This article is the fourth in a series of articles by the Centre for Poverty Analysis (CEPA) exploring various dimensions of poverty in Sri Lanka.

Privatisation in Sri Lanka: A Socioeconomic Perspective
Priyanthi Fernando¹

Privatisation evokes sharp political reactions around the world, and privatisation of state owned enterprises in Sri Lanka has been similarly controversial. However, despite the fact that a debate over the pros and cons of privatisation has been ongoing in Sri Lanka for almost two decades, there has been little attempt to study the actual impacts of privatisation on the well being of workers. Assessments usually focus on the financial success of the enterprise, but this article takes a different angle and explores the socio-economic impact of privatisation on employees, both those who stayed with the organisation and those who took voluntary retirement. The article is based on a study carried out by Nilakshi de Silva and Susrutha Gunasekera at the Centre for Poverty Analysis over 2004-2006. The study interviewed workers in three companies that were privatised during the 1990s to try and understand more about their experiences at the time and following privatisation. The study is published as a working paper, entitled: Between Theory and Rhetoric: the Workers’ Reality: An assessment of the social impact of privatisation on employees (De Silva, Nilakshi and Susrutha Goonesekera, 2007).

Privatisation in Sri Lanka

Privatisation has as its goal the shift in focus of production of goods and services from public to private. This can be brought about in several ways. A restriction of publicly produced services in volume, availability, or quality could lead to a shift by consumers toward privately produced and purchased substitutes (called ‘privatisation by attrition’ when a government lets public services run down). Or privatisation may take the explicit form of transfers of public assets to private ownership, through sale or lease of public land, infrastructure, and enterprises. Or, instead of directly producing some service, the government may finance private services, for example, through contracting-out. Finally, privatisation may result from the deregulation of entry into activities previously treated as public monopolies.

The rationale for privatisation of state owned enterprises (SOEs) through the divestiture and sale of government assets is primarily based on increasing efficiency and thereby increasing growth and profitability. There is also a counter argument which focuses on the social impacts of privatisation, highlighting the potential negative impacts on employment opportunities and consumer prices, which impact the poor, the disenfranchised, and in some cases the workers who remain, while benefiting the already rich, powerful and privileged.

In Sri Lanka, privatisation has long been a contentious and debated issue. The focus of the debate has been largely on the transfers of public assets to private ownership, and on the deregulation of entry into activities previously treated as public monopolies. Until economic liberalisation policies were adopted in 1977, the state sector played a dominant role in Sri Lanka’s economy. Important sectors, such as banking, plantations, large-scale industries, transport, insurance, telecommunications and electricity were operated by public monopolies or dominated by public enterprises. These public enterprises often employed a large workforce and provided an extremely stable - if not very lucrative - source of employment. Since the 1980s however, the number of public enterprises, as well as the share of employment provided by the public sector, has declined with the emergence of the private sector and deliberate measures to downsise the

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public sector by privatising public enterprises (Table 1.1). Some ‘privatisation by attrition’ (e.g. of education) has proceeded largely uncontested.

\[2\] The change in government policy towards expanding the public sector with new recruitment, particularly of 42,000 graduates in 2004, arrested the declining trend in the share of public sector employees, and a year on year increase was recorded for the years 2004 and 2005 (Central Bank, 2005).
Table 1. Share of public sector employment 1990 - 2004

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<th>1990</th>
<th>1997</th>
<th>2005</th>
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<tr>
<td>Rate of unemployment (%)</td>
<td>17.4</td>
<td>10.5</td>
<td>7.7</td>
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<tr>
<td>Rate of employment (%)</td>
<td>51.9</td>
<td>48.4</td>
<td>48.3</td>
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<tr>
<td>Share of public sector</td>
<td>21.5</td>
<td>15.1</td>
<td>13.3</td>
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The stated objectives of the privatisation programme in Sri Lanka has evolved and changed over time. In the programme announced in 1987, one objective was to alleviate the burden on the state budget and improve the efficiency of state owned enterprises. Another stated objective was to encourage the development of an entrepreneurial middle-class through broad-based share ownership which would activate the capital market. Here privatisation was popularised under the name of ‘peopleisation’. Since 1994 privatisation aimed to enhance investment, employment, and the quality of service in the privatised sectors.

The experience of privatisation in Sri Lanka has also been shaped by the nature of the labour market, especially its legal and regulatory framework. Two pieces of legislation; the Termination of Employment of Workmen (Special Provisions) Act of 1971 (TEWA), and the Industrial Disputes Act of 1950, as amended (IDA), apply to the termination of employment of private sector employees and provide adequate, (some would consider excessive), safeguards against unfair dismissal. There is no similar statute guarding the employment of public sector workers who must therefore rely on influence, exercised through their unions or politicians. The power and influence of trade unions is a distinguishing feature of the Sri Lankan labour market. The relative ease with which a union may be formed, together with the highly politicised nature of the trade union movement in Sri Lanka has been viewed by some as allowing space for outsiders with political motivations to hijack the agenda of the unions (Kelegama and Gunatilake 1996, cited in World Bank 2000: 16).

