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THE FISCAL IMPLICATIONS OF PRIVATISATION IN DEVELOPING COUNTRIES: THE SRI LANKAN EXPERIENCE

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THE FISCAL IMPLICATIONS OF PRIVATISATION IN DEVELOPING COUNTRIES: THE SRI LANKAN EXPERIENCE*

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ABSTRACT

Since the mid-1980s, privatisation has become central to adjustment efforts in many developing countries, the economic rationale being the realisation of greater efficiency and relieving the state of the fiscal burden state-owned enterprises may impose. Yet, in addition to obtaining privatisation proceeds, the state has to pay the costs of privatisation and forgoes future revenue from the assets which are sold. The long-run fiscal impact of privatisation thus appears ambiguous. This paper examines this question in the light of the Sri Lankan experience. We find that the short-run net proceeds from privatisation have been positive in those cases for which data are available and the longer-run net present value of privatisation to government also positive in most cases.

1. INTRODUCTION

In the early 1980s the focus of adjustment efforts in a developing economy was on "getting the prices right". To the extent that attention was paid to the performance of state-owned enterprises in a developing country, the emphasis was on improving efficiency. By the middle of the decade a change in attitude was emerging and privatisation - the transfer of state-owned assets to private ownership by sale or other means¹ - was placed on the agenda for policy dialogue.

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The authors of a World Bank published study (Kikeri et al. 1992) explain the change in policy by reference to difficulties in the reform of state-owned enterprises (SOE) in developing countries, and they argue that thorough reform can be both technically and politically difficult, only partially implemented and difficult to sustain (Kikeri et al., 1992: 17). Alternatively, the increased popularity of privatisation may be seen as a short-run, and short-sighted, response to budgetary difficulties (especially where adjustment programmes restrict other means of deficit financing).

Privatisation as a solution to fiscal problems may be short-sighted, since it raises revenue from the sale of assets today in return for future revenue (dividends) which are foregone. One view - the fiscal neutrality result - is that the present value of net proceeds from privatisation and earnings foregone are equal, so that there is no overall fiscal impact from privatisation in the long-run. The fiscal neutrality result has been used as a framework for theoretical discussions of the fiscal effects of privatisation (e.g. Mansoor, 1988; and Adam et al., 1992) but has not previously been tested empirically - the analysis of this paper allows for such a test.

The first half of the paper provides a context for the analysis: in Part 2 the analysis is by an overview of the main economic issues relating to privatisation in developing countries and in Part 3 it is through a discussion of the Sri Lankan experience. The remainder of the paper concentrates on fiscal effects. In Part 4 we present the relative importance of SOEs in the government's budget and in Part 5 analyse the fiscal experience of the privatisation experience to date. Part 6 contains the conclusions.

2. THE PRIVATISATION DEBATE

From an economic perspective there are four main questions which may be asked about privatisation: (i) the appropriate institutional framework; (ii) the impact on efficiency; (iii) fiscal consequences; and (iv) distributional implications. In this section we briefly discuss each of these four.

Many enterprises came into state hands by virtue of their being seen as natural monopolies or perceived externalities to their operations so that profit maximisation by the firm would not be optimal from a social viewpoint. One area of investigation is whether such arguments were valid and, if so, how can privatised firms be regulated? A related issue is the preservation of health and safety standards in privatised firms or the pursuit of social objectives such as the provision of subsidised goods or services to certain sections of the community. To take a Sri Lankan example of these points, Knight (1993) documents the dramatic increase in bus-related traffic accidents in the wake of liberalisation of this sector. There is also evidence that whereas school-children previously could travel in Sri Lanka Transport Board (SLTB) buses with concessionary season tickets, after the "peoplization" of SLTB buses such travel by school-children was discouraged - the buses simply avoided peak-hours during which school-children travelled.

That the priority accorded to explicitly achieving social objectives has been relegated relative to improving economic efficiency is symptomatic of the general change in policy which has taken place.² It is the belief that the currently state-owned enterprises will be run more efficiently in private hands, which is probably the main theoretical argument in favour of privatisation. Various examinations have been made of this belief from a theoretical perspective - mostly drawing on principal-agent theory (e.g. Vickers and Yarrow, 1988: Chapter 1; Adam et al., 1992: Chapter 2; Chang and Singh, 1992; and Shapiro and Willig, 1990). These discussions suggest that we cannot draw the conclusion that a change in ownership will unambiguously improve efficiency. Nonetheless, the matter must ultimately be an empirical one - and empirical testing is beset with theoretical and measurement problems, so that few studies can be said to contribute to this debate (Millward, 1988). However, as we explain below, for the analysis of this paper we need not be concerned with efficiency *per se*, but with the narrower issue of a firm's profitability.

A second major argument in favour of privatisation is that

it will relieve the government of the fiscal burden imposed by state-enterprises. This argument is clearly closely related to that concerning efficiency - a private firm will not takeover an enterprise unless it believes that profits can be made. In addition to the administrative costs of privatisation, the government is therefore often involved in additional costs in preparing a state enterprise for privatisation (mainly labour compensation for retrenchment and possible settlement of the debts of the enterprise).³ These costs may be considerable and the question has been raised whether they may not offset the proceeds from privatisation. If the government is making annual subsidies to an enterprise then a fiscal improvement can result from privatisation even if the net proceeds are negative (the fiscal neutrality result would require that the government pay the present value of future losses of the enterprise if it were not privatised). These questions are central to our analysis and we return to them below.

An analysis of the fiscal impact of privatisation of course depends not only on what the government pays to privatise but also on how much it receives when it does so. The amount the government receives is related to possible efficiency effects - if an enterprise makes low or negative profits an entrepreneur will only make the purchase if he or she believes that greater profits can be made. The potential profitability of the enterprise in private hands (rather than a broader concept of social efficiency) therefore has direct implications for fiscal effects. There are also indirect effects since increased profits or level of activity on the part of the privatised enterprise will result in higher tax revenues for the government. These factors are also incorporated into our analysis.

A final main concern for economists is the distributional implications of privatisation - who gains and who is worse off? There are a number of issues here which are at variance with the three questions already raised. There is, for example, a direct trade-off between the extent of regulation (and thus minimising of social costs) and private profitability. Since future profitability is related to how much the purchaser is willing to

pay, the aforementioned trade-off has clear implications for the fiscal effects of privatisation. The framework for privatisation - such as labour compensation - can also have direct distributional consequences. The privatisation debate has only recently turned to these distributional issues (e.g. Cook and Kirkpatrick, 1993) and so it is difficult to draw any general conclusions on this issue.

The above discussion lays out the framework for analysis of privatisation issues. Following an overview of Sri Lankan privatisation in Sri Lanka, in the next section, we concentrate on the third of these issues: the fiscal implications of privatisation. We would emphasize that this topic is our sole focus, and that the positive impacts we find demonstrate only that the privatisation has been of net benefit to the government budget and not necessarily to Sri Lankans in general.

3. PRIVATISATION IN SRI LANKA

The roots of Sri Lanka's privatisation programme can be traced to the policies of nationalisation and the establishment of state enterprises (SOEs), mainly under SLFP-led governments, starting with the state Industrial Corporations Act of 1957. (See Table 1 for a summary of the events discussed in this section). These policies were supported by import substitution measures and direct government involvement in industry, trade, and finance. state-intervention was intensified in the 1970s, following the Government Business Undertakings (Acquisitions) Act of 1971 (resulting in the creation of a large number of GOBUs). The number of public enterprises engaged in directly productive activities was 28 in 1958, 62 in 1970 and 107 by 1977. Hence, by 1977 the size of the public sector amounted to nearly 24 percent of GNP, over one-third of investment and forty per cent of formal-sector employment (Karunatilake, 1987; and Kelegama, 1993).

