Sri Lanka goes ahead with Privatisation

by Lucien Rajakarunanayake

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The Government recently overcame one of the biggest obstacles to its programme of privatization. Using Emergency Powers and Essential Service regulations, it broke the backbone of an island-wide strike by electricity workers, which plunged the country into darkness and chaos. The tough tactics of the government leadership, combined with a more conciliatory and face-saving approach by back-bench members, saw power being fully restored in less than 72 hours.

The Government's dealing with the strike by employees from the engineers to labour grade workers of the government-owned electricity monopoly, the Ceylon Electricity Board, certainly helped to bring added confidence in the private sector, that the government was serious about its policy of privatization. It also gave trade unions a message that the government, although accepting trade union rights, was not ready to allow trade unions to dictate government policy. Today, the Government of President Chandrika Kumaratunga is going ahead with its plans for the privatization of most state ventures.

The successful privatization of the state-owned Colombo Gas Company, the majority shares of which were bought by Shell International has given a boost to the government's efforts at shedding off state ventures and giving the private sector the lead role in the economy. The sale of Colombo Gas to Shell International brought in a high-profile investor who bid over 25 million US dollars for the project, and who has also started a new joint venture to build an LP Gas terminal to the Colombo Harbour. It will help bring the fast selling LP gas in bulk, and not in cylinders as is done today, with the promise of making it available cheaper to the public. This new venture alone has an investment of 40 million US dollars.

The entire process of privatization is handled by the Public Enterprise Reform Commission (PERC), which in keeping with the Government's policy of complete transparency in the process of privatization, ensures that all privatization activity gets the maximum publicity both in Sri Lanka and abroad, and is done according to guidelines which are made clear in pre-bid documents.

This is in marked contrast to the practice of the previous government, which initiated the privatization process, but carried out the business so secretly, that a large number of such privatized ventures are now the subject of special commissions of inquiry.

Also up for privatization is Air Lanka, Sri Lanka's national carrier. A consortium of financial consultants led by Chase Manhattan, which has experience in the privatization of airlines, is already busy making the necessary financial recommendations for restructuring Air Lanka, before finding a strategic investor who will take up at least 49 per cent of the equity of the Government owned company. The report of the financial consultants is expected in the next few months.

Meanwhile, another consortium of international consultants has been selected and is busy on working out recommendations for the re-structuring and sale of part of the equity of Sri Lanka Telecom (SLT), the island's state telecommunications monopoly The internation of the government, as announced,

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is to sell at least 20 per cent of equity of Sri Lanka Telecom initially, and proceed with share shedding in stages. There has been much trade union opposition to the privatization of SLT by most of the 31 trade unions within the organization. Recent developments have led to a break up of the unity among trade union opponents to the telecom restructuring and privatization effort. However, despite the many objections raised by the trade unions, the government certainly has the support of the public in this venture.

Applicants for telephones today have to wait from five to twelve years to get a connection. With a current waiting list of 220,000 applicants for telephones, the estimated applicants by the Year 2000 is at least 700.000, on a very conservative basis. At the current rate of giving telephone connections. which was 25.000 in 1995, it will go well into the first decade of the next Century, to meet the expected demand. The Government has therefore, already given licenses to two private companies with foreign collaboration to issue wireless loop telephone connections to applicants. Each company says they can give up to 40,000 connections per year. This will certainly ease the current pressure of the current demand for telecommunication services.

The giving of priority to telecommunications in the privatization process is an indicator of the government’s determination to of fer foreign investors an atmosphere with a good communications facility, which will help bring in high-tech investors to the country, moving away from the earlier emphasis on the garment manufacturers, and other low-tech projects.

President Chandrika Kumaratunga in a recent television interview made it clear that her government is committed to a capitalist economic programme, as opposed to the left-wing socialist programmes that her party, the Sri Lanka Freedom Party had been following when in power earlier. The President who has herself been one of the most ardent socialists within the Sri Lanka Freedom Party, appears to have come to the conclusion that Sri Lanka can have no future in the current economic context, unless it follows the prevailing trend in giving the private sector the major role in investment and development.

The President who is also the Minister of Finance, knows well the need for foreign capital for the development of Sri Lanka, and the gross inability to raise the capital required for modernization of the economy and create new employment through local private sector investment or by the government.

The plantation sector, which provides most of the tea that Sri Lanka is famous for the world over, as well as its rubber, which remains a major export, is also in the process of privatization. In this instance, it is a major about turn by the government. All foreign owned plantations were nationalized by Mrs. Sirimavo Bandaranaike, the mother of President Kumaratunga, when the mother was prime minister. What the daughter is seeking is to undo what her mother did, while the mother remains Prime Minister in her Cabinet.

At least three plantation groups which have been turned into profit under private management, have put their shares for sale in the Stock Exchange, with a fair measure of success.

The major difference in the present government's approach to the plantations, is that it is ready to give the new investors a fifty year lease of the plantation, which will help them raise funds through the banking system. What the previous government did was to hand over the management of the plantations to companies which were its favourites. The net result was the stripping of the assets of the plantations on a large scale, for a short-term profit.

The first privatization of a plantation venture has brought more problems for the government through accusations of lack of transparency This is largely the problem of the small private sector for that is functional in the major sectors of the economy and the closely-knit connections between Various companies in the country, where conflict of interest could be a serious problem.

The government has now announced that it is re-thinking its strategy with regard to the privatization of plantations.

The Public Enterprise Reform Commission is clear in its policy that the any privatized plantation will not be used for any other purpose, except in relation to the plantation industry, once the 50-year lease is granted. The government has also decided that it will hold a golden share in the privatized plantation ventures to prevent the stripping of assets, the safeguarding of employee rights, and prevent the misuse of plantation assets for other economic ventures which could be more profitable in the short run.

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The success of the government in the privatization of plantations will remain the key to its success in its broader policy of privatization. Already the government, acting through (PERC) has stopped the sale of some ventures such as Sri Lanka's Duty Free Shopping Complex in the airport, when there were signs of an interested cartel under-bidding to get the business below the expected value. The move proved a success and later a consortium of investors bought the venture for more than the minimum value of One Billion Rupees.

Trade union objections would soften with the government's decision that in any privatized venture its employees would be given at least ten per cent of the shares. Shell International has already done this and all the workers of the former Colombo Gas Company received shares valued at more than Rs 6000 at par. In order to assuage the fears of workers, the government is also insisting that the new investors do not carry out retrenchment in any of the privatized ventures, although the option of the golden hand-shake or that of re-training in new skills is kept open.

It is now clear that Sri Lanka which began the process of privatization in South Asia, at about the time Prime Minister Thatcher began it in the UK. is not ready to go back to the old policies of a centralized economy. Leading the privatization process today is the President, who at one time was among the most ardent supporters of state intervention and investment for development. She is now a clear convert to the new economic realities. Sri Lanka's privatization process has the safety of continuance with more dynamism, because, as many would say, there is none so dedicated as one who is converted to new ideals.

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