Series on Political Party Positions on Reforms in Sri Lanka - 01

Political Party Positions on SOE Privatisation in Sri Lanka

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Table of Contents

Abbreviations

CEB - Ceylon Electricity Board
CPC - Ceylon Petroleum Corporation
EFF - External Fund Facility
GDP - Gross Domestic Product
GoSL - Government of Sri Lanka
IFIs - International Financial Institutions
IMF - International Monetary Fund
ISBs - International Sovereign Bonds
JVP - Janatha Vimukthi Peramuna
NPP - National People's Power
PPP - Public Private Partnership
SJB - Samagi Jana Balawegaya
SLFP - Sri Lanka Freedom Party
SLIC - Sri Lanka Insurance Corporation
SLPP - Sri Lanka Podujana Peramuna
SLT - Sri Lanka Telecom PLC
SOEs - State-owned enterprises
SOERU - State Owned Enterprise Restructuring Unit
TSA - Treasury Single Account
UNP - United National Party

1. SOE Privatisation in Sri Lanka

1.1 Introduction

With impending elections in 2024, various political parties have been declaring their different interests in the handling of SOEs through their own respective party economic policies and positions on the management of public assets. This report is a documentation and comparative analysis of key political party positions on State-Owned Enterprises (SOE) privatisation in Sri Lanka, in the backdrop of the 2022 economic crisis and the economic reforms programme the Wickremesinghe-led government embarked upon. The methodology employed in this report is qualitative research of online speeches and interviews of political actors and parties, news articles, documents such as party manifestos, and other reports and academic publications on SOE privatisation in Sri Lanka.

The selection of political parties for the present study has been limited to big-tent political parties, that is, political parties that are able to appeal to a broad spectrum of voters across political ideologies and ethno-religious groups. When differences in opinion among key leaders within a party was observed, all those views have been considered.

This report documents the positions of four mainstream political parties in Sri Lanka. These include the two main coalition partners of the Wickremesinghe-Rajapaksa government (United National Party (UNP) and Sri Lanka Podujana Peramuna (SLPP)), and the two opposition parties considered as the forerunners in upcoming elections (Samagi Jana Balawegaya (SJB) and National People's Power (NPP)). The expedient alliance between President Wickremesinghe (a single party candidate representing the UNP) and the SLPP government means that the government policy on SOE reforms has increasingly reflected the position of the President. Wickremesinghe's positions have been conflated with that of the UNP position, despite the UNP only having one seat in parliament and despite it being SLPP ministers who oversee relevant ministries implementing the SOE reforms.

1.2 Key Observations

On the issue of SOE reforms, political ideology appears to play a significant role across political parties in Sri Lanka. The UNP and SJB veer into the right of centre in that order and accommodate various privatisation options for SOE reforms. The UNP's policy has been observed in practice since 2022, and the SJB's policy has been the least ambivalent, as expressed in the SJB's 2023 Economic Blueprint document.

Political parties quote different reasons to argue their case for or against privatisation. The SLPP and NPP share a more left-of-centre position on SOE reforms, and advocate for a significant role for the government, citing safeguarding national security and ensuring equitable access to goods and services. Additionally, while the SLPP warns of dealing with "foreign forces" in the process of SOE privatisation, the NPP highlights the importance of SOEs for facilitating industrialisation. For the SJB, preventing monopolies and increasing cost-efficiency of SOEs appear to be their main reasons, while reducing the burden on the taxpayers.

Furthermore, there is a politics of language surrounding SOE privatisation in the current context. Any political party that uses the terms 'strategic assets', 'national assets', or 'critical infrastructure' to signify SOEs tend to evoke opposition to privatisation, at least in full part. Incidentally, only the SJB has referred to privatisation of SOEs as "denationalisation", in an operational sense and not a pejorative sense.

The SLPP position is to large extent a continuation of the left-of-centre policy on SOE privatisation, that the Sri Lanka Freedom Party (SLFP) spearheaded for a long time. However, in the context of the 2022 economic crisis and its alliance with President Wickremesinghe, the SLPP largely remained silent on the issue of SOE privatisation. Many key SLPP ministers were spearheading the discourse and action plan for SOE reform, in line with the IMF programme and Wickremesinghe's economic vision. It was only in 2024 that SLPP MP Namal Rajapaksa began to speak up against SOE reforms. This was in the lead up to elections when political regrouping was occurring and the alliance between the UNP and SLPP was becoming more tenuous. The SLPP leader Mahinda Rajapaksa's comments on the issue publicly marked the party's policy difference from the Wickremasinghe-led privatisation drive. On May 12, former President

Mahinda Rajapaksa said that the government should halt selling national assets and SOEs until after the upcoming national elections.

Both the NPP and SJB have softened on their initial stances on SOE privatisation. The JVP (the main party of the NPP) has traditionally opposed privatisation of SOEs, as an extension of its critique of economic reforms since the 1980s.[1] The softening of the NPP stance reflects the party becoming a 'big tent' political party, having to adopt policy positions that appeal to multiple stakeholders including middle class and businesses. There seems to be some policy convergence between the NPP and SJB, as the SJB, in its use of the word "privatisation", especially, with regard to SOEs of 'strategic importance', uses ambivalent language, in that it may oppose full private ownership of critical SOEs.

