debt)**

Debt owed by public corporations, 2021

Sources: PublicFinance.Lk



# Price controls

Loss due to government subsidy policy	2021 Rs Million
CEB	(59,665)
CPC	(45,158)

“Stern actions were taken to monitor and control the adulteration of the Kerosene by the heavy transporters such as busses and Lorries **misusing the Kerosene subsidy** given for the low income families and fisheries community due to the price gap between the Diesel and Kerosene.”

- **CPC Annual Report 2021**

## An illustration of SOE corruption

Use of **forged** documents to clear Rs 1 billion worth imports of life-saving human immunoglobulin from **unregistered** foreign company, with **no quality assurances**.

**Sri Lanka's ruling coalition defeats a no-confidence motion against the health minister**

# Sri Lankan SOEs: A Trojan Horse



SOE's are marketed as ***national assets***, but they are actually a ***vehicle for corruption...***

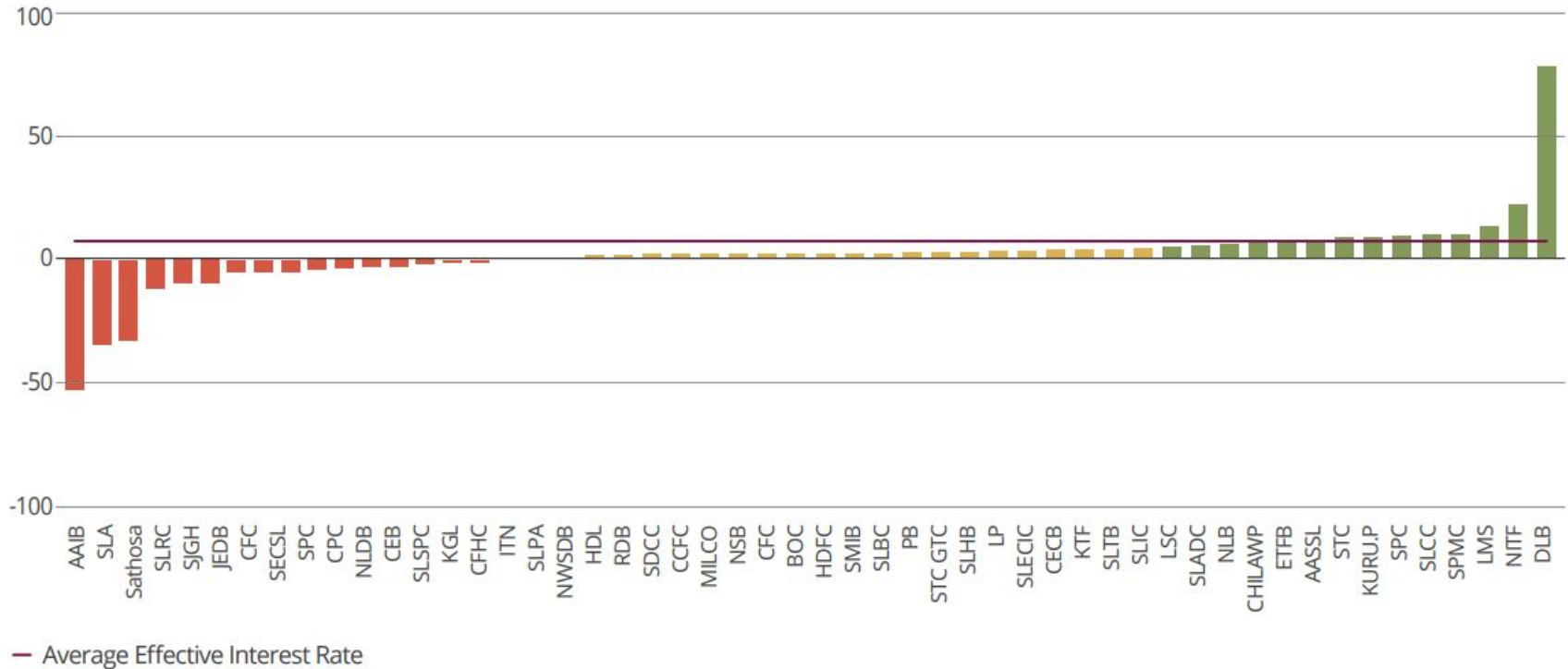


# ROA of 52 strategically important SOEs

Status	#	Prominent SOEs
Total failure	13	Ceylon Electricity Board Ceylon Petroleum Corporation Lanka Sathosa Sri Lankan Airlines
Unsuccessful	12	Sri Lanka Ports Authority Milco Ltd National Water Supply and Drainage Board
Marginally successful	14	Bank of Ceylon People's Bank Sri Lanka Transport Board Sri Lanka Insurance Corporation
Successful	13	State Pharmaceuticals Airport & Aviation Services