In 1977, the UNP was voted into power with a market oriented liberalisation programme. However, partly because the new government also undertook a major investment drive (which was mainly channelled through the state corporations) centred around

Table 1
Main Events Relating to SOEs and Privatisation
in Sri Lanka

Year	Events
1957	State Industrial Corporations Act - creation of SOEs in sectors across the economy.
1971	Government Business Undertakings (Acquisitions) Act - paved way for programme of nationalisations during 1971-77 (creation of GOBUs).
1977	Election of UNP, committed to market-oriented reform programme.
1987	Conversion of Public Corporations or GOBUs into Public Companies Act. Creation of Presidential Commission on Privatisation (PCP).
1989	Privatisation of United Motors - first privatisation in new privatisation programme.
1990	Commercialisation Division of Public Enterprises (COPEd) formed in Ministry of Finance to take over functions of PCP.
	Privatisation of : Thulhiriya Textile Mills, Pugoda Textile Mills, Lanka Oxygen, Dankotuwa Porcelain, Hotel de Buhari.
1991	Privatisation of: Ceylon Leather Product, Hunas Falls Hotel, Lanka-Loha Hardware, Lanka Milk Foods Ltd.
1992	Privatisation of Asian Hotels, Ceylon Oils and Fats, Lanka Synthetic Fibre, Kelani Tyres, Yeyangoda Textile Mills, Distilleries Company of Sri Lanka, Mahaweli Marine Cement, Bogala Graphite Lanka, Lanka Ceramic, Sathosa Motors, Kahatagaha Graphite Lanka, Lanka Porcelain, Sathosa Computer Services, Ceylon Shipping Line.
1993	Privatisation of: National Development Bank, Hingurana Sugar Industries, Acland Insurance Services, Trans Asia Hotels (Ramada), Hotel Services (Ceylon: Inter-Continental Hotel), Ruhunu Cement, People's Merchant Bank, CCC (Engineers).

the Mahaweli river project, government support to SOEs did not decline. Despite a few unsuccessful attempts (such as the Sri Lanka Rubber Manufacturing Company and Lanka Milk Foods, both in 1983), privatisation was not adopted as government policy until 1987. In that year the Presidential Commission on Privatisation (PCP) was created and two pieces of legislation were put in place: the "Conversion of Government Owned Business Units (GOBUs) into Public Corporations Act No.22 of 1987" and the "Conversion of Public Corporations into Public Companies Act No.23 of 1987". Even so, it was not until the privatisation of United Motors in 1989 that the current programme began. (The delay is elaborated in Kelegama, 1993). The following year five more enterprises were privatised, in 1991 another four, thirteen in 1992 and eight in the first half of 1993.

The focus of this paper is on the manufacturing sector. Nevertheless, privatisation is also taking place in the agricultural and service sectors. In agriculture, a variety of divestiture mechanisms have been applied. For example, the management of the profitable state-owned plantations was privatized in mid 1992. In the service sector buses have been subject to privatization by the transfer of state-owned assets to private hands. (See Kelegama, 1993 for further details). There are no plans, as yet, to privatise public utilities other than telecommunications.

Also in 1989, the functions of the PCP were taken over by the Commercialisation of Public Enterprises Division (COPED) in the Ministry of Finance, which is now responsible for administering the programme and developing the pipeline. The choice of enterprise and timing of privatisation are not made public, but the following general guidelines are meant to influence the choice of enterprise: (i) present and future profitability and commercial viability of the SOE; (ii) the proportion of the SOE that could be divested in the domestic market, based on the capital market constraints; and (iii) the national importance of the SOE.

No additional regulatory structure has been put in place for

the supervision and monitoring of privatised enterprises. Their activities are governed by existing commercial legislation, and the Fair Trading Commission (FTC) has been empowered to investigate any complaints in regard to the operations and functions of privatized enterprises. The ability of the FTC to monitor and enforce legislation has been questioned in the press - for example in the context of monopolistic behaviour in Lanka Oxygen - and it is pointed out that the FTC grew out of the National Price Commission and remains over-focused on simple price issues (Jayawardena, 1994: 100). It has also been pointed out that the powers of the FTC has been nullified by political interference and also underfunding of the FTC by the state (Kelegama and Casie-Chetty, 1993).

The strategy that has been formulated for the privatisation of industries calls for a major shareholding in a public enterprise to be divested through the stock market or open tender to a corporate investor. Although price was the main determinant in investor selection, some weight was given to the credibility of the investor, including the ability to transfer technology. The norm for selling the majority of shares is that, in a single tranche, 60 per cent or 90 per cent of shares are sold thus giving the buyer a controlling interest over management and policies. To make privatisation attractive to employees of SOEs, 10 per cent of shares are given free of charge to them. The remaining shares are issued to the general public. Of the 32 privatisations shown in Table 2, ten followed the share division "norm" of 60:30:10 among corporate investor, general public and employees. (The public share issue has yet to take place for three of these at the time of writing - Ceylon Oils and Fats, Veyangoda Textiles and Colombo Commercial Company Engineers). In the bus transport sector, the privatization policy was to give away 50 per cent of shares of bus depots free of charge to the employees and retain the remaining shares in a consortium of banks for 3 to 5 years. The strategy to dispose of the remaining shares remains unclear.

Sri Lanka therefore has now considerable experience in privatisation. But with many enterprises remaining in the

Table 2 Structure of divestiture (per cent)

	Date	Tender	Public	Emp.	Govt	Total
United Motors Ltd.	12/89	5.0	90.0	5.0	0.0	100.0
Thulhiriya Textile Mills	2/90	100.0	0.0	0.0	0.0	100.0
Pugoda Textile Mills	6/90	60.0	30.0	10.0	0.0	100.0
Lanka Oxygen Ltd.	11/90	60.0	30.0	10.0	0.0	100.0
Dankotuwa Porcelain	12/90	50.0	0.0	10.0	40.0	100.0
Hotel de Buhari	12/90	80.0	0.0	10.0	10.0	100.0
Ceylon Leather Products	7/91	90.0	0.0	10.0	0.0	100.0
Hunas Falls Hotel	8/91	60.0	30.0	10.0	0.0	100.0
Lanka-Loha Hardware	10/91	90.0	0.0	10.0	0.0	100.0
Lanka Milk Foods	10/91	51.0	39.0	10.0	0.0	100.0
Asian Hotels Corporation	2/92	51.0	39.0	10.0	0.0	100.0
Ceylon Oils & Fats	2/92	60.0	30.0	10.0	0.0	100.0
Lanka Synthetic Fibre	2/92	90.0	0.0	10.0	0.0	100.0
Kelani Tyres Ltd.	2/92	60.0	30.0	10.0	0.0	100.0
Veyangoda Textile Mills	3/92	60.0	30.0	10.0	0.0	100.0
Distilleries Company	3/92	60.0	30.0	10.0	0.0	100.0
Mahaweli Marine Cement	6/92	52.0	0.0	5.0	43.0	100.0
Bogala Graphite Lanka Ltd.		0.0	40.0	10.0	50.0	100.0
Lanka Ceramic Ltd.	6/92	15.0	37.0	10.0	38.0	100.0
Sathosa Motors Ltd.	8/92	60.0	30.0	10.0	0.0	100.0
Kahatagaha Graphite Lanka	9/92	90.0	0.0	10.0	0.0	100.0
Lanka Porcelain Ltd.	9/92	51.0	0.0	10.0	0.0	61.0
Sathosa Computer Services	11/92	90.0	0.0	10.0	0.0	100.0
Ceylon Shipping Lines Ltd.	11/92	51.0	0.0	10.0	39.0	100.0
National Development Bank	3/93	20.9	34.4	5.7	15.0	76.0
Hingurana Sugar Industries	3/93	90.0	0.0	10.0	0.0	100.0
Acland Insurance Services	3/93	90.0	0.0	10.0	0.0	100.0
Trans Asia Hotel (Ramada)	3/93	76.9	0.0	10.0	0.0	86.9
Hotel Services (Cey) (Inter-Continental)	3/93	51.4	0.0	10.0	0.0	61.4
Ruhunu Cement Co. Ltd.	6/93	60.0	30.0	10.0	0.0	100.0
People's Merchant Bank Ltd.	6/93	35.0	25.0	1.0	39.0	100.0
CCC(Engineers) Ltd.	7/93	60.0	30.0	10.0	0.0	100.0