The government is also planning to introduce some key laws to facilitate privatisation of SOEs and increase their accountability and efficiency. SOE accountability is a need emphasised by both the SJB and NPP. There are concerns, however, that the new laws will propose to optimise SOE privatisation through risk-sharing between private investors and the state. However, no draft or a framework document has been published by the government yet. In this absence of clear communications, concerns have been expressed that a new law may enable PPP models, where privatised entities take loans with government-backed securities. Previously, the government has provided security to loans directly obtained by entities such as the Kotelawala Defence University's Teaching Hospital, and other public institutions.

Coincidentally, the Central Bank report of 2021, which was released in April 2022, dedicated a box article on SOEs that highlighted the key role SOEs perform to ameliorate growth in a country.[2] Quoting examples from East Asia, it argued for restructuring SOEs, mainly by introducing cost-reflective pricing policies, re-aligning strategic directions of SOEs, and increasing SOE's financial transparency, accountability, and corporate management. This reflects the prevailing belief at the time in SOEs to deliver prosperity and equity, marking a diametrically opposed position to the current government policy.

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[1] Kuruwita, R. (2022, September 16). JVP Leader questions wisdom of promoting privatisation. The Island. https://island.lk/jvp-leader-questions-wisdom-of-promoting-privatisation/.

[2] Central Bank of Sri Lanka. (2021). Restrategising state owned enterprises as growth facilitators. https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/annual_report/2021/en/13_Box_07.pdf.

2. Politics of SOE Privatisation in Sri Lanka: A Background

State-Owned Enterprises (SOE) restructuring has been on Sri Lanka's economic transformation agenda since the 1970s economic liberalisation. Currently, there are over 400 SOEs operating in several key sectors including power, energy, finance and insurance, water, aviation, health, and education, among others. However, it has been a politically expensive and contentious undertaking for successive governments, for several reasons such as the state having emphasised providing employment to people as part of its mandate, and state use of SOEs for its subsidisation programmes.

The evolution of SOE policies reflects a history of broad economic and political changes the country faced in its past. By the late 1970s, there was a growing recognition of the financial burdens posed by SOEs by the then-Sri Lanka Freedom Party (SLFP)-led government, led by Prime Minister Sirimavo Bandaranaike, which had initially pursued socialist economic policies, nationalising key industries and enterprises.[3]

The 1970-80s in Sri Lanka marked the most notable and initial shift towards SOE privatisation influenced by global economic trends and local political changes. By the mid-1970s, major economic and social activities such as banking, plantations, large scale industries, transport, insurance, telecommunications, postal services, ports, electricity, import and distribution of petroleum, roads, health, and education were either public sector monopolies or largely undertaken by public enterprises. The numbers of SOEs rose rapidly from 14 in 1962 to over 280 public enterprises by the mid-1980s.[4]

A subsequent shift towards privatisation was influenced by the global trend towards market-oriented reforms and the success stories of privatisation in other countries during this period.[5] Following this trend, the introduction of the 1977 economic reforms under President J. R. Jayewardene marked a significant shift towards a more liberal economic policy. These reforms included measures to attract foreign investment, deregulate the economy, and gradually introduce privatisation of SOEs. The main push for SOE reforms came in the mid-1980s, following poor

[3] Samarajiva, R., & Hangawatte, K. (1989). The Political Economy of Reform: SOE Reform in Sri Lanka.
[4] Central Bank of Sri Lanka. (n.d.). Restrategising state owned enterprises as growth facilitators. https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/annual_report/2021/en/13_Box_07.pdf.
[5] Edirisuriya, P. (2000). Privatization in Sri Lanka: A Politico-Economic Review.

financial performance of SOEs due to operational inefficiencies, politically driven recruitments, and other factors.[6] The increasing burden of SOEs on the budget and an increasing push for SOE reforms by multilateral donor agencies led to SOE privatisation being announced as a state policy in 1988. The divestiture programme (1989-1993) included partial or full divestitures of about 43 commercial enterprises.

The 1980s saw a continuation and intensification of such privatisation efforts, alongside other types of reforms, such as public private partnerships (PPPs) and entrusting SOE management to the private sector. Focusing on improving efficiency, attracting foreign investment, and stimulating economic growth, the United National Party (UNP) government sold off several smaller SOEs and began preparing larger ones for privatisation.[7]

By the late 1980s and early 1990s, under President Ranasinghe Premadasa, Sri Lanka entered an International Monetary Fund (IMF)-led economic structural adjustment programme. Under this programme, Sri Lanka agreed to further privatisation and restructuring of its SOEs. This included debt restructuring and adopting policies aimed at liberalising the economy.

With the election of Chandrika Bandaranaike Kumaratunga as President in 1994, there was a renewed focus on privatisation. Kumaratunga's administration pursued significant privatisation efforts, selling off shares or complete privatisation of SOEs such as telecommunications, airlines, plantations, and utilities.[8] This period saw the largest wave of privatisation in Sri Lankan history. These privatisation efforts led to mixed results, with some enterprises becoming more efficient and profitable, while others faced challenges related to regulatory frameworks and market conditions.

