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Governance Issues in the State-Owned Business Enterprises in Sri Lanka

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Abstract

Sri Lanka is characterised with a fairly large public service which represents a considerable portion of GDP. In 2022, the total loss incurred by Sri Lankan SOBEs is Rs. 744.7 billion , which was a major reason for the fiscal deficit. Highest losses made by CPC and CEB where the combined losses have increased to more than 1.5 percent of GDP. Despite many other issues, governance issues have been affected significantly for the poor performance of CPC and CEB. One of the solutions is to privatise the two entities since Sri Lankan experience with privatization has proven increased performance in terms of productivity, efficiency and effectiveness. However, according to the current government policy, privatization is not possible. Therefore, in this article reformation of the two SOBEs is suggested which needs further research.

Keywords: State-Owned Business Enterprises, Privatisation, Governance, Restructuring

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Introduction

The purpose focuses on governance issues related to the two most significant and continuous loss making State-Owned Business Enterprises (SOBEs) in Sri Lanka, namely Ceylon Petroleum Corporation (CPC) and Ceylon Electricity Board (CEB) based on secondary data to answer the research question: What are the governance issues which have contributed to the poor performance of two Sri Lankan SOBEs, namely Ceylon Petroleum Corporation and Ceylon Electricity Board.

Sri Lanka has achieved better financial position by achieving higher GDP (Gross Domestic Product) rate compared to the past. Being a welfare country, many products and services are provided through SOEs (State-Owned Enterprises). Despite the business objectives, SOEs have to keep a balance between market competition and public service. Currently there are 52 operational SOBEs in Sri Lanka, Out of those, ten SOBEs account for 95 percent of the asset base while playing a strategic role in the national economy including CPC and CEB (Ministry of Finance, Economic Stabilization & National Policies , 2023). The primary objective of CPC is to import, refine, and distribute petroleum products throughout Sri Lanka (Ceylon Petroleum Corporation, 2022) while the main responsibility of CEB is generation, transmission and distribution electrical energy (Ceylon Electricity Board, 2022). Despite of profit reported in 2007, CPC has reported continuous loss while CEB has never reported profit since 2006 (Ministry of Finance and Planning, 2012a and Ministry of Finance, Economic Stabilization & National Policies , 2023). However, both are providing essential services without passing the full cost of products and services to the public, which is one of the reasons for continuous losses.

Nevertheless, it is clear that there is urgent need to find solutions to improve the performances of CPC and CEB, since those two put a crucial pressure on national budget. This provides an interesting research question to investigate. There may be several reasons for a particular enterprise for poor performances such as marketing issues, policy issues, corporate governance issues etc. While appreciating other issues, this research is focused on governance issues which have contributed to the poor performance of CPC and CEB.

The key findings support the notion that both SOBEs incurred continuous and significant losses due to different reasons. However, the most significant issue has been related to lack of transparency and corruption, poor accountability mechanisms and improper financial planning. Further, CEB maintains poor financial management, appointing unqualified officials and poor accountability mechanisms. This paper suggests the most promising way to improve the performance of CPC and CEB includes reforming the entities, with clear goals and objectives, establishing proper organizational culture and supportive.

The article is organised in the following manner: First it starrts with an overview of the literature on the concept of governance. Second, it outlines the key features of the recent reforms of Sri Lankan public sector with a special reference to privatization followed by the implications of privatization for the country's economy. Third, it explains the performance of two selected SOBEs, CPC and CEB before and after privatization in order to examine the imact of privatization on the overall performance of two organisations. A discussion of key findings and some recommendations including future research agenda concludes the article.

