Market-Based Reforms: An Empirical Analysis of Privatization in Sri Lanka

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Among many other preconditions, a proper institutional framework is a significant for successful implementation of privatization policy. This paper argues that the institutional framework in Sri Lanka does not support market reform measures because in the existing politico-bureaucratic milieu the administrative and economic benefits of incomplete reform initiatives are enjoyed by a few. The aim of this paper is to explore and analyse the extent to which the political culture of the country has influenced successful establishment and performance of an institutional framework to implement the privatization programme in Sri Lanka. Secondary data have been extensively used in this paper to interpret, analyse and strengthen the arguments. Findings of this study suggest that reforms in developing countries should take a selective approach with careful attention to the country specific socio–political conditions and devise reform measures accordingly.

Key Words – *Market-Based Reforms, Privatization, Institutional Framework, Sri Lanka*

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INTRODUCTION

Privatization has become a global policy forefront to reduce the role of the state and to redefine its relationship with the market in an attempt to solve many economic difficulties faced by both industrialized and developing countries. It was aimed at improving economic efficiency, competitiveness and the growth of a sustainable private sector in many economies. In the context of developing countries, it became a popular panacea to deal with economic problems related to widening current account and balance of payments deficits, rising inflation and growing foreign debts of these countries. Perhaps, widespread waste and inefficiency of state owned enterprises (SOEs) were the most prominent among the causes (Al-Obaidan, 2002). Hughes (2003:95) argues that a policy of privatization was a response to a series of problems associated with 'accountability, regulation, social and industrial policies, investment policy and financial controls' persisted with state dominated system. Hence the belief was that the change of ownership of SOEs to the private sector and creating market conditions for private sector to perform would bring economic efficiency, solve the financial burden of the state and generate needy resources for settlement of public debt leading to economic prosperity in these countries. Notwithstanding these multiple motives, the pressure from international aid agencies, mainly from the World Bank and the IMF, has become the most powerful drive for privatization reforms in developing countries. However, in the process, neither the specific conditions that market forces required in these countries nor their relationship with the institutions of the state have been taken into account.

Among developing countries, Sri Lanka was one of the pioneers to adopt this policy when the economy was opened in 1977. By the end of 2005, ninety-eight out of more than three hundred SOEs have been privatized and 17 have been closed-down under its public enterprises reform programme. After nearly thirty years of implementation, similar to many other developing countries (Akram, 2003), implementation in Sri Lanka has neither been shown as smooth nor able to deliver the promised benefits.

This paper reviews market-based reforms in Sri Lanka with special reference to privatization policy. The first section of this paper examines the debate on privatization which emerged as a prominent policy in response to government failure in general. It then briefly discusses the background to privatization in Sri Lanka and the politics of market based reforms. The third section reviews the privatization programme from a management point of view and identifies institutional deficiencies encountered in the process which limited the success of the entire programme. In conclusion, it asks whether it is the time to look for newer approaches for reforming governments in developing countries that align with prevailing socio-political conditions of the nation state.

1. GOVERNMENT FAILURE AND NEW WAYS FOR SERVICE DELIVERY

The state dominated system which is believed began in Germany in an attempt to safeguard citizens who became vulnerable due to the World War II resulted in an extensive provision of welfare as well as heavy state involvement in almost all economic activities. By the 1970s, these welfare activities ranged from provision of basic services such as free health and education to cash out-flows as income support. As a result the 'size' and the 'scope' of the state experienced a steady increase (Hughes, 1998:94) and this 'bubble of public sector expansion' coupled with some other global events such as 'trade falling down, oil price shock, high interest rates and default of public debt' became a crisis due to inefficiency in the early 1980s (Price, 1994:240). The increased number of activities by the state consumed more and more resources and hence management was difficult which in turn encountered increased criticism by the public. There was said to be 'government failure' and this failure was more significant in developing countries than in economically advanced countries (Jackson and Price, 1994; Hughes, 1998; Minogue, Polidano and Hulme, 1998; Smith and Trebilcock, 2001).