Notes: Lanka Porcelain 49% owned by Lanka Ceramics National Development Bank 24% owned by Consortium of Banks Trans Asia Hotel and Hotel Services not fully government owned.

Source: COPED

pipeline, it is pertinent to assess the experience to date. An appropriate starting point for discussing the fiscal impact of privatisation is the budgetary role of SOEs.

4. THE FISCAL IMPACT OF THE STATE ENTERPRISES

Supporters of privatisation emphasize that "far too many SOEs have been economically inefficient and have incurred heavy financial losses" (Kikeri et al., 1992: 15). The analysis by Adam et al. (1992) of the Sri Lankan experience supports the idea that privatisation will be a relief to the government budget since SOEs have apparently been absorbing a large share of government resources:

Transfers remain large, accounting for over 100% of the budget deficit (10.6% of GDP) in 1986, and, even with the cutbacks in 1989, were still equivalent of 62% of the expected budget deficit.

(Adam et al., 1992: 303)

However, their conclusion needs to be interpreted with some caution for a number of reasons:

1. The budget deficit is not an appropriate choice of denominator since, as a balance, it can assume values close to zero, resulting in high ratios unrelated to changes in the numerator. However, Adam et al. also report net transfers to SOEs as a per cent of expenditures and GDP: their Table showing that the net flow to SOEs peaked at over 36 per cent of expenditure in 1982.

2. Adam et al. omit from their analysis the gross receipts of trading enterprises, which accrue directly to the government as revenue - these are not insignificant: their inclusion reduces the net flow as a per cent of GDP by 6-7 per cent (see Tables 3 and 4).

3. The capital and current transfers are not only those to SOEs, but also to "public corporations and statutory bodies" - including the Sri Lanka Standards Institution, the Buddhist and Pali University, the Export Development Board and the Fair Trading Commission. Such institutions are carrying out normal

functions of government and it is misleading to include them in an analysis of net transfers to state enterprises. However, the dividing line is not a sharp one and the amounts concerned quite small, so we have not made any adjustment to the figures in this regard.

4. More important is the inclusion of the Mahaweli Authority. In the early 1980s the Sri Lankan government initiated an investment boom - investment peaking at over 33 per cent of GDP in 1980 (and averaging 27.8 per cent of GDP for the period 1978-84 compared to 16.1 per cent for 1970-77). The great bulk of the increase in government investment was channelled through the state corporations (Samararatne et al., 1994). The two main investment programmes were an acceleration of the Mahaweli river irrigation scheme and a public housing programme; the Mahaweli Authority was receiving over half of all capital transfers in the early 1980s (see Table 3), and the Urban Development Authority another 5 per cent. Including the transfers to the Mahaweli project does not give an accurate picture of the performance of the SOE sector as a whole. As Table 2 shows, excluding these transfers reduces the net flow of resources from the 36 per cent reported by Adam et al. for 1992, to less than 10 per cent of total expenditure.

5. An issue not considered by Adam et al. is the inclusion of tax revenue attributable to SOEs. If the government is subsidising activities and tax is paid on these activities, then that tax revenue might be considered as part of the fiscal dealings with the SOE sector. It is not possible to get separate tax figures for SOEs; Table 3 reports estimates on the assumptions that SOEs account for 30 per cent of turnover tax and 10 per cent of corporate tax. (All companies pay turnover tax, but, as loss-makers, SOEs pay less corporate tax). Indirect tax effects from import and export duties and personal income tax are not included. The inclusion of tax revenue gives a more favourable impression still, but it is not clear that such an adjustment should be made. If the activities would continue in the absence of government support, then taxes should not be included in the analysis. We return to this issue in our

Table 3 Public corporations and statutory bodies in the government accounts (Rs. million)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Current transfers	1,583	363	854	1,276	1,082	1,335	2,426	1,544	2,321	3,289	4,002	2,238	2,438	2,449
Capital transfers	6,086	7,174	10,653	10,422	13,681	13,818	15,183	11,401	10,123	6,557	6,123	10,355	10,373	13,351
O/w Mahaweli	3,381	3,816	7,333	6,395	7,057	7,233	5,952	5,101	3,430	2,480	1,810	2,410	2,293	2,676
Gross lending	807	569	718	801	901	997	2,671	3,159	5,093	5,901	7,219	7,286	6,009	10,109
Less														
Repayments	95	167	91	143	519	246	501	454	297	371	400	1,125	2,605	1,645
Interest and dividends	132	75	144	75	306	434	526	113	47	57	34	148	158	150
Gross receipts														
of trading enterprises	836	1,131	1,247	1,311	1,862	2,151	2,086	2,649	2,475	2,336	3,983	1,307	1,162	1,615
Net flow	10,793	10,550	18,076	17,363	20,033	20,553	23,119	17,989	18,148	15,463	14,737	19,709	17,188	25,175
exc. Mahaweli	7,412	6,734	10,744	10,969	12,976	13,319	17,166	12,888	14,718	12,984	12,927	17,299	14,895	22,499
Tax revenues														
Turnover tax	1,640	2,829	4,052	6,224	8,144	10,189	10,882	10,611	12,320	14,658	20,291	21,430	24,379	31,865
Corporate tax	1,708	1,459	2,115	2,475	3,702	4,217	3,274	3,329	3,183	2,941	4,379	6,183	7,107	8,180
Att. to SOEs	663	995	1,427	2,115	2,813	3,478	3,592	3,516	4,014	4,692	6,525	7,047	8,024	10,378
Net flow	10,130	9,555	16,649	15,248	17,220	17,074	19,526	14,473	14,133	10,772	8,212	12,662	9,164	14,797
exc. Mahaweli	6,749	5,739	9,316	8,854	10,163	9,841	13,574	9,372	10,704	8,292	6,402	10,252	6,870	12,121

