

Privatisation for a Rational Re-structuring

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Privatization is a concept that has been in existence in the country for over two decades. Further, it has become necessary to continue to use it in the context of the restructuring of the economy. Yet, the opposition that arises from the public when planning for the privatization of government

services to the public and on the other to function as a financier, an authority, and a supervisor. According to this explanation, in engaging in a restructuring process to hand over the production, supply and distribution of goods and services to the private sector or leaving the production and distribution of

between the functions of the state sector, and among consumers. Some protagonists of privatization perceive it as leading to less government and better government. By less government is meant that the sector is limited when compared with other sectors, and that it has less social power when compared with other organizations. A good state is perceived as one that the citizens can be satisfied with as being just, efficient and productive.

Thus it is seen that privatization is another term used for deregulation / marketisation / liberalization under the structural adjustment programme undertaken by a state that was managing a centralized economy. Privatization is also the opposite of nationalization, a strategy adopted by a number of developing countries during the decade of the 50s to the end of the 1970s to develop their economies.

Privatization is one of the strategies used for restructuring the economy. For the restructuring process to be successful, it is essential that steps are taken to implement the privatization programme in a systematic manner. This article attempts to discuss the principles of privatization, its objectives, factors that facilitate the implementation of a successful privatization programme and the policy environment. It also looks at recent global trends and the Sri Lankan experience.

owned enterprises shows that many consider even the word 'privatization' to be detrimental to society.

The Concept of Privatization

Privatization can be defined very simply as an action that agglomerates to individuality. When considering government enterprises and privatization together it is seen that privatization results in the transfer of the production of goods and services that were undertaken by the state to the private sector.

In a broader context, privatization is used as a political slogan for a programme of action that involves the reduction of the responsibilities and duties that devolve on a modern welfare state. This implies the handing over by the welfare state of a part or the entirety of profit-making or loss-making enterprises under its control and ownership to the private sector. Accordingly, privatization results not only in disengagement from its responsibilities but also in having confidence in the private sector to participate in these activities in a socially responsible manner. The public sector has two-fold responsibilities. On the one hand, it has the responsibility to production and supply goods and

goods and services to market forces, there is a possibility that the state's financial ownership or authority will either be enhanced or wearied away.

According to Frederick Ebert privatization is a transferring process from non-private property to private property. Consequently, property that was commonly available to the people now becomes private property.

In practical terms, privatization can be detailed in three ways. First, placing greater reliance on the private sector than on the state for the fulfillment of human needs. (These private enterprises include commercial and trading organizations, voluntary organizations, religious and civil organizations, co-operatives as well as sole proprietorships). Secondly, in operational terms state ownership of enterprises, management and operation are at a minimum with a corresponding increase in private sector operations. Thirdly, according to influential terms privatization is the handing over of state enterprises to the private sector.

Thus privatization is a tool used not only to reconstitute the structure of the public sector but it is also a tool used to alter the organizational culture of state enterprises as well as the relationship

Aims of Privatization

The aims and objectives of a privatization programme, in the main, should be discussed with reference to developing countries because the nature and extent of the objectives to be achieved by developing countries are more complex than those of developed countries.

One objective of privatization is to minimize excessive government expenditure. Governments had continued to operate state enterprises as loss-making entities and consequently were compelled to allocate a considerable amount of financial resources through the national budget for their maintenance. It can be seen that in the recent past the government had embarked on privatization as a strategy to discontinue or minimize the current expenditure required to sustain these loss-making enterprises. A concomitant reason is that privatization enables the government to increase its revenue. While the government is able to realize vast sums of money by the sale of these enterprises to the private sector, it is also able to enhance that revenue by subsequent taxation of the enterprises.

If state enterprises are to be run efficiently, it is necessary to introduce modern management techniques to such organizations. If the organization is to be revitalized with new management techniques, it would be necessary to introduce private sector management methods. The best way to achieve this would be to privatize the enterprises. With privatization, it would be possible to employ both local and foreign management tools and use them competitively. Simultaneously it also would be possible to use new technology in these enterprises. The mix of new management techniques and new technology could lead to higher productivity of the enterprise.

