Can COPE stop the rape of public institutions?

By Dinesh Weerakkody

The Committee on Public Enterprises (COPE) points out serious frauds in the privatization of some state institutions and the sorry state of affairs in the BOI, CEB, CPC and the NLB to name a few. The report also highlights the incompetence of the officials heading these institutions. The services of these institutions are vital for public welfare and for the country's economic progress. The taxpayers to deliver a service to the public fund these institutions. Therefore COPE must at least now follow up on their findings and make sure the necessary changes are made within these enterprises to prevent further abuse and mismanagement. These institutions in particular are in this sorry mess due to political abuse and years of mismanagement by its politically biased management and masters. Over the years nothing substantial was done either by the UNP or the SLFP to set matters right in many of the ailing institutions for political reasons. On the other hand the Trade Unions and the senior management were preoccupied by their domestic squabbles to worry about the rape or the plundering that was taking place. As a result today the CEB and the CPC are in the throes of a financial crisis. The CEB's daily loss alone is a staggering 50 million. The trade unions in the CEB have often accused politicians of abuse of Board property. Regardless, the abuse goes on and on. This is often attributed to irresponsible ministry secretaries. But the real problem is that often our politicians feel that it is their right to abuse and plunder state property once elected to office. In Sri Lanka, state intervention was first in the service and in the areas of transport (railway), Telecommunication, Post & power. The bus services were taken over in 1956; the Bank of Ceylon, which began in 1931, was nationalized in 1963. The people's bank was setup as a state venture in collaboration with the co-operative movement. Insurance business was also nationalized. State trading was consolidated in the 60's & 70's so that foreign exchange could be conserved. The nationalization of plantations was also a significant step. In 1977 with the advent of the UNP Government there was a change of direction and the government sought a departure of a mixed economy & towards a free and liberalized economy. The SLFP under Chandrika continued to sell state assets to the private sector often under controversial circumstances.

The Issues

Today solving the unemployment problem and reducing the COL are some of the most pressing issues. The unemployment rate 20 years ago was officially 20 percent and today it is still unofficially over 10 percent. Therefore the current government should aim to promote long-term growth and large-scale domestic employment on an urgent basis. The extension of the manufacturing sector under competitive conditions is seen as necessary for generating exports and foreign exchange. It is now recognized that a healthy public sector should exist side by side in Sri Lanka. Unfortunately, however, some public enterprises like the CEB and CPC are becoming an intolerable burden on the budget and on the people of the country. We all know a budget deficit can be a great burden on people. The large allocations to public enterprises directly from the budget have drastically reduced financial provisions for several essential sectors or in the alternative have resulted in an increase in direct and indirect taxes on the people. Unless we do something immediately to improve the efficiency of public enterprises, the implication for the future is likely to be serious. The people ultimately have to pay for the sins of commission & omission of public institutions. On the other hand the private sector is not developed enough to undertake heavy investments particularly in infrastructure and certain essential investments with low direct rate of return although the social rate of return is very high. In such instances the private sector does not have the capacity or the will to undertake certain types of investments. State intervention is therefore required in such situations. However when a public sector institution runs at a loss, or resources are plundered or mismanaged it becomes a burden on the budget. Ultimately a burden on the people of this land, every man, woman & child in the country will pay for these losses by way of direct or indirect taxes.

Problems facing state enterprises:

1. Profit or losses should normally be the criterion for evaluating the performance of public enterprises. This criterion however should be used with some caution. Since public enterprises are not entirely free to fix prices and also because they are often required to perform relatively uneconomic services which will not be undertaken by private commercial establishments. Public corporation operates on a system of multiple motives and that accounting profits should not be the sole standard for judging the efficiency of a public corporation. Instead one needs to see whether the corporation provides facilities, which are reasonably adequate to meet public needs at prices which are reasonable and which will enable the undertaking to breakeven.

2. Public enterprises have faced difficulties as a result of limited technology transfers and therefore they have limited technological capability. Some public corporations have hired foreign expertise, which has severely drained the resources of the corporation and attracted criticism from the opposition.

3. At the outset when enterprises where being set up, senior management was drawn essentially from existing government departments and there was a general reluctance to absorb private sector personnel except at blue-collar level. This led to undertakings of a commercial nature being managed by persons with the background in administrative service, which had systems quite inappropriate to the running of commercial establishment. Although in recent times there have been less direct recruitment from government departments, the selection, which often has a political basis, has left much to be desired and entrepreneurial skill have never been encouraged in the corporations.

4. The capital for the enterprise is provided by the State and therefore investment decisions have to be approved from outside. The scope of activities carried on by the Corporation is naturally restricted by the shortage of funds and capability. The private sector rewards and incentives are readily available to motivate employees to record higher productivity. Employee's competence, diligence at work and his overall contribution to the enterprise are given adequate recognition when increments are decided. The flexibility to reward the individual is not available in enterprises.