Literature Review

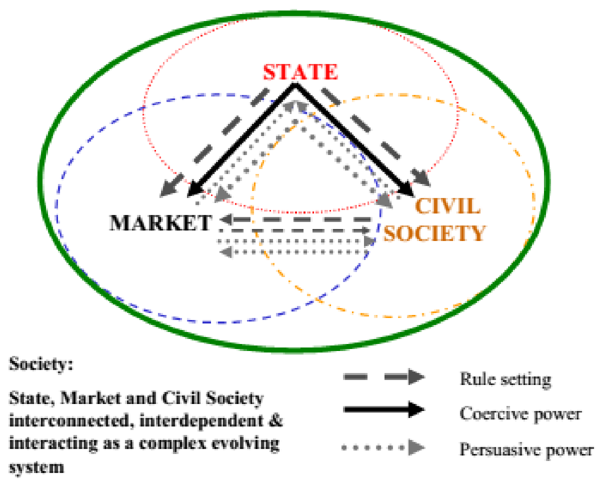
Being a hot topic globally, a wide range of meanings are attributed to the term 'governance' (Coghill, Ariff, Tam and Wilkins, 2005).The literature on governance describes several models, while in this article the integrated governance model is mostly used to explain the governance issues. Sri Lanka is considered as a welfare government (Kumara & Handapangoda, 2008) and has undergone several public sector reforms. According to the literature, privatization process was successfully carried out which increased performance of SOEs (Salih, 2000).

Governance

The term 'governance' is used in different ways with variety of meanings (Rhodes, 1996; Stoker, 1997 as cited in Stoker, 1998). One of the definitions for governance is "process by which the diverse elements in a society exercise authority which in turn influences policy and decisions affecting public life and economic and social development" (Corkery, 1999 as cited in Coghill, et al., 2005, pp2-3). Another is "the exercise of economic, political and administrative authority to manage a country's affairs at all levels. It comprises the mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences" (UNDP, 1997 as cited in Samaratunge & Pillay, 2011, p.389). Overall, governance is all about the power, relationships, accountability, influences on one another, "who makes decisions and how different stakeholders have their say" (Samaratunge & Pillay, 2011, p. 390).

According to Samaratunge, Coghill, & Herath (2008), while the key, state is not the only actor who impose power and authority on other stakeholders, infact governance comprise of complex mechanisms, processes, relationships and institutions. Coghill et al. (2005) describe governance in three clearly identifiable sectors namely, the state (public), the market (corporate) and civil society. These three domains "intersect, overlap and intermingle; the relative power and influence of each changes dynamically" in fact, the interactions among these three sectors (figure 1) called 'integrated governance' (Samaratunge et al., 2008, p.679). How ever, "the relative power and influence of each sector is not fixed but dynamic" (Samaratunge & Pillay, 2011, p. 391).

Figure 1
Integrated governance



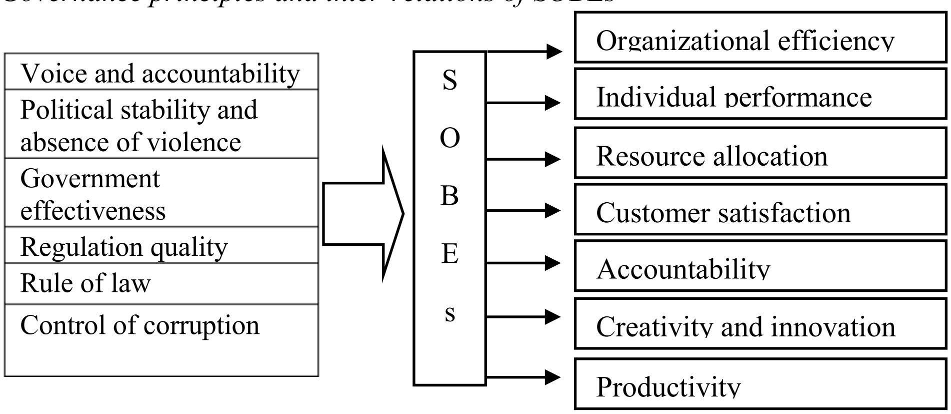
Source: *Samaratunge, Coghill, & Herath, 2008, p. 17*

Werlin (2003) as cited in Samaratunge& Pillay(2011, p.389) conceives that the difference between the rich and poor countries as "poor countries suffer inadequate governance rather than inadequate resources". Furthermore, the former UN Secretary General Kofi Annan has emphasized that "good governance is perhaps the single most important factor in eradicating poverty and promoting good governance" (United Nations, 1998 as cited in Samarathunga & Pillay, 2011, p. 389). Therefore it is clear that the governance issues in public sector has to be addressed with greater emphasis to achieve national development of a country.