In response, some governments (led by the UK and the USA) searched for newer approaches to provide speedy and flexible services to citizens. The new orthodoxy was the return to a more dynamic society. Hence, vigorous public management reforms that began in the early 1980s were mainly aimed at reducing state intervention in the economy and strengthening market mechanisms (Anderson, 1989;

Biersteker, 1992; World Bank, 1997; Kettl, 2000). Among many other strategies adopted for reforms, privatization as 'one of the elements discussed in the NPM literature' (Pollitt, 1995:134) became the most common approach to reduce state activities in the economy. The SOEs that had played a major role with the welfare system became the most targeted area for reforms.

Market-Based Reforms - Privatization

Privatization is 'ill-defined' (Blank, 2000:35). It can take many forms: 'sale of public assets; deregulation; opening up state monopolies to greater competition; contracting out; the private provision of public services; joint capital projects using public and private finance; and, reducing subsidies or introducing user charges' (Jackson and Price, 1994:5; see also Ohashi and Roth, 1980; Steel and Heald, 1984; Cowan, 1990; Ramamurthi, 1992; Hughes, 1998; Fairbrother, Paddon and Teicher, 2002; Banerjee and Munger, 2004). The ideology however, has been used to redraw the boundaries between public and private sectors. The central to this debate was the concept of 'efficiency'.

The apparent success of reforms in the UK under Margaret Thatcher and the USA under Ronald Reagan regimes in the 1980s followed by remarkable progress in New Zealand and Australia led to international aid agencies advocating similar reforms in developing countries as part of their structural adjustment programmes (SAPs) (Jackson and Price, 1994; Haynes, 1996; Miller, 1997; Minogue, Polidano and Hulme, 1998; Hughes, 2003; Banerjee and Munger, 2004). Since then privatization has become an important part of marketization reforms in developing countries.

Since the 1980s, well over US$ 1 trillion worth of state owned firms have been privatized, and more than 8,000 deals of privatization were completed, the bulk of which occurred in developing countries (Brune, Garrett and Kogut, 2004). As a result, most services such as energy production, energy distribution, telecommunications, education, health and even social insurance which had traditionally been under state provision are now under private provision in many countries (Bovenberg, 2000; Nestor and Mahboobi, 2000).

Privatization in developing countries

The objectives of privatization fall into three broad categories: 1. economic (i.e. reduce taxes through proceeds of sales, exposing activities to market forces and thereby reducing the public sector borrowing requirements); (PSBR)); management efficiency (belief that private sector is better than the public sector); and ideology (belief that the market is better than the state provision) (Minogue, 19980; Hughes, 2003). To sum up, it is believed that privatization improves economic efficiency, increases competitiveness, and maintains the sustainability of the private sector in the economy (Kelegama, 1993; Jackson and Price, 1994; Cook and Kirkpatrick, 1995; Miller, 1997; Lee, 2002). Despite these arguments, privatization in developing countries appears as a result of two pressures on governments: fiscal and international (Ramamurthi, 1992; Welch and Molz, 1999). As a result, 'instead of a planned and cautious decision', implementation of this policy has often been 'a response to instability and crisis' (Banerjee and Munger, 2004:226).

We argue that in the context of developing countries, privatization involves primary and secondary objectives and the reforms needed to achieve these objectives are different. These are listed in Table 1 below.

Table I: Primary and Secondary objectives of privatization and reforms in developing countries

Primary Objectives	Secondary Objectives	Reforms
Economic • raise revenue • increase efficiency	• reduce budget deficit • reduce public sector borrowing requirements (PSBR) • increase competition • eliminate state intervention • encourage private capital • attract foreign direct investment • increase productivity and growth • adopt private management practices • induce better budgetary management • improve management in the public sector organizations • elevate efficiency of assets currently owned by the state through market discipline • develop domestic share market • induce technology transfer and modernization	• transfer of ownership of SOEs to private sector • management contracts • contracting out • encourage employee buyouts • restructuring existing SOEs by adopting private sector management styles • introduce performance indicators • greater use of resources • cutting costs • adopting a competent competition policy regime • establish truly independent regulatory regime • release barriers to foreign direct investment (FDI) • Establish good governance practices • Encourage joint ventures, public and private partnership (PPPS)
Political • Secure eligibility for aid	• win the political agenda • reward political loyalists • release the state burden of subsidizing and keeping float loss making SOEs • respond to the globally prevailing ideology • reduce trade union power	• strengthen policy making capacity of the centre of organizations • ensure greater accountability and transparency • raising labour discipline • resisting union demands
Social • consumer sovereignty	• provide better consumer through cheaper prices and better services • spread the ownership of shares to a wider spectrum	• greater concern on competition and rivalry • introduce quality standards • introduce broader reforms • create awareness about existing facilities and mechanisms

Source: developed in association with (Hodge 2000)

Sri Lanka was among countries to adopt privatisation policy. The following section outlines the Sri Lankan experience.