Table 4 Public corporations and statutory bodies in the government accounts (per cent of selected indicators)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
1.1 No adjustments														
Total expenditure	24.4	21.7	28.3	23.6	24.2	20.6	24.6	17.8	16.6	13.7	11.2	12.1	9.9	11.4
Budget deficit	45.5	45.3	53.5	51.4	81.8	51.9	61.2	47.1	34.0	34.4	29.3	27.5	26.5	24.9
GDP	11.1	7.9	10.8	9.0	8.4	8.2	8.7	6.6	6.6	5.2	4.0	4.6	3.5	NA
1.2 Excluding Mahaweli														
Total expenditure	13.3	9.4	9.0	9.8	11.0	9.4	16.1	10.8	12.7	11.1	9.7	10.4	8.4	10.1
Budget deficit	24.8	19.6	17.0	21.4	37.3	23.7	40.0	28.5	26.1	27.8	25.2	23.7	22.4	21.9
GDP	6.1	3.4	3.4	3.8	3.8	3.7	5.7	4.0	5.1	4.2	3.5	4.0	3.0	NA
2.1 Including taxes														
Total expenditure	22.2	18.5	24.6	19.0	19.0	15.2	19.5	13.0	12.0	8.8	5.6	7.2	4.6	6.2
Budget deficit	41.5	38.6	46.4	41.5	64.1	38.3	48.4	34.3	24.8	22.0	14.5	16.3	12.2	13.4
GDP	10.1	6.8	9.4	7.3	6.6	6.1	6.9	4.8	4.8	3.3	2.0	2.8	1.6	NA
2.2 Excluding Mahaweli														
Total expenditure	11.1	6.2	5.2	5.3	5.8	4.0	10.9	5.9	8.2	6.2	4.0	5.5	3.1	4.8
Budget deficit	20.7	12.9	9.9	11.5	19.6	10.2	27.2	15.6	16.8	15.4	10.4	12.5	8.1	10.4
GDP	5.1	2.3	2.0	2.0	2.0	1.6	3.9	2.2	3.3	2.3	1.4	2.1	1.1	NA

discussion of privatisation.

Whichever series is used there has been a clear decline in the net transfer to SOEs as a percentage of GDP since 1986 - though this decline is considerably less marked if Mahaweli is excluded. Excluding Mahaweli removes any apparent trend from the series as a percentage of total expenditure.

Two conclusions may be drawn from this analysis. Much of the "burden" of SOEs arises because the government uses them as an avenue for the pursuit of its policies, rather than the innate inefficiency of such activities. (Which does not, however, discount the possibility that such inefficiencies may exist).

Second, examination of the aggregate government accounts does not allow for a clear-cut indication of the "burden of SOEs" and the relief that privatisation may be expected to bring. The aggregate figures are made up of components that differ greatly from enterprise to enterprise - for example, loss-makers versus profit-makers, and straight-forward productive enterprises which have operated more autonomously versus ones subject to more government control. Therefore the fiscal effects of privatisation are better examined on a case-by-case basis, which we present in Part 5.

5. THE FISCAL IMPACT OF PRIVATISATION

One of the reasons for the momentum gained by the privatisation programme has been a concern to limit the adverse fiscal impact. Nonetheless, privatisation is not entirely free of costs, there being three principal categories of costs associated with privatising an enterprise: (i) administrative; (ii) costs of sale; and (iii) enterprise restructuring.

Administrative costs are the costs of the bureaucracy responsible for the privatisation programme, and of any regulatory bodies. The role of COPED and the Fair Trade Commission was described in Part 3, but no data are readily available on the costs of these administrations. But against

these costs must be set the savings realised by the end of the requirement on government to monitor the SOE which has been privatised. Assuming as an approximation that these savings balance the new costs, we ignore these administrative costs.

The costs of the sale are the costs of advertising, legal and other fees associated with valuation, share issues and the underwriting of the share issue. Data on these costs are shown in Table 5. Advertising costs were available for about half the firms shown in the table - for those for which there was no public share issue we have assumed there were no advertising costs and for the remaining three (Lanka Milk Foods, Ceylon Oil and Fats and Lanka Ceramics) we have estimated advertising costs on the basis of the size of the share issue. It has not been possible to obtain underwriting costs on a firm-by-firm basis. However, we do know that these costs were approximately 2.5-3.0 per cent of the realised value of the public share issue for the early privatisations, falling to 1.50-1.75 per cent for the most recent privatisations, and we have made estimates on this basis.

Finally, the government may undertake preliminary restructuring to prepare the enterprise for privatisation, which may entail two principal costs. The first cost is the compensation that paid to retrenched labour. These costs were Rs. 104 million in the case of Ceylon Oil and Fats, but have generally been much lower. Second, the government may write off outstanding loans or assume responsibility for repayment of loans to the enterprise from private creditors. Loan restructuring costs vary. For example for Veyangoda Textiles Rs. 187 million was allocated but in a few other enterprises too where loan restructuring took place, lower costs were incurred. Since the first enterprises that were privatised were the more profitable ones, restructuring costs may be expected to rise in future.

It has been argued that the costs of privatisation may be so high as to more than offset the proceeds from the sale:

Table 5: Net Privatisation Proceeds (Rs. million).

	Labour	Liab.	Underwrtg	Adv.	Domestic	Foreign	Public	Total	Net proceeds	Valuation	Ratio
United Motors Ltd.	0.0	0.0	2.7	3.0	0	5	90	95	89.3	NA	NA
Thulhiriya Textile Mills Ltd.	0.0	0.0	0.0	0.0	0	200	0	200	200.0	206	108
Pugoda Textile Mills Ltd.	0.0	0.0	0.9	1.1	160	60	31	251	249.1	426	65
Oxygen Ltd.	0.0	0.0	0.8	1.1	0	60	28	88	85.7	309	31
Dankotuwa Porcelain Ltd.	0.0	0.0	0.0	0.0	0	102	0	102	102.0	230	49
Hotel de Buhari	0.0	0.0	0.0	0.0	6	0	0	6	6.3	13	54
Ceylon Leather Products Ltd.	8.0	10.0	0.0	0.0	40	0	0	40	22.0	NA	NA
Hunas Falls Hotel	0.0	0.0	0.0	0.6	12	0	0	12	11.4	8	158
Lanka-Loha Hardware Ltd.	0.0	0.0	0.0	0.0	30	0	0	30	30.0	NA	NA
Lanka Milk Foods Ltd.	0.0	0.0	5.7	0.5	528	0	228	755	749.1	541	154
Asian Hotels Corporation Ltd.	0.0	0.0	7.1	0.1	0	597	0	954	946.4	1,800	58
Ceylon Oils & Fats Ltd.	104.0	0.0	0.0	0.3	117	74	0	191	86.9	305	32
Lanka Synthetic Fibre Co. Ltd.	0.0	0.0	0.0	0.0	0	228	0	228	227.7	1,200	21
Kelani Tyres Ltd.	0.0	0.0	0.0	0.6	360	40	0	400	399.4	NA	NA
Veyangoda Textile Mills Ltd.	0.0	186.6	0.0	0.5	270	0	0	270	82.9	309	30
Distilleries Company of Sri Lanka Ltd.	0.0	0.0	9.9	2.0	884	169	495	1,548	1536.1	448	381
Mahaweli Marine Cement Co. Ltd.	0.0	0.0	0.0	0.0	32	0	0	32	32.0	NA	NA
Bogala Graphite Lanka Ltd.	35.0	0.0	2.0	1.6	0	0	112	112	73.2	NA	NA
Lanka Ceramic Ltd.	25.3	0.0	3.0	1.5	56	56	171	284	254.0	NA	NA
Sathosa Motors Ltd.	0.0	0.0	0.0	1.4	0	50	0	50	48.1	88	61
Kahatagaha Graphite Lanka Ltd.	0.0	0.0	0.0	0.0	17	0	0	17	16.5	NA	NA
Lanka Porcelain(pvt) Ltd.	0.0	0.0	0.0	0.0	0	95	0	95	95.4	NA	NA
Sathosa Computer Services Ltd.	0.0	0.0	0.0	0.1	2	0	0	2	1.4	3	51
Ceylon Shipping Lines Ltd.	11.6	0.0	0.0	0.7	51	0	0	51	39.0	NA	NA
National Development Bank	0.0	0.0	4.4	2.2	0	143	295	438	431.3	NA	NA
Hingurana Sugar Industries Ltd.	4.2	26.7	0.0	0.4	128	0	0	128	96.8	NA	NA
Acland Insurance Services Ltd.	0.0	NA	0.0	0.2	14	0	0	14	NA	31	NA
Trans Asia Hotel(Ramada)	0.0	NA	0.0	0.2	562	562	0	1,124	NA	NA	NA
Hotel Services(Cey) Ltd.	0.0	NA	0.0	0.0	181	0	0	181	NA	NA	NA
(Inter-Continental)	2.1	22.4	0.0	0.2	219	0	0	219	194.2	NA	NA
Ruhunu Cement Co. Ltd.	0.0	NA	0.0	0.6	74	19	0	93	NA	NA	NA
People's Merchant Bank Ltd.	0.0	NA	0.0	0.9	60	0	0	60	NA	122	NA
CCC(Engineers) Ltd.											