There are four main principles of good governance that are used to measure the quality of governance namely, transparency, accountability, predictability and participation (ADB, 2022). Albeit the governance issues could be analysed in different ways, during this essay, the main focus will be the governance issues in terms of management relationships among stakeholders of SOBEs.

According to Kaufmann et al. (2003)as cited in Ethugala, 2009, six main governance principles could be identified as voice and accountability, political stability and absence of violence, government effectiveness, regulation quality, rule of law and control of corruption. The inter-relationship between governance, SOBEs and the features which shows how governance is practices is given in the Figure 2.

Figure 2
Governance principles and inter-relations of SOBEs



Governance Principles **Measures**

Source: *Kaufmann et al., 2003 as cited in Ethugala, 2009, p.32*

Background of Sri Lanka

Sri Lanka is a republic and a unitary state which was a former British colony and got its independence in 1948. The official name is 'Democratic Socialist Republic of Sri Lanka' and governed by a hybrid executive presidential parliamentary system. The executive president is the head of the government, the head of the state and the commander of the armed forces(The Constitution of the Democratic Socialist Republic of Sri Lanka , 2011).

Sri Lanka is the 60th most populated country with a population of 21,919,000 (World Fact Book, 2021). The Human Development Index (HDI) value for 2021 was 0.782 in which falls in the high human development category (UNDP, 2021). The International Monetary Fund (IMF) classified Sri Lanka as a lower middle-income country in 2021 (IMF, 2021).

During the period of 2005-2012, the per capita income has doubled, poverty has dropped from 15.2 percent to 7.6 percent and unemployment rate has dropped from 7.2percent to 4.9 percent (IMF, 2012b; World Bank ,2013). However, according to the Multidimensional Poverty Index (MPI), approximately one out of every six (16.0%) people in Sri Lanka are multi-dimensionally poor in 2021 (Department of Census and Statistics, 2021). Further, more than eight out of every ten (80.9 percent) people who are poor live in rural areas and more than half (51.3 percent) of all people living in estate sector are living in poverty whereas urban poverty is estimated at 4.4 percent in 2021 (Department of Census and Statistics, 2021).

The economic growth rate reported an average of 6.5 percent during 2005-2006 and 8.2 percent in 2011. However, this was dropped 4.21 percent in 2021, in fact, according to the IMF, Sri Lanka's fiscal position is weak. One of the reasons for the weak fiscal position is the inefficiency in the public sector. (IMF, 2021). Therefore, it is important to find the root causes of the problems and mitigate them.

Public sector reforms of Sri Lanka

Sri Lanka is well-known as a welfare state characterized by a relatively large public sector. The role of the state was questioned during late 20th century, leading towards the retrenchment of public service (Kumara and Handapangoda, 2008). The country's proportion of public expenditure to GDP was steadily on the increase since 1950's for debt servicing, welfare spending and capital expenditure of the state. Infact, public expenditure has risen from 22.5percent to 37.5percent during the period from 1951-1955 to mid 1980's (Hulme & Sanderathne, 1996 as cited in Kumara and Handapangoda, 2008). The traditional model of public administration was highly criticized due to the costly and inefficient nature. In response to economic, institutional and ideological changes, public sector reforms became an international phenomenon, where Sri Lanka was no exception (Bennington & Cummane, 2000; Hughes, 1998 as cited in Samarahunge & Bennington, 2002).

Until 1977, the government followed a very conservative economic policy, where the public sector was the main player in production, distribution and financing in the economy (Kumara and Handapangoda, 2008). This includes banking, plantations, large scale industries, transport, insurance, telecommunication, postal services, ports, electricity, import and distribution of petroleum, roads, health and education. Throughout this period, new state-owned enterprises were established, state monopolies were created and some private enterprises were nationalised(Salih, 2000, p. 176). The SOEs were governed by non-financial objectives such as redistributive justice, regional development, price regulation of essential products and employment generation (Kelegama, 1993 as cited in Salih, 2000, p.176).