When Ranil Wickremesinghe became Prime Minister in the early 2000s, he continued the previous government's privatisation agenda. In line with another significant IMF-led reforms programme, the Ranil Wickremasinghe government introduced the 'Regaining Sri Lanka' structural reforms programme, focused on improving the efficiency of remaining SOEs and reducing the state's role

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[6] Central Bank of Sri Lanka. (n.d.). Restrategising state owned enterprises as growth facilitators. https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/annual_report/2021/en/13_Box_07.pdf.
[7] Kelagama, S. (2000). Privatization in Sri Lanka and the Role of SOEs. South Asia Economic Journal.
[8] Wickramasinghe, U. (2001). The Privatisation Experience in Sri Lanka: a Stakeholder Perspective.

in the economy.[9] Wickremesinghe's policies included further liberalisation and attempts to create a more conducive environment for private sector growth. This period saw efforts to modernise and reform SOEs to make them more competitive.

President Mahinda Rajapaksa, who came into power in 2005, took a different approach towards SOEs. Under the presidential manifesto, Mahinda Chinthana, his government focused on re-acquiring previously privatised enterprises, emphasising state control and national interest. The re-acquisition policy was driven by a belief that strategic sectors should remain under state control to ensure national security and public welfare. The Strategic Development Projects Act, No. 14 of 2008, the Revival of Underperforming Enterprises or Underutilized Assets Act, No. 43 of 2011, and the Acquisition and Resettlement (Special Provisions) Act were introduced during his terms, and allowed the government to re-acquire previously privatised entities that the government considered crucial for national development; to take over enterprises if they were deemed to be strategically important or if their performance was considered detrimental to the national interest; and facilitated the re-acquisition of lands on which strategic enterprises were located.[10] Key industries, including petroleum and transportation, were brought back under state ownership. Rajapaksa's administration aimed to (with limited success) balance state control with market dynamics, attempting to enhance SOE performance while retaining public ownership.

In 2015, the Yahapalana coalition government set up a Public Enterprise Board to oversee the management of SOEs.[11] This board was tasked with ensuring that SOEs adhere to principles of good governance, transparency, and accountability. Senior managers of SOEs were required to sign performance contracts, linking their compensation and job security to the achievement of specific, measurable goals. A Treasury Single Account (TSA) system was introduced to centralise and streamline the management of public funds, including those of SOEs. This aimed to reduce financial mismanagement and enhance monitoring of SOE finances. The government initiated a process of restructuring some of the most financially distressed SOEs. While full-scale privatisation was politically sensitive and limited, efforts were made to invite private sector

[9] Samarasinghe, S. W. R. D. A., & Rajakarunanayake, S. S. (2003). Privatization and performance: The case of Sri Lanka.
[10] Sumanadasa, D. (2012). Achieving (in)Justice in law Making: An Appraisal of revival of Underperforming Enterprises or Underutilized Assets Act, No. 43 of 2011. Law and Social Sciences Research Network Conference.
[11] EconomyNext. (2016, August 03). Sri Lanka to set up Public Enterprise Board; new law next month https://economynext.com/sri-lanka-to-set-up-public-enterprise-board-new-law-next-month-5404/.

participation through PPPs. The introduction of the RTI Act and the establishment of the Public Enterprise Board further led to improved transparency and accountability.

The subsequent Gotabhaya Rajapaksa administration in 2020 came to power on a no-privatisation policy. The brief presidency was overshadowed by the Covid-19 pandemic and the deteriorating debt repayment and currency crises that led to popular protests in 2022. No SOE reforms were implemented during this period.

Key arguments advanced by parties for and against SOE privatisation:

For privatisation	Against privatisation
SOEs make losses and are a burden to on taxpayers	Safeguarding national security
Revenue generation to bridge budget deficits	SOEs can be run profitably
Small governments - governments can concentrate on critical sectors (the state should not do business)	SOEs are strategically important to support industrialisation
By getting rid of loss-making SOEs the government can redirect revenue to welfare, health and education	SOEs can provide goods and services without a mere profit motive (more equitably)
When privatised, these sectors can attract technology and capital	The present government lacks a mandate for privatisation
State run enterprises are prone to corruption	Divestitures can lead to large scale corruption
Leads to government monopolies	Leads to job losses in the short run

3. 2022 Debt default, Economic Reforms & SOE Privatisation

In 2022, following an economic crisis that led to continued protracted power-cuts and restrictions on essential imports, and the country's first-ever debt default, mass street protests (the Aragalaya) ensued and led to the eventual resignation of the Cabinet and President. The new President embarked on an economic stabilisation programme that included entering a 17th External Fund Facility (EFF)-supported programme with the IMF.