Source: COPED and authors' estimates (see text for details).

When government hands over an undertaking to the private sector it has very often to compensate the workers who are being displaced from that enterprise and to meet all liabilities to credit institutions... Very often the price paid by the private entrepreneurs is insufficient to meet these claims because these enterprises change hands at very low figures.

(Karunatilake, 1986: 111)

However, Table 5 shows that the net proceeds of privatisation in Sri Lanka (proceeds minus costs) have always been positive, even in the two cases mentioned above where restructuring costs were substantial.

Positive net proceeds from privatisation are not proof that the government has got a "good deal" from the exercise, since in return for the proceeds it has handed over state-owned assets. We must compare the net proceeds, with the value of these assets. Table 5 also shows the valuation of the enterprises made by the government's Valuation Department, and the final column the ratio of net proceeds to the valuation; (in calculating the ratio the valuation has been adjusted to allow for the fact that a percentage of the assets are given away to employees). A ratio of one is therefore indicative of a "good deal". The picture is mixed - in some cases it greatly exceeds one, but in ten out of the fourteen cases the ratio is less than one, falling as low as 20 per cent in the case of Synthetic Fibres.

But critics have argued that the Valuation Department is experienced in valuing fixed assets such as land and buildings, but does not have the capability to assess the market value of an enterprise - which, in the Sri Lankan case, is felt to be less than the aggregate value of the assets (Kelegama, 1993:37; Jayawardena, 1994: 94). Hence we cannot draw any clear conclusions from the final column of Table 5. How should a firm be valued?

5.1 How much is a firm worth?

In financial economics the value of a firm is equal to the present value of its future earnings stream: we should be

indifferent between either the rights to the profits the firm will make for the rest of time or a lump sum equal to the total value of this profit stream discounted by the opportunity cost of capital. This definition of the worth of a firm is the basis for the fiscal neutrality proposition: that is, if a government sells off assets at their market value, then there will be no impact at all on the present value of future government budgets. The rights to the future earnings stream is being swapped for the equivalent value now in privatisation proceeds.

Fiscal neutrality may not hold if government and purchaser have different valuations of a firm's worth. Such a difference of opinion can occur because they have different discount rates or a government liquidity preference (van de Walle, 1987: 604). In this paper we abstract from these possibilities and focus on the role of efficiency effects in influencing valuation. Consider the case of an SOE which makes modest profits, so that there is a positive present value to the future earnings stream the government would get from dividends. From a fiscal perspective, the government is indifferent between retaining ownership and selling the enterprise for an amount equal to this present value. But if there are efficiency effects, so that profits with private ownership will be higher, the worth of the firm to the private owner is equal to the present value of this higher earnings stream.⁴

Efficiency effects imply that a purchaser should be willing to pay the higher price. But from the government perspective the efficiency effects mean that privatisation can have beneficial fiscal effects even if it accepts a price lower than the present value of the current earnings stream, since privatisation raises a firm's profitability and hence the amount of tax paid. There will also be tax effects from turnover and employee income taxes and trade (import and export) duties. It is possible that higher efficiency is attained by reducing output so that these latter taxes fall. In this regard, the phenomenon of "asset stripping" after privatization in some companies is noteworthy. If the new owner finds it difficult to modernize the company in the form of a manufacturing firm he/she

may convert it to a trading company and reduce output and employment until such time the profitability increases for new investments and diversification to increase output and employment in the future.

The presence of efficiency effects thus results in there being two "values" to the firm - the lower one if it stays in government hands, and the higher one realised by the transition to private ownership. The gap between the two is a "bargaining area" in which the government and the purchaser negotiate a price. Any analysis of whether or not a firm changes hand at the "right price" must therefore take account of efficiency effects.

5.2 Have there been efficiency effects?

An analysis of the fiscal effects of privatisation need not be concerned with social or economic definitions of efficiency, but only with the level of activity of a firm and its profitability. Since the wave of privatisations began only recently, there are scant data even on these variables. Table 6 presents the available data on sales, profits and sales per employee [all deflated by the Consumer Price Index (CPI)].

Post-privatisation sales data are available for seven firms, and these data tell a mixed story. The real value of sales from Lanka Milk has shown a marked increase and those of United Motors and Lanka Oxygen also show a clear improvement; a more modest increase has been recorded by Dankotuwa Porcelain. Sales from Bogala Graphite exhibit a dramatic fall; and there is an uncertain but overall positive change from both Pugoda Textiles and Kelani Tyres.

Lanka Oxygen and Asian Hotels exhibit the strongest improvement in real profitability performance (based on one year only) - in the latter case turning from loss to profit. Lanka Milk and United Motors also show an improvement (compared to the two years preceding privatisation, but not the mid-1980s). By contrast Dankotuwa Porcelain's profits are lower than those made prior to privatisation, but considerably higher than the levels

Table 6: Performance of privatised enterprises (1986 prices)

6a) Sales (Rs. million)	1986	1987	1988	1989	1990	1991	1992	1993
United Motors	204.3	225.1	212.3	160.3	266.3	260.8	305.5	NA
Pugoda Textiles	402.3	429.9	442.4	NA	514.9	534.5	496.8	NA
Lanka Oxygen	121.6	108.7	114.2	100.4	125.4	159.2	NA	NA
Dankotuwa Porcelain	31.9	51.2	72.8	112.5	113.5	119.3	NA	NA
Lanka Milk Foods	511.2	583.6	712.5	832.2	820.5	890.0	796.7	NA
Kelani Tyres	410.3	422.5	476.0	483.0	401.4	240.4	468.2	NA
Bogala Graphite	138.5	148.2	153.7	105.9	131.1	31.4	36.6	33.0
6b) Profits (Rs. million)	1986	1987	1988	1989	1990	1991	1992	1993
United Motors	34.7	38.9	41.1	27.0	28.8	47.9	39.7	NA
Pugoda Textiles	63.6	51.4	27.8	NA	7.4	17.1	14.7	NA
Lanka Oxygen	16.7	13.7	7.7	5.7	NA	21.5	34.8	NA
Dankotuwa Porcelain	(12.4)	(3.2)	6.1	29.3	27.1	19.4	NA	NA
Lanka Milk Foods	64.2	69.1	76.1	43.7	(14.6)	22.8	93.8	42.8
Asian Hotels	(27.1)	(42.3)	(35.9)	NA	(28.5)	(9.7)	5.0	NA
Kelani Tyres	46.3	42.0	15.4	35.6	54.8	15.9	39.9	NA
Bogala Graphite	10.5	14.2	12.6	(8.6)	32.3	6.4	12.7	4.9
Lanka-Loha Hardware	(4.6)	(10.7)	(8.8)	NA	NA	NA	NA	NA
Veyangoda Textiles	7.5	3.9	(36.7)	(27.2)	26.8	3.1	NA	NA
Lanka Ceramic	2.7	4.6	11.1	25.7	59.1	49.2	NA	NA
6c) Sales/employee (Rs. 000s)	1986	1987	1988	1989	1990	1991	1992	
United Motors	328.4	353.9	326.1	NA	485.0	476.0	659.8	
Lanka Oxygen	322.6	292.3	275.9	249.2	286.2	430.1	NA	
Dankotuwa Porcelain	78.8	114.2	147.1	177.2	177.3	171.4	NA	
Lanka Milk Foods	1,348.8	1,459.0	1,708.6	1,995.6	1,939.7	2,139.4	1,971.9	
Kelani Tyres	225.4	238.3	240.7	248.4	201.5	122.8	259.7	

Sources: Company reports, Central Bank Annual Report (various years).

realised in the mid-1980s. Real profits for Pugoda Textiles are greater than those immediately preceding privatisation, but not greater than those of earlier years. Bogala Graphite shows no particular change.