2. POLITICS OF MARKET REFORMS IN SRI LANKA

Sri Lanka is an island nation confined to a land area of 65,610 square kilometres. The total population in 2003 was 19.2 million (CBSL, 2003). Since independence in 1948, in terms of economic history, there had been several elected governments pursuing two different ideologies: one party which believes in a free enterprise economic system; and the other in a relatively controlled economy.

From 1948 to 1956 the United National Party (UNP) Government maintained an open market economy (Kelegama, 1993; Athukorala and Jayasuriya, 1994) by encouraging the private sector and closing down a number of inefficient public enterprises that had been set up during the war period. The succeeding government (from 1957) implemented a fresh 'nationalization policy' through the State Industrial Act no 49 of 1957. It established state monopolies over basic and strategic sectors and services. This was the welfare state era where state intervention was deemed necessary: to correct market failures; to alter structure of payoffs in the economy; to facilitate centralized long term economic planning; and, to change the nature of the economy (Rees, 1984:2). It took over the banking and insurance companies and started to concentrate on internal policies restricting imports and foreign exposures. The nationalization policy coupled with the establishment of new enterprises caused for increased budget deficit and despite the warnings of the Central Bank of Sri Lanka, the government continued a policy of reliance on external borrowings (Athukorala and Jayasuriya, 1994).

By 1965 Sri Lanka had a highly regulated, protectionist regime with import substitution industrialization (ISI) policies. However, by this time per-capita income of Sri Lanka was similar to Korea, Malaysia and Singapore (World Bank, 2000). But the political turmoil created within the government resulted in the UNP being re-elected in 1965 but without a clear majority. The UNP created more a favourable environment for foreign aid. From 1970 to 1977 there was a coalition government, led by SLFP with the Lanka Sama-Samaja Party (LSSP) and the Communist Party (CP), both having Marxist doctrines. These Marxist parties prevented the government from large scale conditional borrowings from multinational donors and it was forced to concentrate on self-sufficiency. Hence, during this time, state activities were further expanded through the establishment of several new state owned industrial corporations targeting regional development, providing employment and training and justifying redistribution. Despite increased aid from the centrally planned economies such as China, the world oil shock experienced during this period worsened Sri Lanka's trade balance (Kelegama, 1989; Wickramanayake, 1995). During this time, developing countries were experiencing failures due to a plethora of reasons, specifically for SOEs e.g. poor performance, poor strategy due to lack of capable managers, over staffing, political influence in operational decision making, and inefficient and outdated financial control systems (Friedman, 1980; Kelegama, 1993; Behn, 1998; Blank, 2000; Hughes, 2003).

The year 1977 was a remarkable turning point in Sri Lankan economic history. The UNP Government was elected with a four fifth majority – a first for a single party since independence - as a result of the frustration of the voters with a series of controls during 1970-77. The UNP which had 'pro-western orientation' (Athukorala and Jayasuriya, 1994:20) was able not only to attract western aid once more to the country but also it made several radical changes in the economy: it changed the provisions of the constitution and created executive presidency, centralizing the decision making in the country; and it initiated significant economic policy reforms commonly known as the liberalization policy package. The opening up the economy was accompanied by capital inflows from aid donors, remittences sent by migrant workers in the Middle East and larger tourist revenues which brought a rapid growth to the country, but the effect was short-lived. The second oil shock and the collapse of tea prices (the major export earner) again placed the economy in jeopardy.