In recognition of these issues, specific measures have been incorporated into the privatisation of public enterprises in Sri Lanka. Privatisation agreements entered into since 1995 carry a clause guaranteeing employment under no less favourable terms and conditions as those enjoyed on the date of sale. To obtain the consent of trade unions, the sale of majority shares to the private sector is accompanied by the free distribution of a small number of shares (not more than 10%) to the employees. Most privatisations have also been accompanied by increasingly generous voluntary retirement schemes through which employee numbers in the state owned enterprises are reduced. These measures are designed to protect workers through the transition from public to private sector, and to obtain their support for the economic reforms.

More recently, the economic strategy of the government of President Mahinda Rajapakse, as based on the Mahinda Chintana, has rejected the privatisation of state enterprises, including ‘strategic’ enterprises such as the state-owned banks, airports and electrical utility. Economic policies focus on poverty alleviation by steering investment to disadvantaged areas, developing the small and medium enterprise (SME) sector, promoting agriculture and expanding the civil service. The Government plans to retain ownership and management of public enterprises and make them profitable

Impacts of privatisation on workers
CEPA’s study conducted interviews with both current workers and those who opted for Voluntary Retirement Schemes at the time of privatisation, to establish the extent to which privatisation had affected working conditions, workers’ standard of living and attitudes and perceptions. The findings hold useful lessons not only for future privatisation efforts in Sri Lanka, but also for reforms within public enterprises.
For those who opted to remain with the company, it was found that nominal salaries have increased since privatisation, and workers confirmed that there are now more opportunities for promotion linked to performance rather than political connections and influence. However, salary increases have not occurred across the board, and differential salary ranges between management, administrative and manual workers have grown much wider. Overall it was found that although the day-to-day workload has increased, due to more focus on productivity, working hours and working conditions remain largely unchanged. Those in favour of the changes resulting from privatisation tend to be those who are physically able to work hard or those who have the necessary skills and attitude to profit from the new system which rewards hard work and productivity.

The study demonstrated no significant change to job security in the companies selected, although the sample does not reflect the experiences of those companies which may have gone out of business following privatisation. However, employee perceptions did reflect a certain degree of insecurity during the privatisation process as their future was dependent upon private, and sometimes foreign or unknown investors. But this has to be tempered with the previous insecurities present in state owned companies where political affiliation and influence determined worker security, and was therefore subject to change. The implementation of rules and decisions was considered to be more consistent and predictable under private ownership.

In line with this, workers confirmed that they were now less reliant upon unions in the changed work environment which relies less on politics. Union influence and power has decreased and workers have more direct access to management. Unions have taken on a different role, providing a collective voice for the workforce in negotiations with management rather than addressing individual grievances.

While most current employees have not suffered a decrease in living standards as a result of privatisation, many of those employees who took voluntary early retirement are experiencing income poverty as a result of decreased household income. Many no longer have a stable or substantial monthly income and as a result are more vulnerable to falling into poverty. Around 60% continue to work, mainly in the informal sector rather than in stable, salaried work. However, many of the employees who left have used the compensation they received to buy property and household assets, so are more secure in this regard than current employees.

Worker perceptions of privatisation varied depending on whether they were retired or not, and what impact the process had had on them as individuals. Current employees had a much more positive attitude towards privatisation than those who retired, but some were still of the view that employees were not fully sharing in the benefits; higher workloads and stricter rules were not being matched with improved benefits. However, more than 40% of respondents had changed their mind about public ownership of their enterprise since privatisation, with most now believing that it is not necessary for the enterprise to be publicly owned.

The main lessons which can be drawn from the study are:
- There is space for support for public enterprise reform among employees who are often unhappy about poor management and inefficient practices under public ownership.
- Better information about the reform process and the likely impact on workers can reduce fears about privatisation and help employees adapt to a new work culture.
- Additional support is essential for those employees who take voluntary early retirement and can become vulnerable to poverty. Many would benefit from support such as access to credit, skills development and support to find markets.

Learning from workers’ experiences of privatisation is key for future reform programmes. The impacts on workers and worker attitudes towards privatisation are often not as reformers may expect. These insights provide important lessons for how future public enterprise reform programmes could be carried out with less negative impacts on workers.
For more information about the study, or for a copy of the publication on which this article is based, contact CEPA on info@cepa.lk.

REFERENCES