Finally, in the case of five firms we can compare real sales per employee pre- and post-privatisation. Three of these - United Motors, Lanka Oxygen and Kelani Tyres - have achieved very substantial increases and Dankotuwa Porcelain has sustained the improvement made immediately prior to privatisation. Only in the case of Lanka Milk (which, as stated above, has greatly increased profits) has there been no particular change.

The conclusion must be that the impact of privatisation on sales, profit and productivity performance varies from case to case - an improvement cannot be discounted, but neither can it be taken for granted. It is notable that only in one case has privatisation been accompanied by a marked decrease in the level of activity - a rise has been the norm. Given the uncertainty surrounding efficiency effects, it is important to incorporate a sensitivity analysis into our presentation of results.

5.3 The fiscal effects of privatisation: a discounted cash flow analysis

We have now all the pieces to fit together for the analysis of the fiscal effects of privatisation. In the absence of privatisation, an SOE may be granted subsidies and/or pay dividends. It may also receive loans which are repaid at below market rates or not at all. Once privatised, all these flows cease.⁵ The SOE will also pay taxes on its activities - if there are efficiency gains, then the privatised firm will pay higher corporate taxes. Payments of turnover tax will also increase if efficiency gains are accompanied by an expansion of activity, as has been the case in Sri Lanka more often than not. Income and trade taxes will also increase, but we leave these indirect effects out of our analysis.⁶

We have sufficient data to apply this analysis to six firms, in each case taking the period of analysis to be 1986 to

2020. One of these (Lanka-Loha Hardware) had a history as a loss-maker, and another (Lanka Milk) recorded losses once since 1986 (Table 6b). The other four (Sathosa Motors, Lanka Ceramics, Kelani Tyres and Dankotuwa Porcelain) operated with a profit under state ownership. However, four of the six firms mentioned, viz: Kelani Tyres Lanka Oxygen, Lanka Ceramics and Lanka-Loha Hardware, were recipients of government subsidies in most years since 1986.

Actual data are used up to 1992/93 (or the most recent year available), all deflated by the CPI (with 1986 as the base year).⁷ In the non-privatisation scenario, all receipts and payments are forecast as the average value for the period for which data are available (with some judgmental adjustments as appropriate). In the privatisation scenario all government payments and receipts, except taxes, cease after privatisation. Two scenarios are presented: with and without efficiency effects. For firms not receiving subsidies prior to privatisation then, in the absence of efficiency effects, government tax receipts are the same as for the non-privatisation case. With efficiency effects a modest rise in tax revenue is assumed. For firm receiving subsidies the forecast tax revenue is reduced by the average value of these subsidies in the years preceding privatisation (in two cases this procedure yields negative taxes in the no efficiency effect scenario, so that taxes are set to zero). The use of historical averages for future forecasts may seem naive since future performance will be affected by changes in market conditions. But we are interested only in the impact of privatisation, so this technique allows us to abstract from these conditions. Indeed, any study which applied a before versus after analysis to privatisation would have to seek a means of controlling for these conditions.

The costs and proceeds of privatisation are as reported earlier (but now deflated by the CPI). Advertising and labour retrenchment costs are assumed to occur in the year prior to privatisation and the proceeds to accrue in the year of privatisation. Two discount rates are applied - 10 per cent

(the standard used in much cost benefit analysis), and a lower rate of five per cent.

The results are summarised in Table 7. If there are efficiency effects - so that government enjoys an increase in taxes as a result of privatisation - then there is a positive net present value from privatisation in each of the six cases. If there are no efficiency effects then the possibility of a negative net present value emerges for two firms: Kelani Tyres (at either discount rate) and Sathosa Motors (at a 10 per cent discount rate).⁸

With efficiency gains the net benefit from privatisation is positive in all post-privatisation years since the higher tax revenue more than offsets any loss of dividend income (net of subsidy payments) in all six cases. However, when no efficiency effects are assumed, tax income remains the same with or without privatisation. Therefore, for any firm from which the government was earning a positive net income, there will be a negative net benefit in each post-privatisation year. This latter case occurs for Sathosa Motors and Lanka Milk: the net present value of privatisation is still positive, however, as the loss of future net earnings is more than adequately compensated for by the net proceeds.

Fiscal neutrality would require that the government obtains negative net proceeds for privatising firms for which the projected earnings stream, in the absence of privatisation, is negative - as was the case for Kelani Tyres, Lanka Oxygen and Lanka-Loha Hardware. Yet, as already demonstrated (Table 5), the Sri Lankan government received positive proceeds in all cases. There has been a positive fiscal effect (in both crude terms, and after allowing for the discounted value of all government payments/receipts affected by privatisation) from the privatisation of both loss and profit-making firms.

For three of these firms we were able to compare proceeds with valuation (Table 5). In two of these cases the different approaches support one another, since the government got a "good

Table 7 Summary of results

	Discount rate 10%		Discount rate 5%	
	No efficiency gains	With efficiency gains	No efficiency gains	With efficiency gains
Lanka Milk Foods Ltd.	145.7	460.3	157.8	837.4
Sathosa Motors	2.7	15.4	-7.4	20.6
Lanka Oxygen*	-	455.1	-	835.0
Lanka-Loha Hardware	217.5	244.0	439.7	496.2
Lanka Ceramic	62.9	90.3	88.3	145.4
Kelani Tyres	16.6	282.3	-45.1	541.4

*efficiency gains observed

Source: derived from company reports and Central Bank Annual Report (various)

deal" for Lanka Milk (proceeds equalling 154 per cent of the valuation) and a bad one for Sathosa Motors (proceeds equal to 61 per cent of the valuation). But Lanka Oxygen also appears to have resulted in a net present value for the government budget, despite proceeds of only 31 per cent of the valuation - so, in this case, supporting the view that valuations may be too high.

We argued above that the worth of the firm to the government is at most the no-efficiency effects case (or less, if there are efficiency effects). Hence a positive net present value from privatisation in the no-efficiency effects case is evidence that there are positive fiscal effects from privatisation. The scope for these positive effects comes from the fact that the worth of the firm to the entrepreneur is greater than it is to the government so long as he or she expects to reap the reward of greater efficiency. Our analysis is from the point of view of the government budget and so does not allow us to quantify the worth of the firm exactly to the entrepreneur. However, the positive net present values realised by the government in most cases are, however, indirect evidence that purchasers expect to obtain such efficiency effects.