The attraction of local and foreign investment is another anticipated benefit of privatization. The private sector has a very high investment capacity in the modern commercial world. At the national level, there are private investors who are even able to exceed the investment capacity of the state. At a global level, multi-national companies that are spread across several countries are able to invest freely in liberalized economies. Privatization of state enterprises is the most desired method of attracting such foreign investment.

Another important aim of privatization is the decentralization of the basic economic functions of the state. With privatization, the government owned enterprises that are being carried out under state monopoly are transferred to the private sector. Often, privatization is regarded as one aspect of decentralization. When state sector activities are privatized in this manner, it is also possible to encourage broad-based people's participation. By allowing local as well as foreign investors to have a stake in economic activities that only the state was engaged in earlier it becomes possible to extend enterprise ownership to a wider spectrum of the population.

Many developing countries embark on a privatization programme to comply with the conditionalities laid down by international lending agen-

cies. Very often institutions such as the International Monetary Fund (IMF), the World Bank and the Asian Development Bank (ADB) when providing prescriptions to developing countries focus on minimizing the role of the state in economic activities. Consequently, privatization is adopted as a means of satisfying the demands of these international lending agencies.

Privatization also aims at removing the politicization that has occurred within the state sector. The recruitment of political supporters to state enterprises without restraint and unbridled political interference has contributed to inefficiency in these enterprises. Privatization is a palliative offered for this situation. At the same time, there are instances where privatization has been used to reward political supporters and punish political opponents.

The objectives of privatization as discussed in the foregoing paragraphs can be broadly categorized into four groups, namely pragmatic, ideological, commercial and populist.

Pragmatic objectives encompass enhancing efficiency in the production of goods and services while ideological objectives pertain to reducing the role of the state and increasing the role of the private sector. The commercial objective of privatization is the maximization of profits and populist objectives seek to make the consumer supreme through the market and reduce the influence of an over powerful bureaucracy.

The economist Hanke discussed the objectives that governments seek to achieve by following a privatization programme. These are summarized as follows;

1. to develop economic efficiency,
2. to sell government owned enterprises to bridge the budget deficit,
3. to remove the politicization in the economic decision making process,
4. to reduce the expenditure that is being incurred on account of loss-making government enterprises, and
5. to reduce the power of public

sector trade unions.

The Policy Environment required for the Implementation of a Successful Privatization Programme

In order to realize the anticipated benefits of privatization it is necessary to develop an appropriate policy environment.

It is essential that the privatization process should be a transparent one. That is, the public should be able to accept the programme as one that is being conducted in a systematic manner within a proper legal framework. While the final benefits of privatization should percolate to the people, public support for the programme is essential for its success. The sale of government owned enterprises should not be carried out secretly. To ensure the transparent nature of the privatization process the government must disseminate information to the public and make such information easily accessible to them. While this would enable the public to be aware of the enterprises that are to be privatized, it would also lead to an increased demand for shares and a consequent increase in share prices. Making information available through the media and publicizing the programme could motivate both local and foreign investors to invest in such ventures making the country beneficiaries of developed technology, better management and capital required for development.

Another factor that is of importance in implementing a privatization programme is the availability of a proper institutional leadership. This is institutional leadership is essential to ensure that there is an adequate legal and regulatory framework, accurate accounting of the assets of the enterprise and supervision of the privatization process.

It is also necessary when adopting privatization as an economic strategy to dismantle or reduce to a minimum the regulations that had been in place for a long period of time when the economy was being managed by the state. Therefore, privatization and deregulation are two interrelated activi-

ties that should proceed simultaneously. Dismantling of regulations that had been imposed for maintaining public enterprises would facilitate the privatization process. In addition, it is also necessary to deregulate the financial and commodity markets. As privatization targets both local and foreign investors, they should be provided the opportunity and the assurance to invest and de-invest freely. By deregulating especially the financial and share markets investors will be attracted to invest in new enterprises through the share market.

The existence of a legal framework and a plan of action will contribute to the success of the privatization programme. An inadequate legal framework could sometimes lead to the failure of the programme. To develop this programme further taking into account the competitive nature of private enterprise, it is necessary to have a strong institutional framework. The legal and institutional framework must address such issues as a pricing system that will safeguard the consumer and the investor, a competitive environment, setting upper limits to the utilization of natural resources, and exploitation of labour.