The UNP Government lasted for seventeen years and was able initiate a number of reforms towards marketization. However, privatization, although part of the package, was not given priority mainly due to lack of political support for such reforms and fear that it would block opportunities for employment creation for Government supporters. However, two phases of the privatization programme, discussed later, were implemented during this regime. During the last quarter of this regime, there was a social unrest due to increasing popular disenchantment with the civil war, authoritarian rule, political violence and spreading corruption. These led to political change in 1994 (Knight-John, 2004).

In 1994, the People’s Alliance (PA) made up of SLFP and other traditional left parties together with the fragment groups of UNP formed government. Despite their traditional political ideologies and contrary to the forecasts of people, the privatization programme was continued as a main policy of the development agenda. However, to be fair with the interests of workers and trade-unionists, special legislation, the Public Enterprises Rehabilitation Act, was passed in 1996 and several privatized firms were taken back by the state. That however did not last for long in the face of objections from the private sector that it would send wrong messages to investors. In 2001, the UNP government returned to power and created a renewed commitment for a private sector led growth strategies in accordance with a donor-prescribed Poverty Reduction Strategy: ‘Regaining Sri Lanka’.

However, the new government which came to power in 2002 was a reflection of the use of exclusive power given to the President by the constitution to decide whether to hold a fresh election after completion of the first year of the new government. In the recent regimes, the President, head of the executive and the Prime Minister, majority leader in the legislature have come from two political parties (PA and the UNP respectively), which has resulted in shorter governments than the usual six year period. In 2002, the new regime led by the United National Front (UNF), formed by the traditional UNP with other small parties which represent minorities in the country lost their support midway, paving the way for another general election in 2004. The current government led by the PA has been privileged to have President and the Prime Minister from the same party. Though it is too early to come to conclusions, there has been a reverse of reforms, for example, re-establishing previously privatized enterprises such as the Ceylon Transport Board (CTB).

The political milieu in the country since 1994 to date has been more volatile compared to previous times. To elaborate, any public policy in Sri Lanka is a joint responsibility of the executive and the legislature. In practice however, these fundamental elements of good governance is seldom adhered to (Knight-John, Jayasinghe and Perumal, 2004). The recent experience of the executive and the legislature controlled by two different parties disrupted the policy making process. The short-term regimes faced a power struggle between the executive and the legislature, prevented reform. The internal chaos within the government parties played an important role adding an additional layer of uncertainty affecting the speed of policy reforms (World Bank, 2000). For example, the power sector reforms came to a stand-still, losing two development loans committed by two major development partners (ADB and JBIC); partial disbursements from these loans have been unproductive. When elections are anticipated, it has become common to implement politically popular policies that are totally contradictory to the concept of market mechanism. The basic concept of privatization i.e. reduction of state activities via reforms has been violated by the recent regimes prioritizing their political will to remain power.

3. REVIEW OF PRIVATIZATION PROGRAMME IN SRI LANKA

The liberalization of the economy in 1977 did not achieve the expected outcomes and government failure was significant in the early 1980s. In fact, Sri Lanka was the first country in the region to open up its economy and it had other advantages such as high-quality social conditions (high literacy rate, low infant mortality rate and long life expectancy), strategic location and an educated work force. It was the most liberalized economy in the south Asian region (Karunasena, 1996). Therefore, it was believed that Sri Lanka would become one of the most developed countries in the region. This has not materialized.

As explained above, inefficient involvement of SOEs in most economic activities from the 1950s to the late 1970s resulted in a steady increase in the size and the scope of the government. Around 30–35 percent of the annual budget expenditure was allocated for the maintenance of SOEs during the early to mid 1980s and this amount was around 10-12 percent of annual gross domestic products (GDP) (Kelegama, 1993). As a result, the overall budget deficit averaged as much as 14 percent of GDP (Jayawardena, 1997). Contributing to this situation was a large increase in the defence expenditure during this period (Embuldeniya, 2000). By the mid 1980s, SOEs found it difficult to compete with imported goods in the liberalized environment and most of them required state funding for survival. Therefore, it was not easy for the government to maintain these inefficient and ineffective public enterprises. Apart from this, the government was an active employer in the labour market providing around 17 percent of total employment (ILO, 2000; World Bank, 2000).

