GOVERNMENT INITIATIVE TOWARDS ENTERPRISE REFORM WITHIN THE OVERALL STATE OWNERSHIP

Mr. Mano Tittawella
Snr. Adviser to HE the President and Snr. Director General - Presidents Office,
Chairman, Strategic Enterprises Management Agency(SEMA)

The government of Sri Lanka as part of its key initiatives towards enterprise reform established the Strategic Enterprise Management Agency (SEMA) under a Presidential directive. SEMA has been tasked with creating an enabling environment that would lead to greater commercial and operational autonomy, strengthening of the Boards and management as well as ensuring the accountability and good governance that would lead to strong financial performance and better service quality in these enterprises.

The main functions of SEMA include restructuring of these State Owned Strategic Enterprises (SOSE) to be capable of generating investment surpluses whilst ensuring adherence to international accounting standards, commercial best practices and thereby becoming a major source of high quality capital formation in the country. SEMA is also tasked with ensuring that each of the SOSEs will have a commercially sound corporate structure, internationally acceptable accounting and auditing practices and balance sheet. The twelve enterprises fall in to six clusters. Namely Banking, Energy, Port Services, Transport, Trading and Manufacturing and Water Supply and Sanitation.

These enterprises are among the largest in the country and the resources that come under their ambit encompass the needs of the entire population touching every single citizen in the country. Exercising Ownership and supervision over these critical resources is necessary for the economic well being of society and facilitates the implementation of public policy objectives. Improving the operational and financial efficiencies in these enterprises has the potential to make a significant impact on economic growth and the social welfare of the country. The SEMA initiative is further strengthened by the commitment and leadership of Her Excellency the President.

The shareholder oversight function of ensuring that the Board and Management act in the best interest of the government as shareholder is largely absent in these enterprises and the reporting role of the SOSE to shareholder/ stakeholders is limited in extent. In looking at alternative strategies for enterprise reform we realized that the issue was not one of ownership but one of oversight and management.

The Report on the Review of performance of enterprises by the 'National Review Committees' in 2003 deemed it essential that the restructuring of these enterprises should be 'accelerated to ensure that the enterprises operate to generate commensurate returns and benefits on the Government investment, whilst fulfilling the socio economic objectives for which the enterprises were set up.'

The Summary of findings with regard to these enterprises by the National Review Committees include the following: a drain on resources to meet salaries of unproductive staff, where those resources can be utilized in core activities and to meet corporate objectives; financial indiscipline; non-adherence to administrative and financial controls and audit observations ; weaknesses in enabling legislation due to outdated provisions that restrict the potential of these SOSE's as implementing agencies of Government policy; increase in finance costs due to non-settlement of dues by government entities and bureaucratic controls that constrain decision making resulting in the inability to operate at full capacity.

The Committee on Public Enterprise in a recent report has also highlighted a number of deficiencies in most of the institutions subject to their examination. These included a lack of professionalism in management, non availability of up-to-date corporate plans, action plans, budgets, delays in submission of Annual Reports and accounts to parliament, absence of a professional and balanced Board, indifference to Public Enterprise guidelines for Good Governance, lack of a succession plan, quality management, poor systems and controls over inventories, creditors and fixed assets, uneconomical transactions and mishandling of funds.

It is apparent that most of these deficiencies could be addressed by actively exercising the government's shareholder ownership function as an informed, pro-active and determined shareholder that can demand and drive performance standards. SEMA in its shareholder oversight role would be addressing these issues ensuring financial discipline, sound management, a clear focus and vision, customer orientation, operational effectiveness and strong professional boards.

The expectations and outcomes that the government requires from SEMA would be to ensure higher return on investment; improved returns to all stakeholders; better management and reduction of risks that are inherent in these enterprises, increased confidence of investors and lenders; sourcing of low cost capital; a performance based culture; strong Management; Board leadership that is focused on financial discipline and operational excellence; compliance with regard to regulatory, accounting and ethical standards and the stakeholders right to be informed of the present and future prospects of these enterprises as well as meeting the expectations from the public for better service delivery.