Adequate planning could prevent the emergence of monopolistic conditions and create a climate for free market conditions.

Systematic and unstinted political support is also necessary for the privatization programme to be successful. This implies the commitment of the political establishment by setting aside narrow political or economic gains for the greater good of society. Political parties could contribute to this process by raising the awareness of the public and minimizing public protest. It is difficult to implement a privatization programme under a socialist economic system with its emphasis on public property. However, it becomes apparent from the experience of socialist countries such as Russia that a successful privatization programme is possible if the cooperation of political parties is forthcoming. During the end of 1980s, the Russian leadership was able to attract

large-scale foreign investment into the country and to hand over loss-making government owned enterprises to the private sector by embarking on a programme of economic restructuring. The political leadership could bring together various sectors such as workers, legislators, enterprise owners and the public. This would be an incentive for privatization.

Developed financial and share markets are other prerequisites for implementing a successful privatization programme. The share market should be restructured along with privatization. A developed financial and share market is necessary to attract investments. The capital market has a direct bearing on determining the market value of the government owned enterprises based on productivity.

A. Koraosmonoglu, a Vice-President of the World Bank identifies three factors that are essential for a successful and beneficial privatization programme. First, in privatizing a government owned undertaking it is necessary to determine the best course of action for both the enterprise and the state by entering into an open and free debate. He asserts that privatization should not be carried out according to the wishes of the political establishment or individuals. Second, he points out that policies should be selected in a manner that the public good is safeguarded. Finally, he states that privatization should not become a substitute of private monopoly for state monopoly.

The public should understand the concept of privatization and its benefits should be made available to them. A privatization programme that is apolitical, transparent and is undertaken in accordance to a specific plan will facilitate economic, political as well as administrative development. Consequent to the recognition of the background factors that should be considered prior to the implementation of a privatization programme it is then necessary to consider its basic phases in implementation.

First Phases of the Privatization Programme

It is not possible to privatize public sector enterprises in the same way as an

ordinary good is traded. There should be a specific programme as well as an organization. The privatization programme should follow a specific sequence of activities (Welch and Premond 1998).

1. Identification of Government Owned Enterprises for Privatization

Decisions regarding the privatization of government enterprises will be made on the basis of the objectives of the privatization programme and the legal framework within the country. Public enterprises, the enterprises to be retained under public ownership should be made in accordance with a laid down set of principles and guidelines. It is necessary to assess whether government enterprises are able to further continue to produce and distribute goods and supply services. Those enterprises that are unable to meet such criteria will be selected for privatization. In the alternative, they could be liquidated.

Feasibility Study

A feasibility study of enterprises identified for privatization is carried out with the objective of assessing their economic position, efficiency, profitability and anticipated economic gains. At the same time, an assessment is also made of the value of the identified enterprises. This activity should be carried out with the assistance of financial consultants and in accordance with market values. This is one of the instances where transparency is essential. According to Welch and Freeman, there are several accepted methods, which could be used to assess the value of government owned enterprises. They are as follows:

1. Net Asset Method,
2. Cash Flow Method,
3. Comparative Method,
4. Circling Method, and
5. Replacement Value Method.

Preparation of a Privatization Plan

Prior to the implementation of the privatization programme it would be necessary to prepare a plan with the

assistant of consultant. The plan should detail the mode of sale, pre-sale activities, time frame for privatization, apportionment of shares etc. It should also focus on issues such as environmental pollution and degradation, stability of the enterprise and assignment of ownership, barriers to foreign investment, worker productivity and protection of worker rights.

Obtaining Approval

On completion of the tasks listed above, the government should select a suitable method for the sale of the enterprise and obtain approval from the legislature.

Transfer of State Enterprises to the Private Sector

A. A. Sawaz identifies three methods by which state assets and assets of government owned enterprises are transferred to the private sector.