In addition to this and most importantly, the liberalization measures commenced in 1977 included a huge public investment programme including a massive hydro-power and irrigation project, building up the Parliamentary complex and a public housing project, thereby deviating from the marketization exercise that occurred worldwide (Athukorala and Jayasuriya, 1994; Wickramanayake, 1995; Alling, 1997; Arunatilake, Jayasuriya and Kelegama, 1999). This package however, lacked efforts to reform SOEs which provided jobs for political supporters (Dunham and Jayasuriya, 2001).

By the mid 1980s, the government in its attempt to balance the annual budget deficit, had no other option than to accept advocacy by the aid agencies to commence an immediate privatization programme. As a result, it had to introduce radical reforms in order to secure its eligibility for external aid. In spite of some technical assistance received from the USAid under its private sector development project, the country had no expertise or a preparation for reforms politically or otherwise. After nearly a decade of the opening of the economy - a significant shift towards a market economy from the earlier centrally planned economic approach – it was still unprepared for a privatization programme.

The progress of the privatization programme can be discussed in three distinctive phases.

A Sporadic Attempt

The first wave of privatization avoided using the term ‘privatization’, instead using ‘peoplization’, meaning ‘given to people’, with a view to placating trade unionists and social resentment to privatization. The methods adopted mainly were in the form of partial divestiture, liquidation, management contracts and franchising instead of change of ownership at a large scale (ILO, 2000). Knight-John (2004) argues that the first wave was an attempt during a time that the country had faced mounting macroeconomic instability and political violence which was not conducive to any rigorous reforms.

A Systematic Approach

The second phase which started late 1980s, was a result of the recommendations of the Presidential Committee appointed which was accompanied by the enactment of two pieces of legislations, i.e. the Conversion of Government Owned Business-Units (GOBUs) into Public Corporations Act no. 22 of 1987; and the Conversion of Public Corporations or GOBUs into Public Companies Act no. 23 of 1987. The main objective of these acts was the conversion of all targeted corporations and GOBUs into public companies as an integral step in the privatization process (Kelegama, 1993). However, nationally important SOEs such as public utilities were strategically excluded from privatization during this phase. The partial and full divestiture of forty-three public enterprises resulted in proceeds of approximately Rs. 11.6 billion (Knight-John, 2004).

A Structured Approach

The third phase was a remarkable step by the PA government with the establishment of Public Enterprises Reform Commission (PERC) in 1996 to implement the entire public enterprises reform programme in the country in a transparent and structured manner. It has adopted strategies such as sale of majority of shares to corporate investors on the basis of open tenders and competitive bidding, management contracts and employee buyouts. This is the phase under which public utilities such as telecom and gas have been privatized. The total gross receipt to the Treasury under this phase was Rs. 46.2 billion (Knight-John, 2004).

By the end of 2005, 98 public enterprises that included many sectors: agriculture; plantations; industries; and services such as hotels, insurance, banks and telecommunications have been privatized. Another 17 public organizations have been liquidated under the restructuring programme. However, the annual privatization proceeds during the past years as a percentage of annual GDP was not significant and it was on average 0.5 percent annually except in 1997 (which was 2.5 percent of GDP), the year in which Sri Lanka Telecom (SLT) privatization took place.

Though many arguments exist in favour of privatization, the empirical evidence suggests that it has neither been able to provide the expected outcomes in developing countries nor has it been providing similar results among these countries (Jackson and Price, 1994; Dunham and Jayasuriya, 2001; Hughes, 2003; Akram, 2004; Gnos and Rochon, 2004; Parker and Kirkpatrick, 2005). Many argue that effective privatization requires preconditions: political commitment; appropriate institutional frameworks; overall quality of governance; technical assistance from donors; administrative reorganization and civil service reforms (Basu, 1994; Henisz 1999; Craig, 2000; Dunham and Jayasuriya, 2001; Samaratunge and Bennington, 2002; Johnson, 2003; Banerjee and Munger, 2004). Sri Lanka has a long history of strong state control over the economy. In such a country, the main argument of this paper is that while the merits of a market-based system are well established under certain theoretical conditions, the experience in the context of Sri Lanka, its benefits have been far less due to failure in establishing a proper institutional framework to implement the reforms within the existing politico-bureaucratic culture of the country.