The trade-off between the profitability of the privatised enterprise and safeguarding social concerns was mentioned in Part 2. In past privatisations, social concerns have figures little, and this may have been one of the reasons why the Sri Lankan got a good deal from past privatizations. The size of the benefits currently being realised suggests that there is scope for imposing some sorts of standards (in return for lower privatisation proceeds if socially desirable. For example, maintaining pre-privatization local subcontracting units for certain input requirements instead of depending on resolved inputs. Problems in regard to prices, quality, and delivery of inputs from the subcontracting units can be imported with the cooperation of the privatized company with the passage of time.

6. CONCLUSIONS

One reason for privatisation is to release the government from the burden of loss-making state enterprises. Yet the government

must pay a variety of costs to privatise a firm: not only the legal and other expenses of transferring ownership to the private sector, but also restructuring costs through retrenchment of labour and writing off debt. Moreover, in a developing economy such as Sri Lanka where the capital market is still in its infant stage, and where privatization procedures are not very transparent, SOEs can be sold at very low values through the tender procedure. In fact, allegations of "selling the family silver", "crony capitalism", etc. have been made in the Sri Lankan press during the last four years. Thus leaving aside the problems of costs of privatization, it is essential to note that there are questions in regard to the proceeds from privatization, especially those SOEs that are privatized through the non-transparent tender procedures. Thus it is conceivable that costs may exceed the proceeds from privatisation - though this eventuality did not occur in any of the cases of privatisation examined in this paper.

An analysis of the fiscal effects of privatisation must look not only at the net privatisation proceeds, but also at the government budget over time with and without privatisation. The net proceeds must be set against the loss of future dividends earnings (or the gain of no longer paying subsidies). If privatisation results in higher levels of firm activity and profits then the higher tax revenue which results must also be incorporated into the analysis. With such a framework it is possible to apply discounted cash-flow analysis to calculate the present value of privatisation.

We applied this framework to six privatisation episodes in Sri Lanka. In five of these, the net present value of privatisation was unambiguously positive. In one case, it may be negative if there were no efficiency effects. But our review of the evidence (and for the firm in question, in particular) suggests that there have been improvements in profitability as a result of privatisation. Thus the privatisation of both profit- and loss-making firms has yielded positive fiscal benefits for the Sri Lankan government.

The existence of efficiency effects is a likely explanation for the positive net present values obtained by our analysis - the firm is worth more in private hands than in public, and this difference opens a bargaining ground for the price at which the change in ownership takes place. The lack of restrictions by government on privatised firms (including the enforcement of safety standards and social obligations, if any) is one reason for the profitability of privatised firms, and scope exists for the government to be more stringent about such matters and still obtain a positive fiscal benefit.

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NOTES

1. Some authors (e.g. Ramanadham, 1992; and UNDP, 1991) define privatisation more widely to include contracting out of some provision of goods and services or even just reforms to increase efficiency. These definitions appear to be too broad. A more difficult issue is that of market liberalisation so that privately-owned firms may enter a market previously dominated by State-owned activities. There are good reasons to include such experiences in a general analysis of privatisation, but they are not of relevance to our analysis of the fiscal experience in Sri Lanka.
2. Proponents of privatisation argue that the policy will reduce both allocative and X inefficiency (see, for example, Vickers and Yarrow, 1988: 8). Most of the literature is concerned with the latter, and - for reasons discussed in the text - it is our only concern.
3. Turning a loss-maker round to being profitable has been the standard practice in the UK, which is taken as the policy model for many governments. It is perhaps ironic that a government so strongly committed to handing firms over to the private sector in the name of efficiency, nonetheless managed to make each profitable as required by the privatisation programme.
4. The argument here implicitly assumes that the efficiency effects cannot be realised under State-ownership. Yet, we noted above that enterprises frequently are brought to profitability whilst in government hands prior to privatisation. In many developing countries, where State-run economic concerns are an important part of the patronage system, there are good reasons to believe that such efficiency gains would not be sustainable if the enterprise remained under State-ownership.
5. There may be continued repayment of outstanding loans. The norm however has been that the government writes off such debt as a part of the restructuring exercise.
6. Data on the employment effects of privatisation are scanty - we may expect a decline, and this does appear to be the case for most (but not all) privatised enterprises for which we have data. On the other hand, given productivity rises, the enterprise may pay higher wages - no data are available on this aspect.
7. The results are presented in full in the appendix.
8. These two companies have been paying dividends to government which will no longer be received after privatisation - hence the net income stream (with versus without) after privatisation is negative, so that the lower discount rate yields the lower net present value.

Appendix 1: Discounted cash flow analysis
Lanka Oxygen

	1986	1987	1988	1989	1990	1991	1992	2016
Without privatisation								
Tax	10.5	9.9	7.2	4.6	8.1	8.1	8.1	8.1
Dividends	2.6	1.9	1.1	0.0	1.4	1.1	0.9	1.0
Subsidies	-49.5	-46.0	-40.3	-36.2	-43.0	-43.0	-43.0	-43.0
With privatisation								
Tax	10.5	9.9	7.2	4.6	3.5	21.1	22.0	22.0
Dividends	2.6	1.9	1.1	0.0	0.0	0.0	0.0	0.0
Subsidies	-49.5	-46.0	-40.3	-36.2	0.0	0.0	0.0	0.0
Costs of privatisation	0.0	0.0	0.0	-1.4	0.0	0.0	0.0	0.0
Privatisation proceeds	0.0	0.0	0.0	0.0	170.5	0.0	0.0	0.0
Net benefit	0.0	0.0	0.0	-1.4	207.5	55.0	56.1	56.0

Lanka Milk

	1986	1987	1988	1989	1990	1991	1992	1993	1994	2016
Without privatisation										
Tax	340.9	408.7	277.1	97.1	235.4	676.3	339.3	339.3	339.3	339.3
Dividends	36.6	40.8	36.6	0.0	0.0	16.1	21.7	21.7	21.7	21.7
Subsidies	-16.3	-7.8	-9.8	-15.4	-18.8	-20.5	-14.8	-14.8	-14.8	-14.8
With privatisation										
Tax	340.9	408.7	277.1	97.1	235.4	676.3	286.6	327.2	328.5	339.3
Dividends	36.6	40.8	36.6	0.0	0.0	16.1	0.0	0.0	0.0	0.0
Subsidies	-16.3	-7.8	-9.8	-15.4	-18.8	-20.5	0.0	0.0	0.0	0.0
Costs of privatisation	0.0	0.0	0.0	0.0	-3.7	0.0	0.0	0.0	0.0	0.0
Privatisation proceeds	0.0	0.0	0.0	0.0	0.0	404.5	0.0	0.0	0.0	0.0
Net benefit	0.0	0.0	0.0	0.0	-3.7	404.5	-59.6	-18.9	-17.6	-6.8
Efficiency effects										
Without privatisation										
Tax	340.9	408.7	277.1	97.1	235.4	676.3	339.3	339.3	339.3	339.3
Dividends	36.6	40.8	36.6	0.0	0.0	16.1	21.7	21.7	21.7	21.7
Subsidies	-16.3	-7.8	-9.8	-15.4	-18.8	-20.5	-14.8	-14.8	-14.8	-14.8
With privatisation										
Tax	340.9	408.7	277.1	97.1	235.4	676.3	301.4	400.0	400.0	400.0
Dividends	36.6	40.8	36.6	0.0	0.0	16.1	0.0	0.0	0.0	0.0
Subsidies	-16.3	-7.8	-9.8	-15.4	-18.8	-20.5	0.0	0.0	0.0	0.0
Costs of privatisation	0.0	0.0	0.0	0.0	-3.7	0.0	0.0	0.0	0.0	0.0
Privatisation proceeds	0.0	0.0	0.0	0.0	0.0	404.5	0.0	0.0	0.0	0.0
Net benefit	0.0	0.0	0.0	0.0	-3.7	404.5	-44.8	53.9	53.9	53.9