The 2023 Sri Lankan budget emphasised the privatisation of SOEs as a key strategy for generating state revenue, in line with the principles of the current IMF structural adjustment programme.[12] Based on a 2024 Ministry of Finance report, the government-run State Owned Enterprise Restructuring Unit (SOERU) identified that debt accumulated by the 52 SOEs in Sri Lanka incurred losses of 744.6 billion Sri Lankan rupees in 2022.[13] Accordingly, the Unit stated that each Sri Lankan taxpayer had 1.7 million in registered taxpayer losses, as of 2022.

The current government has announced plans to restructure major entities such as Sri Lankan Airlines, Sri Lanka Telecom, Colombo Hilton, Waters Edge, and Sri Lanka Insurance Corporation (SLIC), with proceeds intended to strengthen foreign-exchange reserves and stabilise the national currency. Among other state-owned entities that are positioned to enter into privatisation are Ceylon Petroleum Corporation (CPC), Ceylon Electricity Board (CEB), and Sri Lanka Railways.

In April 2024, Sri Lanka's Central Bank Treasury Secretary Mahinda Siriwardana announced the impending implementation of a series of bills aimed to usher structural changes to the existing administration, which includes a "Management of State Owned Enterprises Law", "Public Private Partnership Law", and a "Public Procurement Bill".[14]

The same month, State Minister of Finance Ranjith Siyambalapitiya raised the necessity of a broader policy framework to oversee the transition of entrepreneurship activities from public to private entities, with the aim to reduce the burden on state institutions and ensure effective regulation.[15] Addressing concerns raised in parliament regarding the restructuring of profitable SOEs, Siyambalapitiya underscored the importance of maintaining government oversight and tax collection while transferring these activities to the private sector. He highlighted the significant tax burden placed on citizens due to losses incurred by SOEs operating outside proper policy frameworks, emphasising the need for transparency in the restructuring process to maintain accountability and public trust. Siyambalapitiya reiterated the government's commitment to

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[12] Ministry of Finance, Economic Stabilization and National Policies. (n.d.). Budget Speech – 2024: A Prelude to the Stable Future. https://www.treasury.gov.lk/api/file/ed037ac8-9727-4292-ae9b-edac08c7a314.

[13] SOERU Sri Lanka. (2024, April 19). X.com. Retrieved June 13, 2024, from https://x.com/srusrilanka/status/1781163364523151375.

[14] Department of Government Information Sri Lanka. (n.d.). Sri Lanka News - the official government news portal of Sri Lanka. Retrieved June 13, 2024, from http://news.lk/.

[15] Daily FT. (2024, April 26). Siyambalapitiya outlines objectives of SOE restructuring. Retrieved June 13, 2024, from https://www.ft.lk/business/Siyambalapitiya-outlines-objectives-of-SOE-restructuring/34-761043.

considering proposals and queries related to SOE restructuring, stressing the importance of cooperation and collaboration to achieve the objectives. He emphasised the need for collective efforts to streamline operations, enhance efficiency, and alleviate the tax burden on citizens.

Further, the government aims to involve the private sector to enhance the efficiency of state enterprises and focus on core responsibilities. It states that restructuring aims to minimise inefficiency and eliminate political interference in SOEs. It is expected that restructuring will encourage market-based decision-making, fostering a more competitive economy.

Meanwhile, the government has also pledged the commitment to eliminate SOE losses while ensuring higher welfare transfer payments for vulnerable groups and investments on health and education.[16] In line with this, Finance Minister Shehan Semasinghe pointed out that restructuring SOEs will provide an opportunity to confirm the effectiveness of people's tax money and focus more attention on sectors such as education, health, agriculture, and infrastructure. Against this backdrop, resistance to SOE privatisation by key stakeholders, such as opposition political parties, trade unions, civil society, and sections of the public has emerged.

[16] EconomyNext (2024, April 30). Sri Lanka's SOE losses reverse trend; to post Rs456bn profit in 2023: Minister. . Retrieved June 13, 2024, from https://economynext.com/sri-lankas-soe-losses-reverse-trend-to-post-rs456bn-profit-in-2023-minister-160656/.

4. Trade Unions & Public Opinion on SOE Privatisation

Trade unions of key SOEs have repeatedly opposed privatisation through protests and strikes. Most of the impactful trade unions in Sri Lanka are aligned with mainstream political parties, while some others remain independent or aligned with other parties such as the Frontline Socialist Party (FSP), a far-left political party.

The FSP advocates for the protection and enhancement of public services in the health and education sectors, arguing that privatisation leads to inequality and reduced access for the most vulnerable populations. On February 8, 2022, a large protest was held in Colombo involving various public sector workers, including those from education and healthcare. The FSP was a prominent participant, protesting privatisation and demanding better public investment in these sectors. On 10 April 2022, the FSP joined electricity sector workers in Colombo in a protest against proposed privatisation of the Ceylon Electricity Board (CEB) that had started a week prior.[17] The protest highlighted fears of increased electricity costs and reduced service quality.

Since the introduction of the IMF-linked privatisation drive of the government in 2022, trade unions linked to leading mainstream opposition parties Samagi Jana Balawegaya (SJB) and National People's Power (NPP), have also been consistently engaging in organised protests.