As shown in the table above, there are three forms of privatization. First, the state can divest itself of the enterprise by the sale of a part or the entirety of the share capital. Second, the state can contract out the provision of services to the private sector. Third, the state can hand over its responsibility by displacement. The forms of privatization followed by many countries in the world fall into one of these categories.

Recent World Trends in Privatization

Privatization is not a new concept. Although the end of 1970s witnessed a rapid process of privatization in many

countries around the world, its history can be traced back to the end of the 18th century. Adam Smith in his *Wealth of the Nations* published in 1776 had made the first reference to privatization. He pointed out that private ownership plays a crucial role in enhancing productivity and increasing efficiency. He estimated that the productivity of lands under state ownership was 25 per cent of those under private ownership. He explained that as private owners operated their enterprises taking into account the cost effectiveness of the enterprises, their efficiency and productivity would be maintained at a high level.

Privatization is not limited to developing countries. Developed countries embarked on privatization programmes to overcome problems connected with inefficiencies and low productivity that existed in state owned enterprises. At the beginning of the 1980 decade, British Airways was one of the loss-making airlines in Europe but it emerged as one of the world's largest airline after being privatized. Among the leaders in the developed capitalist world who implemented successful privatization programmes are Margaret Thatcher, former Prime Minister of Britain, former United States President Ronald Reagan, and President Jacques Chirac of France. In the late 1980s, Russian President Mikhail Gorbachev used this strat-

egy through his Perestroika and Glasnost programmes. It is seen that in the developing countries privatization is a condition that is imposed by the World Bank and the IMF when granting loans.

The most countries consisting ruling system, which is regarded as a west-east, developed-developing country, democratic-authoritarian countries, capitalist-socialist countries are following this well-known phenomenon either as a political, administrative or economic.

Private investment by multi-national companies is one aspect of the current phase of globalization. A trend that can be discerned is the movement of capital within countries as well as among countries. In 1996, long-term capital movements amounted to US\$285 billion. Of this amount, private capital accounted for 86 % or US\$224 billion. In 1991, private capital amounted to only US\$57 billion.

A country that had successfully experimented with privatization is Great Britain, which carried out this programme under the leadership of Margaret Thatcher in the 1970s. The first government enterprise that was privatized was British Telecommunications (1984). Its current income exceeds US\$100 billion. However, it is significant to note that al-

Table 1 Forms of Privatization

1. By divestment	a) Sale	I. To private buyer
		II. To the public
		III. To the employees
2. By delegation	b) Free transfer	IV. To users or customers
	c) Liquidation	I. To the employees
		II. To users or customers
3. By displacement	a) Contract	III. To prior owners
	b) Franchise	I. Concession
	c) Grant	II. Lease
	d) Voucher	
	e) Mandate	
	a) Default	
	b) Withdrawal	
	c) Deregulation	

Table 2

Distribution Revenue Received from Privatization among Regions 1990/96 (US\$ billion)

Region	1990	1991	1992	1993	1994	1995	1996	Total	Total as a %
Latin America & the Caribbean	10915	18723	15560	10487	1897	4615	13919	82417	53
Europe and Central Asia	1262	2551	3626	3988	3956	9641	5466	36491	20
East Asia & the Pacific	376	835	5161	7155	5507	5411	2679	27123	17
South Asia	29	996	1558	974	2666	917	889	8029	5
Sub-Saharan Africa	74	1121	205	630	595	472	745	3843	5
Middle East & North Africa	2	17	70	417	782	746	1477	3510	2

though Britain started the privatization programme, which proved to be successful, it is the developing countries that have a higher rate of privatization today. The table below shows the distribution of revenue received from privatization among the different regions during the period 1990-1996.

It can be seen that Latin American and the Caribbean countries had realized the highest revenue from privatization. It is also seen that in all the regions, the revenue received from privatization had substantially increased in 1996 as compared to the income received in 1990.

Another visible trend in privatization is the increasing participation of the private sector in the supply of infrastructure facilities such as electricity, construction of roads and highways, and waste and garbage disposal. The distribution of income received from various sectors clearly illustrates this trend. During the period 1990-1996, of the US\$ 155 billion revenue derived from privatization approximately US\$ 65 billion was received from the privatization of infrastructure facilities and accounted for 42% of the total revenue received from privatization.