5. Changes in the political power structure frequently have resulted in major changes from top to bottom in the enterprise, which has hampered the continuity of viable initiatives.

6. The lack of competition, in the case of State monopolies, does not help to encourage the entity to become efficient.

7. In most enterprises there is a great degree of centralization, which, in turn, encourages bureaucracy, causes frustration and inhibits initiative.

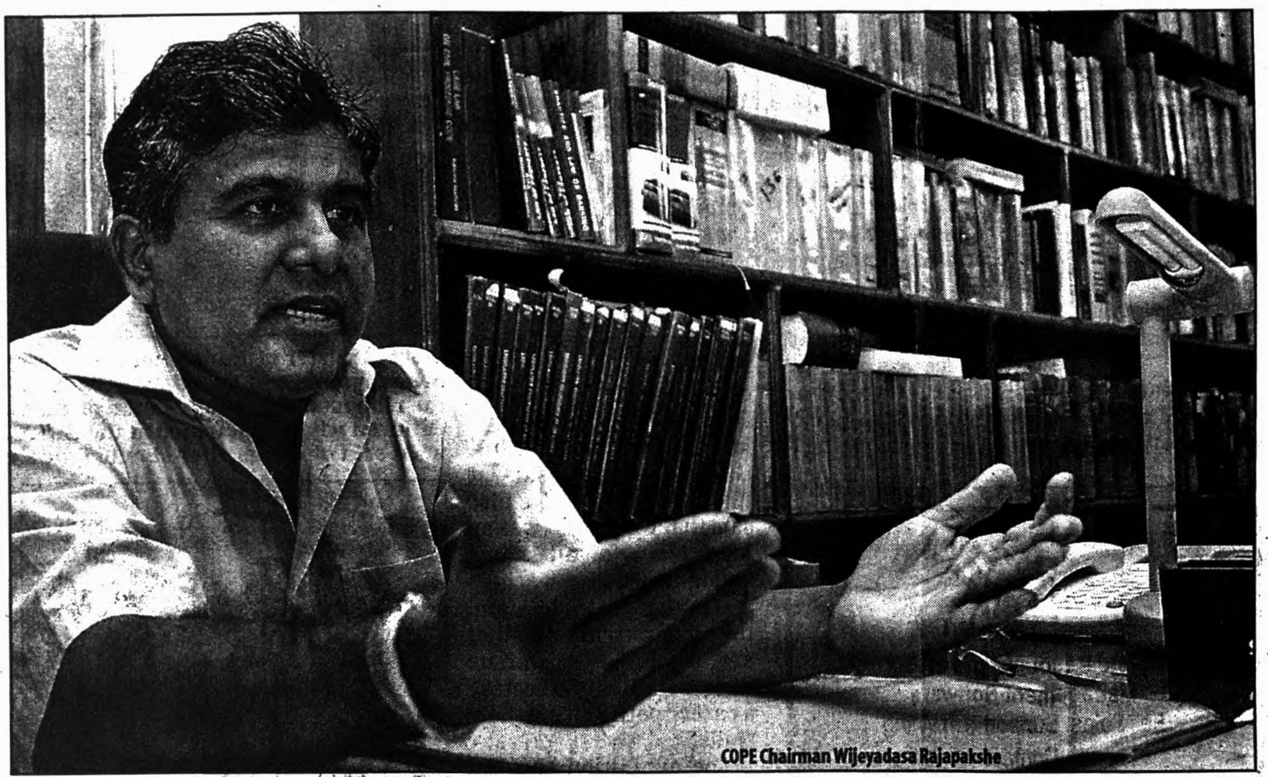
8. There is little or no will on the part of public enterprises to streamline or to develop their marketing abilities. Therefore they find it difficult to compete with other products. Marketing strategies are more or less non-existent.

9. Goals and plans of many enterprises and institutions have become purely conventional rituals. For example, the enterprise would take the Budget of the previous year, make an allowance for inflation on the basis of what existed in the previous year and then arrive at their targets. No thought is given for external factors such as the political climate; the competition faced or even the industrial relations climate in the workplace.

Way forward

One factor, which has to be accepted, is that there can be no stereotyped formula for the success of state enterprises. It is evident that some enterprises can function on a profit basis whereas other must necessarily concern themselves with providing services to the public, whether the provision of such services can be done on a profitable basis or not a corporation, which has an objective of profitability, should be incorporated under the Companies Act and some freedom from bureaucratic control is necessary if such organizations are to become commercially viable. Appointments to the Board of Directors and to the position of Chief Executive should be on merit and on an assessment of the managerial skills of the persons available. The Board of Directors should consist of persons representing finance, marketing, technical functions and human resources. The Board of key public institutions should have nominees from the Chambers and Industry to raise the level of debate and governance. The position of Working Directors appears to be quite irrelevant and unnecessary. Proper corporate planning is necessary and for such purpose it is necessary to guarantee a flow of information from top to bottom and from bottom upwards. The objectives of the organization should be clearly spelt out and these should be attainable objectives, which should be reviewed from time to time, and the effectiveness of which should be reviewed from time to time and the effectiveness of which should be monitored on a continuing basis. The Board of Directors should have autonomy and should be unfettered in the matter of making decisions especially in the area of selection of personnel, investment, pricing and marketing, acquisition of materials and the fixing of terms and conditions of employment. The Board must publish their yearly accounts in the newspapers and subject to scrutiny.