Among the key arguments of trade unions is that SOEs can be profitable without being privatised. In a parallel development, on 30 April 2024, State Minister of Finance Shehan Semasinghe said that Sri Lanka's SOEs reversed 2022 losses and made profits in 2023, after the government was forced to remove all energy subsidies, due to the IMF deal.[18] This involved the turnaround of Sri Lanka's 52 SOEs, which went from a loss of Rs. 740 billion in 2022 to a profit of Rs. 344 billion in 2023 after adopting reforms.

[17] Jayawardena, S. (2023, April 13). Sri Lankan police attack rally to mark start of last year's popular uprising. World Socialist Web Site. Retrieved June 14, 2024, from https://www.wsws.org/en/articles/2023/04/13/xsry-a13.html.

[18] Economynext. (2024, April 30). Sri Lanka's SOE losses reverse trend; to post Rs456bn profit in 2023: Minister. EconomyNext. Retrieved June 13, 2024, from https://economynext.com/sri-lankas-soe-losses-reverse-trend-to-post-rs456bn-profit-in-2023-minister-160656/.

The Minister attributed the profits to the move to set cost-based prices at institutions such as CEB and CPC.[19] That profits could be incurred without privatisation partly proves the unions' argument true and chips away at the main rationale advanced by the government for privatisation, which is of SOEs being a burden to the taxpayer. The government is now left with the pro-privatisation rationale of increasing the efficiency of SOEs and/or attracting more capital investments to SOEs. The fact that SOEs have made profits overall indicates how advocacy for their privatisation on the basis that they incur losses does not always hold. The issue of SOE privatisation leads to an ideological debate, rather than being an objective assessment of SOE operational viability. In the current political climate, overshadowed by an ongoing IMF programme, it appears that the ideological push by the government for SOE privatisation is high.

Another key actor, the Ceylon Chamber of Commerce, a confederation of trade associations, regional and sectoral chambers of commerce and industry, has advocated for the continuation and support of SOE reforms by all political parties to maintain economic stability.[20] They emphasise the necessity of prioritising reforms related to SOEs, energy, and fiscal management to avoid reverting to a crisis. The Chamber highlights that successful SOE reforms will improve the government fiscal outlook through enhanced performance, productivity, and accountability. The Chamber points out that historically, inefficiencies and lack of accountability in SOEs have created significant financial burdens, contributing to economic crises and resource misallocation. They stress the importance of implementing market-based pricing and increasing accountability within SOEs to prevent corruption and inefficiency, ensuring long-term sustainability and competitiveness.

Meanwhile, public perceptions on SOE privatisation are more divided. Public perception on privatisation has been on a more accommodating trajectory, especially since 1994, due to successful privatisation projects such as that of Sri Lanka Telecom. In a youth study conducted by Muragala | CPPP in 2023-4, it was observed that there was no significant opposition to SOE

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[19] Public Finance.lk. (n.d.). 52 key SOEs made Rs. 340 b profit in 2023. Retrieved June 13, 2024, from https://publicfinance.lk/en/topics/52-key-soes-made-rs-340-b-profit-in-2023-1714525727#:~:text=State%20Minister%20Shehan%20Semasinghe%20discussed,in%202023%20after%20implementing%20reforms.

[20] The Ceylon Chambers of Commerce. (2024, May 20). The Ceylon Chamber calls on all political parties to support continuity of SOE reforms – Chamber. Retrieved June 14, 2024, from https://www.chamber.lk/the-ceylon-chamber-calls-on-all-political-parties-to-support-continuity-of-soe-reforms/.

privatisation among a national sample of around 200 young people representing 12 districts.[21] A seeming decline in public favourability for SOEs and growing support for their full or part privatisation is likely driven by two emerging trends: first, declining public trust in governments to lead SOEs in a transparent, equitable manner and second, increasing public antipathy to trade unions, which sections of the public perceive as politicised and as acting in their own narrow interests, at the expense of the interests of the citizens.

One of the main mobilisers of public opinion on SOE privatisation are political parties. The positions of four key political parties on SOE privatisation are examined next.

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[21] Muragala | CPPP. (n.d.). Youth Perspectives on Governance and Economic Crisis in Sri Lanka. Retrieved June 14, 2024, from https://muragala.lk/portfolio/youth-perspectives-on-governance-and-economic-crisis-in-sri-lanka/.

5. Political Party Positions on SOE Reforms

5.1 The Samagi Jana Balawegaya (SJB) stance

One of the key pillars of the SJB's stance is the recognition that not all SOEs are profitable or beneficial to the public. Some of these enterprises operate at a loss, burdening taxpayers and contributing to the tax burden on ordinary citizens. To address this, the SJB advocates for privatising some SOEs while increasing efficient management and profitability and removing state monopolies.[22]

The SJB's position aligns with the need to relieve the treasury from funding losses incurred by poorly performing SOEs, thereby easing the tax burden on the public. In a more recent development, SJB MP Eran Wickremaratne iterated the SJB advocates for the competitive bidding of shares to ensure that the process is above board and benefits the public interest.[23] The party also opposes unsolicited projects, particularly large ones, unless they go through a competitive bidding process to uphold transparency and competition.