The privatization programme has overcome such barriers as capitalism and socialism and is becoming a concept that is being widely accepted across the world today.

The Sri Lankan Experience

The government that came into power in 1977 introduced a series of economic reform measures, which included the liberalization of the economy and privatization. However, during the early phase of reforms privatization was not focused on for several reasons. These were as follows:

1. Public enterprises were a main tool used to retain political power (eg. Lake House and the electronic media)
2. Trade unions in these public enterprises played a significant role in assisting the government to come into power.
3. Public enterprises were used to

Table 3

Privatization Income by Sectors

1990-1996

(US\$ billion)

Sector	Income	Percentage
Infrastructure Facilities	65	42
Financial Services	22	14
Industry	37	24
Agriculture & Mining	26	17
Other Services	5	3

fulfill election pledges.

In the 1980s, the government took steps to transfer some loss-making enterprises to the private sector by such means as transferring managerial responsibility, broad-basing ownership and writing off debts. Among these enterprises were the Railway Industries Corporation, and the Wellawatte Spinning and Weaving Mills. To reduce losses and debts the three textile mills owned by the National Textile Corporation, namely Thulhiriya, Mattegama, and Pugoda were brought under foreign management.

Although such loss-making enterprises were privatized by sale, delegation and contracting management, the position of public enterprises and corporations further weakened in the mid 1980s due to trade and financial liberalization introduced in 1977. Local enterprises found it increasingly difficult to face competition from imported products, while import substitution industries, which were inefficient, and had a low productivity and were operating under a favourable tariff system and a system of subsidies became a burden on the state with the removal of such concessions. For the first time, in 1987, the Minister of Finance, in his budget speech, drew attention to the need for the privatization of loss-making enterprises. In August 1987, a Presidential Commission was appointed

to examine the feasibility of conducting the new privatization programme. The Commission, adopting a long-term perspective recommended that profit-making enterprises should be privatized first. Although the government accepted the recommendations of the Commission, their implementation was kept in abeyance due to the forthcoming 1989 presidential elections. Subsequent to the elections, the privatization programme commenced under the name peoplization, concealing the true nature of the programme. In July 1989, the shares of United Motors came in to the market starting the privatization programme.

The lethargy of the Presidential Commission on Privatization resulted in the government assigning the requisite powers relating to privatization to different Ministries. In September 1989, the Public Investment Management Board replaced the Presidential Commission on Privatization. Later, in March 1990, its name was changed once again to Public Investment Management Company. In the same year, the responsibility for the privatization programme was transferred to the Public Enterprise Privatization Unit of the Ministry of Finance. Inefficient and loss-making industries such as Thulhiriya, Pugoda, and Veyangoda textile mills, Ceylon Oxygen, and Ceylon Metal Products Corporation were privatized in the first phase. In the second phase, profit-making enterprises such as the Ceylon Pharmaceuticals Corporation, Ruhunu Cement, Ceylon Milk Foods and services such as insurance, development banks and the management of state plantations in the agricultural sector were privatized.

Table 4

Revenue Received from Privatization in 1998

Public Enterprises Privatized/	Income (Rs. Mn)
Remaining Shares	
1) Airt Lanka Co. - sale of 40% shares	2,816 (45 US\$ Mn)
2) Sale of balance shares in plantation companies	789
3) Resale of Colombo Commercial Co.	38
4) Leasing of the Seed Farm at Hingurakgoda to CIC	3.88
Total Income	3,646.88

Although Sri Lanka adopted privatization as a measure of economic restructuring during late 1980s, it was not an easy task to sever or minimize the relationship the state had with these enterprises and transfer them to the private sector. For three decades after independence, the economy was controlled and had been subjected to a tight regulatory regime. Consequently, the transition period was difficult. The public was not ready to change its attitudes, which were tied up with a regulated economy nor was the bureaucracy, which wielded considerable power ready to relinquish it. For these reasons, until 1994, private sector participation in key sectors was limited.