Institutional arrangements of SOE Reforms

Privatization involves three main entangled dimensions; ownership, competition and regulation (Hodge, 2000) that require substantial emphasis given to proper institutional framework if the reforms are to be successful. Establishment of a proper institutional structure would also help to establish good governance practices ensuring transparency and accountability in the process. To this effect the Sri Lankan government took a number of steps from time to time.

Despite the economic liberalization in 1977, the proper initiation of the privatization programme took place only in 1989 under the UNP regime by enacting the two Acts referred above. However, there was no preparation of institutional arrangements for implementation. Initially, the programme was handled by a number of entities. The Presidential Commission on Privatization, the Commercialization Division of the Public Enterprises Department of Treasury, the Public Investment Management Board (PIMB) and special units established under line ministries such as Plantations to carry out privatization, to name a few. The privatization decisions were however reflected on the power of individuals: the minister or the bureaucrat involved. The ultimate result was that non-market based transfers occurred i.e. transferring SOEs into the hands of family members and relatives of politicians who eventually did not even pay the dues to the Treasury (Karunatilake, 1986 cited in Kelegama 1993:35). One can argue that in Sri Lanka, the urgent need for implementation of privatization - pleasing the development partners - was met by transferring SOEs that were taken by the state under the nationalization programme in 1960s to their previous owners who were not the best to operate them under market conditions (Jackson and Price 1994). The prices at which entities were sold were not the real values of the organizations (World Bank 2000). For instance, Kabool Lanka, a state owned fabric mill with a real value of about US$ 100 m, was sold at a price of US$ 7 m (Kelegama, 1993). The lack of political commitment for a systematic divestiture of SOEs and nondisclosed government decisions in relation to privatization deals have contributed to the growing concerns of public and distrust of the rationale and process of privatization (Ranaraja, 2001). Hence, the main reason for this kind of politically favoured transfer of SOEs was the result of the absence of a proper institutional framework which could administer the programme.

Public Enterprises Reform Commission (PERC), the mandatory body for this purpose was established in 1996, almost a decade after the economic liberalization. Since then the process has been transparent and systematic compared to the previous experiences. Yet, from time to time rent-seeking behaviour of political leaders has hindered the process. For example, the emphasis given to good governance by the PA government as soon as it came into power in 1994 started to decline as the political priorities of coalition management began to dominate the policy making process (Knight-John, 2004).

The two other new agencies created by the government in 2004 to support the privatization programme and to promote public private partnerships, namely the Strategic Enterprise Management Agency (SEMA) and the National Council for Economic Development (NCED), remain almost inoperative. This is especially true of SEMA, under which the strategic enterprises such as electricity board, Sri Lanka ports authority and Sri Lanka railways were brought to prepare for reforms, overlapping what PERC does. There is no coordination between these agencies. This is an example of the common practice by successive Sri Lankan governments of changing whatever the previous regime did.

Effective privatization, in the absence of perfectly competitive market conditions, requires a competition policy to promote competition in order to enhance both allocative efficiency and consumer welfare. Especially in relation to monopolistic public utility privatization, private providers – depending on the market imperfection - exploit the consumer through un-fair and anti-competitive practices. Hence, competition policy to be effective should be accompanied by other policy areas that affect competition, consumer welfare and economic development (Indraratna, 2004). To this effect in Sri Lanka - almost after a decade of economic liberalization - the Fair Trading Commission was established in 1987 through enactment of Fair Trading Commission Act of 1987 by revoking the National Prices Commission (NPC) Act of 1975 and certain parts of the Consumer Protection Act of 1979 (CPA). The primary objectives of the FTC were to control monopolies, mergers and anti-competitive practices and to help formulate and implement a national price policy. But in practice, its interventions have been limited to the complaints received by the Commission rather than initiating action. The lack of progress also has been due to lack of expertise and resources. In 2003, a new body, the Consumer Affairs Authority (CAA), was established by bringing together functions handled by FTC and the Department of Internal Trade (DIT) under FTC and CPA of 1979. Critics argue that the necessary power to deal with monopoly and mergers activities has not been vested even on CAA by its Act (Indraratna, 2004; Knight-John, 2004). Despite the long ongoing debate, there is no competition law imposed so far. Though it is too early to comment, CAA, similar to FTC, has not shown its capability to handle competition and consumer issues, rather it is locked in a leadership tussle. Hence, proper law enforcements and institutional arrangements in this area are inadequate.