The SJB's stance also extends to specific sectors, such as transportation and energy. For instance, the party advocates for competitive bidding processes for projects in sustainable energy, ensuring transparency and fair competition. It also supports the liberalisation of airport management to attract more airlines and improve service quality. In addition to privatisation, the SJB proposes other avenues for improving SOE efficiency. These models could provide insights into effective mechanisms for managing state shareholdings and enhancing efficiency in SOE operations.

The SJB opposes the sale or privatisation of 'strategic' SOEs such as the CEB and CPC, advocating instead for increasing market competition in these sectors to safeguard consumer interests and prevent monopolies.[24] While there is a slight ambiguity here, SJB has proposed considering different denationalisation options such as exploring PPPs and studying holding company models

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[22] SJB Economy Policy Unit. (n.d.). The Blueprint 2.0: Out of debt trap & towards sustainable inclusive development. https://www.newswire.lk/. Retrieved June 13, 2024, from https://www.newswire.lk/Blueprint2E.pdf..

[23] Ada Derana. (2024, March 24). SJB IS READY FOR ANY ELECTION - MP ERAN WICKRAMARATNE 'AT HYDE PARK WITH INDEEWARI AMUWATTE' [Video]. YouTube. Retrieved June 14, 2024, from https://www.youtube.com/watch?v=USkytd3z8nI.

[24] Kotelawala, H. (2023, May 9). Sri Lanka's SJB opposes sale of strategic SOEs, wants competition. EconomyNext. Retrieved June 13, 2024, from https://economynext.com/sri-lankas-sjb-opposes-sale-of-strategic-soes-wants-competition-120101/.

such as Temasek Holdings in Singapore.[25] Additionally, the SJB proposes denationalising entities such as Sri Lankan Airlines, prioritising competitive pricing in aviation services, and reforming financial policies to enforce budget constraints and prioritise infrastructure projects aligned with the National Physical Plan.

5.2 The United National Party (UNP) stance

The UNP's stance on SOE reforms emphasises the need for cost-reflective pricing, debt restructuring, liberalisation of trade, limited governance, and privatisation of profit-making enterprises. It argues that these measures are essential for addressing the deep economic crisis, fostering economic growth, and ensuring a prosperous future for Sri Lanka.

President Ranil Wickremesinghe, the leader of the UNP, in his capacity as Minister of Finance, said during the November 2023 Budget Speech that by 2019, Sri Lanka's central government debt reached 82% of Gross Domestic Product (GDP), with an additional 7% of GDP in debt parked within SOEs due to persistent losses, particularly in the CPC, the CEB, and Sri Lankan Airlines.[26] He said that the losses stemmed from the government's failure to implement cost-recovery pricing for utilities, leading to prices for fuel and electricity being often set below cost. This resulted in over-consumption and compounded the current account deficit.

Furthermore, the President said that due to SOE losses not being covered by government transfers but instead being financed by state-owned banks, a further threat to the state banks' stability was posed. The need for foreign currency to fund raw material imports added to the debt burden. Additionally, debts accumulated between different SOEs due to insufficient revenues exacerbated their financial instability. The President argued that the government's approach to achieving welfare objectives by suppressing market prices led to large SOE losses and adverse fiscal and financial sector impacts. He presented that the welfare objectives should have been addressed through targeted direct cash transfers instead, and that weak governance, lack of fiscal discipline, and institutional corruption further compounded these issues. He criticised the existing SOE management and proposed that privatisation, along with better fiscal governance and targeted

[25] SJB Economy Policy Unit. (n.d.). The Blueprint 2.0: Out of debt trap & towards sustainable inclusive development. Retrieved June 13, 2024, from https://www.newswire.lk/Blueprint2E.pdf.
[26] Ministry of Finance, Economic Stabilization and National Policies. (n.d.). Budget Speech – 2024: A Prelude to the Stable Future. https://www.treasury.gov.lk/api/file/ed037ac8-9727-4292-ae9b-edac08c7a314.

welfare programmes, could help mitigate these systemic risks and reduce the financial burden on the economy.

The UNP advocates for SOEs such as the CPC and CEB to adopt a cost-reflective pricing model due to years of mispricing, leading to significant debts. The party sees a failure to implement this model leading to a possible jeopardization of essential services. Additionally, the party supports restructuring SOE debts to address financial instability, recognizing potential losses for state banks and the need for taxpayer funds.[27] It proposes liberalising trade and revamping loss-making institutions while advocating for limited governance and full divestment of SOEs to the private sector. Privatising profitable SOEs is also seen as essential for enhancing efficiency and private sector involvement in economic activities.

5.3 The Sri Lanka Podujana Peramuna (SLPP) stance

The SLPP's stance on the privatisation of SOEs reflects a commitment to promoting economic efficiency and private sector-led growth while also recognising the need to address potential job losses and safeguard national security interests.[28] As debates surrounding privatisation continue, the SLPP's position underscores the importance of balancing economic objectives with social and security considerations.