The People's Alliance government, which assumed office in 1994, attempted to overcome such obstacles to accelerate the privatization programme. As a first step, it set up the Task Force on Public Enterprises. Two years later, Act No. 1 of 1996 to provide the necessary institutional framework established the Public Enterprises Reform Commission (PERC). After the establishment of PERC, large-scale enterprises such as the Colombo Gas Co., Sri Lanka Telecom, plantation companies and the National Development Bank were privatized.

The form of privatization adopted by successive governments varied over time. During the period 1980-88, government owned transferring the management to the private sector on a contract basis privatized enterprises. In this instance, the state retained control and ownership. While some enterprises were sold to overcome debt problems, the sale of Lanka Plywood Ltd., Lanka Metal Hardware Corporation to the private sector was undertaken with achieving this objective. Company shares were also sold to employees when some enterprises were privatized. This same form of privatization was followed when the brick and tile factories of the Ceylon Ceramic Corporation were sold and Hotel Buhari was restructured. Another example of sale of government enterprises based on the sale of shares

is that of the Pugoda Textile Mills, which was sold to Lakshmi Co. of India. Privatization has also occurred in Sri Lanka when an investor purchased the majority shares of a company as for instance when 35% of the shares were sold to Nippon Telegraph and Telephone Co. of Japan while the government retained the ownership of 61% of the shares and transferred 3.5% of shares to the employees. The management of Air Lanka has been transferred to Emirates Co. for a period of 10 years. Emirates Co. received 40% of the shares in 1998 with anticipated revenue of US\$ 70 million.

During the period 1987 to 1997, 73 public enterprises including 20 plantation companies have been privatized yielding an income of Rs. 41,997 mn. Of this amount, Rs. 25705 mn had been received from foreign sources while local sources accounted for the balance Rs. 16292 mn. In 1998, the privatization programme received a set back due to the instability of the global economy and weaknesses in the local economy. The table below summarizes the revenue received from privatization in 1998.

The privatization programme implemented in Sri Lanka impacted on its economy in several ways. In the first instance, it was possible to effect a considerable reduction of the budgetary burden of loss-making public enterprises. In 1986, 31% of the budgetary expenditure had been allocated for public enterprises. This amount had been reduced to 12% by 1996. It is important to note that, as the government was able to realize an additional income it was able to reduce the budget deficit even to a limited extent. As a result, the overall debt burden including the foreign debt was reduced and controlled in the 1990s.

Privatization has also resulted in increased efficiency, productivity and better management of many of the state enterprises transferred to the private sector. As many of the state enterprises that were privatized saw the entry of foreign companies, it had been possible to develop the operations of foreign investors in Sri Lanka. The availability of efficient management and technology resulted in greater efficiency of these

enterprises. Large-scale investment in Colombo Gas Co. by Shell Investment Co. is one such instance. The purchase of 35% of shares of telecommunications by the Japanese Company, NTT, and management contracting of Air Lanka are other examples. Thus Sri Lanka has been successful in attracting foreign investment, specialist knowledge and technology by privatization.

Weaknesses in the Privatization Programme

The weaknesses in the privatization programme can be discussed as follows:

- Weakness in the institutional leadership,
- Problems of transparency,
- Resistance in the capital market,
- Ineffective economic policies,
- Problems in the labour market,
- Weaknesses in planning.

In implementing a privatization programme it is important to ensure that there is an institutional leadership that would provide the right direction and leadership. However, such a leadership was not available in Sri Lanka. As noted above, responsibility was shifted from one Ministry to another at different points of time. In the absence of continuity in institutional leadership, the politicians are able to exert a greater influence in the privatization programme. In countries such as Britain, institutional leadership is a significant feature of the privatization process and there are also signs that there are institutions engaged in post privatization follow up activities. The setting up of bodies such as Of GAS, Of Tel and Of WAT before privatizing the British gas company and water respectively was for the purpose of controlling post-privatization activities. The absence of such institutions in Sri Lanka has resulted in the substitution of private monopolies for state monopolies.