Lanka Ceramics

	1986	1987	1988	1989	1990	1991	1992	1993	2016
Without privatisation									
Tax	18.0	17.5	18.5	23.9	31.8	20.0	20.0	20.0	20.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	-1.4	-1.4	-1.2	-1.1	0.0	-1.0	-1.0	-1.0	-1.0
With privatisation									
Tax	18.0	17.5	18.5	23.9	31.8	24.0	24.0	24.0	24.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	-1.4	-1.4	-1.2	-1.1	0.0	0.0	0.0	0.0	0.0
Costs of privatisation	0.0	0.0	0.0	0.0	0.0	-15.9	0.0	0.0	0.0
Privatisation proceeds	0.0	0.0	0.0	0.0	0.0	0.0	136.4	0.0	0.0
Net benefit	0.0	0.0	0.0	0.0	0.0	-10.9	141.4	5.0	5.0
No efficiency effects									
Without privatisation									
Tax	18.0	17.5	18.5	23.9	31.8	20.0	20.0	20.0	20.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	-1.4	-1.4	-1.2	-1.1	0.0	-1.0	-1.0	-1.0	-1.0
With privatisation									
Tax	18.0	17.5	18.5	23.9	31.8	20.0	20.0	19.2	19.2
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	-1.4	-1.4	-1.2	-1.1	0.0	0.0	0.0	0.0	0.0
Costs of privatisation	0.0	0.0	0.0	0.0	0.0	-15.9	0.0	0.0	0.0
Privatisation proceeds	0.0	0.0	0.0	0.0	0.0	0.0	136.4	0.0	0.0
Net benefit	0.0	0.0	0.0	0.0	0.0	-14.9	137.4	0.2	0.2

Sathosa Motors

	1986	1987	1988	1989	1990	1991	1992	1993	2016
Without privatisation									
Tax	15.8	15.0	11.7	12.1	12.6	13.4	13.4	13.4	13.4
Dividends	4.5	4.2	0.9	1.6	1.4	2.5	2.5	2.5	2.5
With privatisation									
Tax	15.8	15.0	11.7	12.1	12.6	13.4	14.0	16.0	16.0
Dividends	4.5	4.2	0.9	1.6	1.4	2.5	0.0	0.0	0.0
Costs of privatisation	0.0	0.0	0.0	0.0	-1.0	0.0	0.0	0.0	0.0
Privatisation proceeds	0.0	0.0	0.0	0.0	0.0	29.7	0.0	0.0	0.0
Net benefit	0.0	0.0	0.0	0.0	-1.0	29.7	-1.9	0.1	0.1
No efficiency effects									
Without privatisation									
Tax	15.8	15.0	11.7	12.1	12.6	13.4	13.4	13.4	13.4
Dividends	4.5	4.2	0.9	1.6	1.4	2.5	2.5	2.5	2.5
With privatisation									
Tax	15.8	15.0	11.7	12.1	12.6	13.4	13.4	13.4	13.4
Dividends	4.5	4.2	0.9	1.6	1.4	2.5	0.0	0.0	0.0
Costs of privatisation	0.0	0.0	0.0	0.0	-1.0	0.0	0.0	0.0	0.0
Privatisation proceeds	0.0	0.0	0.0	0.0	0.0	29.7	0.0	0.0	0.0
Net benefit	0.0	0.0	0.0	0.0	-1.0	29.7	-2.5	-2.5	-2.5

Lanka Loha Hardware

	1986	1987	1988	1989	1990	1991	1992	1993	2016
Without privatisation									
Tax	3.3	3.3	2.7	2.8	2.7	3.0	3.0	3.0	3.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	-53.7	-41.1	-38.5	-31.9	-26.3	-38.3	-38.3	-38.3	-38.3
Loans	29.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loan repayments	0.0	0.0	13.6	0.0	0.0	0.0	0.0	0.0	0.0
With privatisation									
Tax	3.3	3.3	2.7	2.8	2.7	3.0	5.0	5.0	5.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	-53.7	-41.1	-38.5	-31.9	-26.3	0.0	0.0	0.0	0.0
Loans	29.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loan repayments	0.0	0.0	13.6	0.0	0.0	0.0	0.0	0.0	0.0
Costs of privatisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatisation proceeds	0.0	0.0	0.0	0.0	0.0	16.1	0.0	0.0	0.0
Net benefit	0.0	0.0	0.0	0.0	0.0	54.4	40.3	40.3	40.3

Lanka Loha Hardware (ctd.)

	1986	1987	1988	1989	1990	1991	1992	1993	2016
No efficiency effects									
Without privatisation									
Tax	3.3	3.3	2.7	2.8	2.7	3.0	3.0	3.0	3.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	-53.7	-41.1	-38.5	-31.9	-26.3	-38.3	-38.3	-38.3	-38.3
Loans	-29.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loan repayments	0.0	0.0	13.6	0.0	0.0	0.0	0.0	0.0	0.0
With privatisation									
Tax	3.3	3.3	2.7	2.8	2.7	3.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	-53.7	-41.1	-38.5	-31.9	-26.3	0.0	0.0	0.0	0.0
Loans	-29.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loan repayments	0.0	0.0	13.6	0.0	0.0	0.0	0.0	0.0	0.0
Costs of privatisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatisation proceeds	0.0	0.0	0.0	0.0	0.0	16.1	0.0	0.0	0.0
Net benefit	0.0	0.0	0.0	0.0	0.0	54.4	35.3	35.3	35.3

Kelani Tyres

	1986	1987	1988	1989	1990	1991	1992	1993	2016
Without privatisation									
Tax	62.7	58.9	433.9	76.2	23.0	6.7	49.1	49.1	49.1
Dividends	6.0	4.6	0.0	0.0	0.0	0.0	0.0	1.5	1.5
Subsidies	-67.5	-62.6	-55.0	-49.3	0.0	0.0	0.0	-33.5	-33.5
With privatisation									
Tax	62.7	58.9	433.9	76.2	23.0	6.7	55.0	55.0	55.0
Dividends	6.0	4.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	-67.5	-62.6	-55.0	-49.3	0.0	0.0	0.0	0.0	0.0
Costs of privatisation	0.0	0.0	0.0	0.0	0.0	-0.3	0.0	0.0	0.0
Privatisation proceeds	0.0	0.0	0.0	0.0	0.0	0.0	192.3	0.0	0.0
Net benefit	0.0	0.0	0.0	0.0	0.0	-0.3	198.2	37.8	37.8
No efficiency effects									
Without privatisation									
Tax	62.7	58.9	433.9	76.2	23.0	6.7	49.1	49.1	49.1
Dividends	6.0	4.6	0.0	0.0	0.0	0.0	0.0	1.5	1.5
Subsidies	-67.5	-62.6	-55.0	-49.3	0.0	0.0	0.0	-33.5	-33.5
With privatisation									
Tax	62.7	58.9	433.9	76.2	23.0	6.7	49.1	0.0	0.0
Dividends	6.0	4.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	-67.5	-62.6	-55.0	-49.3	0.0	0.0	0.0	0.0	0.0
Costs of privatisation	0.0	0.0	0.0	0.0	0.0	-0.3	0.0	0.0	0.0
Privatisation proceeds	0.0	0.0	0.0	0.0	0.0	0.0	192.3	0.0	0.0
Net benefit	0.0	0.0	0.0	0.0	0.0	-0.3	192.3	-17.2	-17.2