[WWW.SOE.LK](http://WWW.SOE.LK)

# ROA of 52 strategically important SOEs



# *Corporate governance* **International best practices**

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# International best practices

## OECD's Guidelines on Corporate Governance for SOEs

**01**

Rationale for state ownership

**02**

The state's role as an owner

**03**

SOE's in the marketplace

**04**

Equitable treatment of shareholders and other investors

**05**

Stakeholder relations and responsible business

**06**

Disclosure and transparency

**07**

The responsibilities of the SOE boards

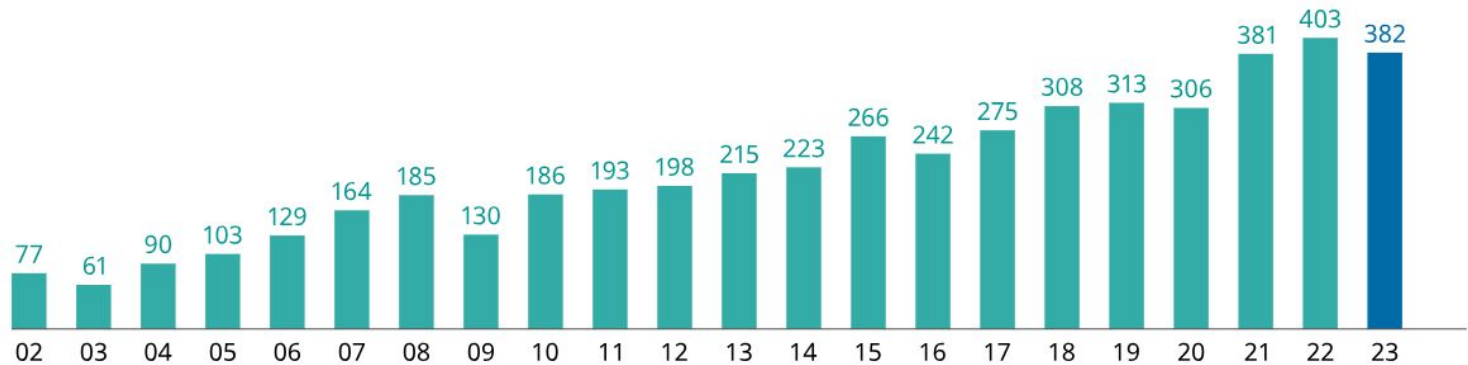
# Temasek: Performance

**S\$382b**

**Net Portfolio Value**

Up S\$167 billion over the last decade

**Net Portfolio Value (S\$b)**



(as at 31 March)

# Temasek: Key principles for success

## **Non-intervention**

The government does not actively interfere in the operations, management, or decision-making of state-owned enterprises (SOEs). SOEs are allowed to operate independently without direct government involvement.



## **Non-preference**

The government treats state-owned enterprises and private enterprises equally in terms of regulations, subsidies, and market access. There is no favoritism or preferential treatment given to SOEs over private businesses.

*Way forward*

**Short, medium and long term  
measures**

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# Sequence of SOE reforms

1

Divestitures

High-priority

2

Downsize or close down non-viable entities

3

Temasek-style holding company

## Corporate restructuring

- Define objectives
- Enforce fiscal constraints
- Strengthen legal & regulatory frameworks
- Employee management

## Improve regulatory frameworks

- Corporate governance
- Transparency & disclosure
- Competitive neutrality
- Performance metrics
- Anti-corruption measures

## Competition

- Cost-reflective/market pricing
- Private entry into state monopolized markets
- Divestiture & privatization
- Trade liberalization



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# Thank you!

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