Lack of transparency in transactions connected with privatization in Sri Lanka has given rise to corruption and made it possible for individuals to benefit from this process. Such corruption arises especially at the time

of valuation. In Sri Lanka, the Government Valuer undertakes the valuation of public enterprises. This valuation is always compared with an independent valuation made by Ernest and Young Co. in Colombo. However, there are instances even when such a procedure is followed that the non-competitive nature of the sales procedure gives rise to questions of transparency. The real income of the Tulhiriya Textile Mills was approximately US\$ 100 mn but it was sold to Cabool Lanka for US\$ 7 million. Ceylon Oxygen, together with the land was valued at US\$ 68 million but it was sold to a Norwegian company for US\$ 17 million. These are two instances when there was no transparency in the privatization process.

The problems of the labour market are identified as barriers to successful privatization. As 15 to 20 per cent of the labour force is employed in the public sector trade unions are opposed to privatization. Trade unions protested during the privatization of telecom, plantations and several other enterprises. The government responds to these protests and objections by redeploying excess staff in these institutions to other public sector enterprises, by discontinuing their services after the payment of compensation, by insuring them and terminating their services, providing loan facilities to commence a small business, sale of shares at a discounted price, or in some other instances by dismissing the employees from service without providing any benefits. Any of these measures could result in the loss of talented, efficient and experienced personnel to these institutions.

The strongest criticism leveled

against privatization is the weakening effect it has on the political system and on relations among citizens and population groups. Social progress requires collective effort. It is argued that privatization acts as a barrier to such collective efforts. As reliance on market forces has a detrimental effect on welfare it is also argued that the strong bonds that exist among various population groups will weaken. The existence of commercial services and a system of rationing make it possible to absorb economic shocks. However, privatization reduces the attention focused on the poor, the disabled, the less educated and the low skilled and leads to their marginalisation. Privatization focuses only on maximizing profits through efficiency, competitiveness and market forces.

Secondly, the private sector organizations are able to ignore or disregard those services that are essential to the people. Critics point out that the private sector attempts to weaken any effort taken to restructure or develop state services. Hirschman argues that the reluctance of the private sector to engage in services such as garbage disposal, street cleaning, city security will have adverse impacts on the population and is one that is of great concern.

Another barrier that arises in the implementation of a privatization programme is ideological opposition. Several factors form the basis of this opposition. Retrenchment of workers, relinquishing control, inflation, corruption, exploitation of labour, capital inadequacy in developing countries are factors that give rise to such opposition.

The main challenge to privatization in Sri Lanka is the opposition to privatization that exists in society. There is strong opposition even to the word

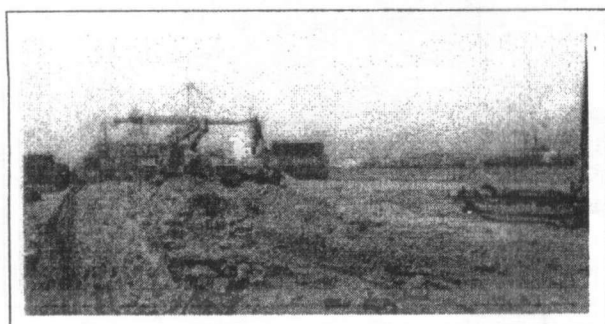
privatization. When such opposition surfaces, many politicians have overcome such opposition by resorting to the use of other nomenclatures. For example, in Sri

Lanka, the word 'peoplisation' was used instead of privatization. It is not only in Sri Lanka that such subterfuge is used. It is seen worldwide. Perestroika in Russia, economic reform in China, 'renovation' in Vietnam, 'people's capitalism' in Latin America, 'social privatization' in Spain and de-statisation in Greece are some such examples.

It is possible to see the sale of public enterprises, which involves a complex set of activities, as being undertaken in many countries to achieve a range of objectives. However, the sale of public enterprises aimed at achieving efficiency and enhancing government revenue should be undertaken systematically and carefully. It is necessary to establish an organization that would develop competitiveness, prevent the emergence of monopolies, increase consumer protection, and facilitate sustainable development. But in the current context of globalization in which technology and capital have a greater mobility, states are compelled, even reluctantly, to follow a privatization programme. If this trend is not followed, such a country will become isolated in the global village and it will find it difficult to find solutions to distortions that would arise in the economy. As public-choice theorists and neo-liberalists point out, if the public is to be presented with a greater choice, then a privatization programme becomes essential.

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