Employment in state enterprises does not have the stability and security, which are necessary to bring out the best in the employees. It would be necessary to have proper induction of employees and also to have career development programs to encourage Executives and even staff lower down, to integrate themselves fully in their management environment. The creation of incentives for workers to increase their productivity, the formation of quality circles and suggestion schemes to provide worker involvement may result in a better outturn. Employees' Councils, which were set up, had not had the desired results due to trade union involvement. The trade union structure, in Sri Lanka is such that their political objectives and affiliations to political parties tend to remove the closeness and relationship within a workplace between workers and their Managers. In fact the development of that relationship is an important factor in ensuring the success of the organization. On the review side COPE should use the services of a professional accounting body like the ICA or CIMA for professional advice and support; firstly to review performance and secondly to ensure COPE recommendations are implemented at enterprise level.In enterprises, which are expected to be profit making, it they are to be formed into Companies, it may also be advisable to alienate certain shares to the public so that the ownership base would be larger and there would be more persons concerned with the success of the institutions. In the final analysis COPE needs to urgently promote norms of good governance, discipline and efficiency within our state entities. Above all they need to put a stop to ministers abusing state resources to achieve personal and political ends. Institution like the World Bank, UNDP and the ADB would surely assist COPE to promote good governance and raise the level of management in state enterprises.


COPE Chairman Wijeyadasa Rajapakshe

Graft costs Sri Lanka a billion dollars a year: whistle-blower

COLOMBO (AFP) - Kick-backs and crooked deals cost Sri Lanka over a billion dollars last year amounting to about a fifth of tax revenue, the country's top official whistle-blower told AFP in an interview.

The head of the parliamentary Committee on Public Enterprises, or COPE, told AFP corruption and fraud runs deep in the main foreign investment promotion body and a state-agency involved in privatisation.

COPE, which last year probed 26 of the 210 state enterprises, found fault with Sri Lanka's Central Bank too for not monitoring financial institutions properly and failing to recover large amounts due to the state.

"As a result of these inefficiencies and corrupt deals, we estimate Sri Lanka may have lost in excess of 100 billion rupees (one billion dollars) last year alone," Legislator Wijeyadasa Rajapakshe said Monday.

The loss is about a fifth of government revenue and amounts to about four percent of the 24-billion dollar economy.

He said he had discovered that the Board of Investment (BOI) operated without a business plan and maintained records in an ad-hoc fashion.

"It was shocking discovery to all of us. The BOI is such an important institution and the main agency to attract foreign investments to our country," said Rajapakshe, who is also a ruling party law-maker. The BOI attempted to mislead parliament by submitting a "false document" under the pretext that it was their corporate plan, he said. There was no immediate comment from the BOI.

Sri Lanka, is hoping to attract a billion dollars in investments this year, after securing 600 million dollars last year.

But Rajapakshe expressed doubts over the figures quoted and the manner in which investments are secured by the BOI.

"We are not attracting top world-class companies, but people to open Chinese restaurants, massage parlours and karaoke clubs under the BOI banner. It's an insult to our country," he charged.

According to COPE figures, BOI approved more than 2,800 firms to operate over the past 28 years, of which it had cancelled around 1,100 licenses.

"There's no excuses for the BOI, they are thoroughly incompetent. If these tax breaks and concessions are given to local entrepreneurs they can do better."

Rajapakshe pulled up the Central Bank for not taking action against illegal finance companies.

"We estimate over 20 finance companies are now illegally operating without a license, and the bank must take steps to stop it," he said.

Privatisation of state assets had also failed to reap benefits though around 60 organisations were sold, generating over 65 million dollars in revenue, he added.

"Privatisation has been stopped now, but what was done hardly brought in money to pay for five months of interest payments on our loans."

He also found fault with the island's main child protection agency saying it had not utilised foreign aid properly to help children.

The auditor-general last year found that only 13 percent of the 3.2 billion dollars in aid international donors had pledged to support Sri Lanka's tsunami recovery in December 2004 had been utilised.

COPE also called for the replacement of the head of the Institute for Policy Studies, the country's top economic think-tank, who is seriously ill.

"I personally represented him as a lawyer in a case where we proved that he was suffering from Alzheimer's disease and dementia," Rajapakshe said.