In May 2024, former President and SLPP leader MP Mahinda Rajapaksa expressed his discontent with the current government's plans to sell national assets and SOEs, citing the need for caution in privatisation, especially when involving foreign entities, adding that any restructuring done should be transparent, consistent with national security, and involve employee consultation.[29] Rajapaksa articulated a stance of retaining profitable SOEs and strategically managing prices for the public good, particularly in sectors such as energy. Rajapaksa also suggested that trade unions adopt a more nuanced approach to the idea of privatisation, expressing his support for private sector participation in underperforming or unutilised SOEs, based on a case-by-case evaluation. He

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[27] Ministry of Finance, Economic Stabilization and National Policies. (n.d.). Budget Speech – 2024: A Prelude to the Stable Future. https://www.treasury.gov.lk/api/file/ed037ac8-9727-4292-ae9b-edac08c7a314.
[28] The Morning (2024, May 13). SOE reforms: MR revives 'don't sell national assets' slogan ahead of elections. Retrieved June 13, 2024, from https://www.themorning.lk/articles/n76ob6niypbpf9hzXbjr.
[29] EconomyNext (2024, May 12). Sri Lanka Ex-President Mahinda Rajapaksa slams privatization. Retrieved June 13, 2024, from https://economynext.com/sri-lanka-ex-president-mahinda-rajapaksa-slams-privatization-162672/.

pointed out that since the current government is of the stop-gap nature, postponing privatisation efforts until after the next presidential elections would be key.

SLPP MP Namal Rajapaksa acknowledged that there are national security issues related to the privatisation of certain state-owned entities such as Sri Lanka Telecom.[30] Expressing concerns about privatising profit-making SOEs, he points out that Sri Lanka Telecom is not a financial burden to the government and that its privatisation may cause concerns for national security. Privatising critical infrastructure, particularly in sectors related to telecommunications, could raise concerns about data privacy, cybersecurity, and foreign control over essential services.

Acknowledging the potential job losses resulting from the restructuring of SOEs, SLPP General Secretary and parliamentarian, Sagara Kariyawasam, highlights that many employees in the state sector, particularly those aged between 45 and 50 years, may face challenges in finding new employment opportunities.[31] Therefore, the SLPP calls for a policy decision to ensure that alternative work options are available to mitigate the impact of job losses.

5.4 The National People's Power (NPP) stance

The NPP's stance on SOEs centres on the belief that strategic sectors vital for industrialisation and economic growth should remain under government control. They advocate for governance reforms and PPPs to enhance efficiency while maintaining state ownership and control over essential services.[32] The NPP underscores the importance of government ownership in critical sectors such as energy, transportation, banking, and telecommunication, believing that private capital may not always offer the lowest costs to the consumers.

Further, NPP's Chief Economic Adviser Prof. Anil Jayantha, stated that the privatisation of crucial public institutions should be critically viewed, especially when it concerns national security and

[30] News First. (2023, June 12). SLPP not happy with privatizing SLT; But open to investments - Namal. newsfirst.lk. Retrieved June 14, 2024, from https://www.newsfirst.lk/2023/06/12/slpp-not-happy-with-privatizing-slt-but-open-to-investments-namal/.
[31] Samaraweera, B. (2023, September 18). Job loss due to SOE restructuring: Provide alternative employment options; SLPP. The Morning. Retrieved June 13, 2024, from https://www.themorning.lk/articles/FSffAZkCfMiGzlP08OY0.
[32] Jathika Jana Balavegaya (NPP). (n.d.). Rapid response to overcome challenges. https://www.npp.lk/up/policies/en/booklet.pdf.

economic sovereignty.[33] He notes that many countries in the world that had privatised utilities such as electricity and water appear to be exposed to adverse consequences. He iterates the NPP's stance against privatising significant economic hubs attached to the electricity, capital market, and telecommunications sectors.

While advocating for substantial government involvement in strategic sectors, the NPP supports PPPs for non-strategic SOEs to enhance efficiency. The NPP cites examples of efficient government-owned entities elsewhere, emphasising the need for proper governance. The NPP opposes divesting revenue-generating SOEs, instead advocating for governance reforms. NPP MP Vijitha Herath highlights concerns over the implementation of IMF conditions, particularly regarding SOEs.[34] He argues for a comprehensive approach to addressing the challenges faced by entities such as the CEB and reasons that the issues that led to the losses of the CEB should be ascertained and resolved.

NPP Leader MP Anura Kumara Dissanayake has in the past expressed that the IMF's approach is overly focused on financial metrics and privatisation, neglecting the broader socio-economic impacts and long-term production capacity.[35] MP Dassanayake too calls for a more balanced strategy that includes government intervention in key sectors and investment in infrastructure and skills development to rebuild and modernise Sri Lanka's economy. The NPP advocates for a strategy centred on increasing production, maintaining government control over key sectors, and implementing strategic investments and reforms to achieve sustainable economic growth.

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[33] Tennekoon, B. S. (2024, April 3). Anti-Corruption-privatisation nexus: NPP slams oppo. groups. The Morning. Retrieved June 13, 2024, from https://www.themorning.lk/articles/w7zJeoFOTugdg1q9rewH.