One other important aspect of privatization is the rent-seeking behaviour of private investors. The new owners of SOEs who usually have relationships with politicians often seek rents from the government such as funds, subsidies, legal protection for the license, or a license to give them monopoly power (Jackson and Price 1994). The strategic investor in Sri Lanka Telecom (SLT), at its partial privatization in 1997, sought state protection which resulted in enforcement of tariff rebalancing system for five years till 2002 and monopoly status for international service provision. Due to this: the development of competition has been delayed; consumers have been affected adversely adding increased annual tariff on the top of their already high monthly telephone bills; consumers have not experienced real benefits of privatization; and regulatory measures such as price-cap have not been imposed (Jayasuriya and Knight-John, 2000; Viani, 2004).

When it comes to utility privatization, modern government has been left with the role of regulation to 'correct, guide and supplement'when the market itself failed (Musgrave and Musgrave, 1989:5). State intervention was necessary in order to facilitate the creation of market conditions, promote competition and maximize economic efficiency (Jackson and Price, 1994; Al-Obaidan, 2002), while ensuring consumer welfare. Hence each privatized industry tends to have an independent regulator with an objective of establishing good governance. Like many other countries, independent regulation has been a relatively new concept in the Sri Lankan context. Initial privatization, though it was forced by the donor community, did not require establishment of proper regulatory structures. Nor did they require sequencing of reforms. Because of this, the whole privatization, especially during the first wave, proceeded according to political wishes. However subsequent attempts have been made by the PA government since the mid 1990s to establish and strengthen regulatory governance. For example, the Telecommunications Regulatory Commission was established by strengthening the single headed nominal regulatory body which has existed since 1991. Yet, once again its progress on the governance side waned over time (Knight-John 2004). A careful review of the regulatory arrangement in the telecom sector reveals that its interventions have been subject to criticism over its lack of independence, capability, impartiality, accountability and transparency (see Jayasuriya and Knight-John, 2000; Samarajiva, 2000; Samarajiva and Dokeniya, 2004).

In relation to the public accountability of SOEs, the mechanisms already in existence i.e. two parliamentary oversight committees (Committee on Public Accounts and Committee on Public Enterprises) have become largely ineffective. Perhaps a lack of expertise or the opportunistic approach of these committee members limits the level of discussions within Parliament to operational issues such as recruitment and promotions rather than issues of strategic planning. Therefore, even if a mechanism is available to ensure good governance practices, implementation has been critical.

Multi sector regulation has been adopted as the new regulatory approach in Sri Lanka aiming at providing regulatory expertise for ongoing sectoral reforms such as power, transport, gas and information and communication services. While it has incorporated some good governance practices such as de-linking the minister from the direct involvement with the regulator, vesting that power with a constitutional council, and providing financial autonomy, its interventions in the economy are yet to be witnessed.

One other key area in relation to institutional arrangements for reforms is that adequate attention has not been paid to leadership positions of these existing institutions. SOEs in Sri Lanka were not only inefficient but also filled with widespread corruption (Knight-John 2004). Once reforms started, those who had been in these SOEs or ex-parliamentarians who lost their political seats have been appointed leaders of these newly created institutions including newly created regulatory bodies. Their lethargic type of approach had added nothing fresh into the implementation of reform initiatives.

4. CONCLUSION

Privatization has been in fashion worldwide as the core development strategy since the 1980s. Economic argument for privatization is that it improves economic efficiency, increases competitiveness and maintains the sustainability of the private sector led growth in developing countries. The Sri Lankan experience reveals that under the prevailing socio-politico milieu, establishment and proper functioning of the institutional framework – the most important precondition for successful implementation of privatization – has stalled. The politico-bureaucratic tie gets administrative and economic benefits from the existing mechanism for reforms. The Sri Lankan reform exercise suggests some useful insights that reforms in developing countries should take a selective approach with careful consideration to the country specific socio-political conditions and devise reform measures accordingly. However, understanding of more case studies would be necessary to come to concrete conclusions.

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