SEMA's role in granting greater autonomy will mean that politicians and government officials will not be in a position to interfere with the Board and Management in these enterprises with regard to operations, staffing or any other mandated rights and responsibilities(Operational independence). Greater accountability and transparency within a governance framework will enable the Boards to carry out their fiduciary function effectively.

However in order to give SOSE management greater autonomy, authority and responsibility, a sound governance framework and a monitoring and supervisory mechanism will be essential to ensure transparency and accountability.

In this regard SEMA is presently taking steps to develop the institutional structures and governance mechanisms that will provide the frame work within which these autonomous Boards will be required to operate in the future. SEMA has requested for a Code of Corporate Governance to be adopted by each of the SOSEs and is initiating the strengthening of audit committees in these enterprises.

The monitoring and supervision of these organizations entails setting up systems and procedures that would provide information for analysis of the performance in terms of their current state of financial management. This in turn will highlight the implications for current and future profitability and the state of operational and financial management and planning to SEMA. Initiatives for developing performance indicators, benchmarks and reporting formats and setting up and strengthening the management information systems for monitoring financial and operational outcomes will be implemented in the coming months.

The following were brought within the remit of SEMA in terms of a presidential directive with the express intention of not privatizing these enterprises:

Bank of Ceylon, People's Bank, National Savings Bank, State Mortgage and Investment Bank (Banking Cluster); Ceylon Electricity Board, Ceylon Petroleum Corporation (Energy Cluster); Sri Lanka Ports Authority, Airports and Aviation Services (Sri Lanka) Limited (Port Services Cluster); State Pharmaceutical Corporation (Trading and Manufacturing Cluster); Sri Lanka Central Transport Board and Regional Cluster Bus Companies, Department of Sri Lanka Railways (Transport Cluster); National Water Supply and Drainage Board(Water Supply and Sanitation Cluster).

The Development Plans were approved by SEMA through a consultative process with these enterprises and appropriate restructuring initiatives were agreed upon. Initially, the Plans and the restructuring initiatives of the Banking Cluster were approved by the Cabinet and the other clusters are going through a similar process. The Clusters have been requested to present the Plans to Cabinet while the Banking Cluster has been requested to present an update on their quarterly performance. This process reflects the strength and commitment of the Government and the respective Managements and Boards with regard to the formulation and implementation of the restructuring initiatives.

The restructuring initiatives include the request for autonomy with regard to operational matters. The banking cluster is now able to resolve issues with regard to human resources, credit and recovery, procurement of goods and services and donations.

In this process, SOSEs will be exempted from provisions of the Finance Act and Public administration and Treasury circulars, in place of which the Code of Corporate Governance will be implemented. However it is worthwhile noting that the Finance Act No. 38 of 1971 is outdated and is urgently in need of amendment.

Quarterly reviews of the operational and financial progress of the SOSEs have been submitted to the SEMA Board along with key performance indicators that are applicable to these organizations. With the monitoring phase and the restructuring initiatives being implemented, SEMA has taken steps to add to its staff strength to meet the demands placed on the agency.

Once the SEMA act which is being drafted is approved by parliament SEMA will function as an independent corporate entity.

While the competency, experience as well as the professionalism of the SEMA Board has enabled SEMA to take significant steps with regard to restructuring, there are many challenges that are being faced along the way. There is a lack of understanding for instance, with regard to the benefits of restructuring initiatives. Some of the trade unions and politicians view restructuring as a prelude to privatization while others find it difficult to understand the SEMA model. Delays in funding approval and requisite support from multilateral agencies are further impediments to speedier progress. We are encouraged by similar models in other countries where passive ownership, political interference, dilution of accountability, soft budget constraints and multiple principles have lead to similar governance challenges which have been overcome and we are encouraged to learn from their experience. SEMA is a bold and innovative initiative and a serious attempt at re-structuring SOSEs. It will be a difficult and onerous task with many pitfalls. Therefore it is an initiative that needs the commitment and support of all stakeholders.