[34] Daily Mirror. (2022, August 30). Move to privatize CEB on IMF conditions: Vijitha Herath. Retrieved June 13, 2024, from https://www.dailymirror.lk/print/front-page/Move-to-privatize-CEB-on-IMF-conditions-Vijitha-Herath/238-243957.

[35] People's Liberation Front. (2023, April 11). Is selling off national resources a remedy or a trap? – Anura. Retrieved June 13, 2024, from https://www.jvpsrilanka.com/english/is-selling-off-national-resources-a-remedy-or-a-trap-anura/#:~:text=There%20are%20three,Employees%20Provident%20Fund.

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Muragala | CPPP's *Series on Political Party Positions on Reforms in Sri Lanka* examines political party positions on key areas related to the reforms undertaken by the Sri Lankan government in response to the 2022 crisis. Briefing papers on party positions on other economic reforms, the national question, and governance and constitutional reforms are forthcoming.

Political Party Positions on State Owned Enterprise (SOE) privatization in Sri Lanka

Samagi Jana Balawegaya (SJB)

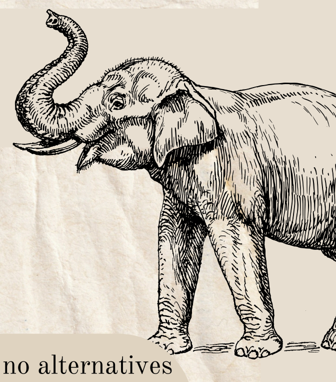
WHAT ARE THEY ADVOCATING FOR?

- Advocates privatising some SOEs while increasing efficient management and profitability, and removing state monopolies.
- Opposes sale or privatisation of 'strategic' SOEs such as CEB and CPC, advocating instead for increasing market competition in these sectors to safeguard consumer interests and prevent monopolies.
- Setting up of Public Private Partnerships (PPPs), enabling the government to source money through share ownership and taxation.
- Competitive, above board bidding of share sale. Unsolicited projects going through competitive bidding processes, for transparency and competitiveness.
- Market competition and securing consumer interests.
- Independence from Treasury, with regards to debt sustenance.

Expresses enthusiasm for the current unbundling process, but calls for transparency and accountability within it.

Encourages studying of government owned holding companies, such as Temasek Holdings Pvt. Ltd., a global investment company owned by the Government of Singapore, for the divestment of state shareholding stake in Sri Lankan Airlines, and ancillary hospitality industry stake ownership.

United National Party (UNP)



WHAT ARE THEY ADVOCATING FOR?

- Emphasises the need for cost-reflective pricing, debt restructuring, liberalisation of trade, limited governance, and privatisation of profit-making enterprises.
- Restructuring the debts accumulated by the SOEs on the books of state banks.
- Privatising both strategic and profit-making SOEs.
- Limited governance, divestiture of SOEs to private entities.
- Engaging with businesses for divestiture and building mutual understanding of goals.

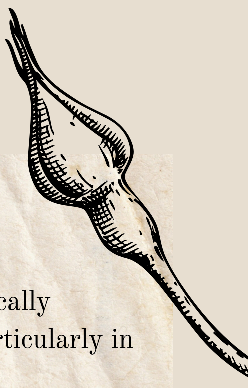
Maintains that there are no alternatives to the ongoing process of restructuring the debts accumulated by SOEs, aside from taxation.

Highlights mispricing of public goods, such as energy, as being one of key reasons for SOEs being unable to profit and sustain themselves in the past.

No position on excluding strategic SOEs from privatisation.

*UNP position is considered synonymous with current government's policy stance

Sri Lanka Podujana Peramuna (SLPP)



WHAT ARE THEY ADVOCATING FOR?

- Citing the need for caution in privatisation, especially when involving foreign entities, adding that any restructuring done should be transparent, consistent with national security, and involve employee consultation.
- Retaining profitable SOEs and strategically managing prices for the public good, particularly in sectors such as energy.
- Alternative employment options for state employees following SOE privatization.

*SLPP position looks at the views expressed by SLPP members who do not serve in ministerial positions in the current Wickremesinghe government

National People's Power (NPP)

WHAT ARE THEY ADVOCATING FOR?

- Advocating for governance reforms and PPPs to enhance efficiency while maintaining state ownership and control over essential services.
- Divestment of non-strategic SOEs to public private partnerships, and private sector management takeovers.
- Preventing the existence of monopolies and oligarchies.
- Introducing co-operative networks for production and distribution in small and medium scale industrial production, agriculture, livestock, and fisheries sectors.
- Providing technology and capital for unionised/co-operative model following MSMEs.
- Countering political interference in SOEs that result in inefficiencies.

Points to state owned enterprises such as India's Indian Oil Corporation, Singapore's Singapore Airlines and government run energy sector entities in Norway, Sweden, and France, to state the claim that government entities can be efficient.

Believes that the government has rules, regulations and mechanisms such as COPE and COPA to ensure efficiency of the entities, and that political interference is what stands as the biggest hindrance to SOE efficiency, as of yet.