With the winning of the election in 1977 by the party with right-wing liberal ideas, an open economy was introduced. Same as any other aid-dependent country, Sri Lanka also had to seek for the financial assistance from international aids, accepting five itemed liberalization package of IMF. This included trade liberalization, devaluation of exchange rate, policy measures for attracting Foreign Direct Investments and encouraging private sector, dismantling price controls and a massive public investment program (Balasooriya , Alam, & Coghill, 2008, p.59)

Privatization

The financial burden of Sri Lanka's State-Owned Enterprises (SOEs) is substantial. For instance, the national airline's losses exceeded 1percent of the country's GDP, while the Ceylon Petroleum Corporation's losses in the first four months of 2022 surpassed the combined education and health budgets for the entire year of 2023. These staggering figures highlight not only the direct financial costs of these losses but also the significant opportunity cost. By diverting substantial resources to sustain ailing SOEs, Sri Lanka deprives itself of crucial investments in critical sectors like infrastructure, education, and healthcare. These sectors are vital for long-term economic growth, human development, and overall societal well-being (Rafi, 2024)

A considerable amount of GDP is spent to maintain the SOEs which was a huge burden for the national budget. As a result of the open economy, a huge influx of imported goods to the country made the situation worse by causing difficulty for SOEs to compete (Balasooriya et al., 2008). Other than that, many other issues were associated with SOEs such as overstaffing due to recruiting under political patronage, operational inefficiency resulted in poor financial performance, poor product quality and supply shortages, inability to mobilise resources to cater the demand and labour unrest. In fact, SOEs were creating significant burden on national budget (Salih, 2000). As a solution, privatization was introduced with the objectives of improving economic efficiency, increasing competitiveness, and maintaining the sustainability of the private sector in the economy (Balasooriyaet et al., 2008, p. 60).

Sri Lanka was one of the pioneers among developing countries to adopt privatization of State-Owned Enterprises policy (Balasooriya, et al. 2008). However, the privatization process stagnated until it was declared as the state policy in 1987 (Knight-John & Athukorala, 2005; Salih, 2000). As Salih (2000) posits, government followed some steps in preparation. These were, improving the commercial orientation of the State-Owned Enterprises ; allowing the private sector to compete in commercial activities by abolishing public sector monopolies; transferring management of some loss making public enterprises to the private sector under a contract system; franchising certain parts of public enterprises to the private sector; and closing down of several non-economical enterprises (p. 177). According to Balasooriya et al., (2008), there were three broad objectives of privatization as: economic (reduce taxes through proceeds of sales, exposing activities to market forces and thereby reducing the public sector borrowing requirements); management efficiency (expecting the private sector is more efficient) and ideology (idea that the market is better than the state provision) (Minogue, 1998; Hughes, 2003 as cited in Balasooriya et al., 2008 p.60). As Salih (2000) states, privatization was aggressively pursued since 1989 and as a result of that, 43 industrial sectorenterprises which are less complex and 92 bus depots in public transport sector were privatized by mid 1994. During the second phase, by 1997 this number rose up to 75 with many plantation companies and major utility-oriented industries such as gas and telecommunications (Salih, 2000).

Outcomes of privatization

The results of privatization vary from country to country, as well as case to case. Peter, Debruijne, & Rwegasira (2010) posit that, the literature on privatization performance is mixed. However, they put forward the results of a study conducted by Boubakri and Cosset (1998) using 79 enterprises from 21developing countries either fully or partially privatized during the period1980 to 1992, showing there is a significant increases in profitability, operating efficiency, capital investment spending, output, employment, and dividends (p. 51).Supporting this argument, Williamson (2003) and Salih (2000) also emphasize privatization in Sri Lanka has achieved higher efficiency, higher productivity and accessibility. Hodge& Coghill (2007) point out that in governance perspective, privatization increased managerial and market accountability, but with lower political accountability in Australian context.

However, Vernon-Wortzel & Wortzel(1989) argue that “privatization is no more a solution to the problems of SOEs than SOEs were a solution to the problems they were created to solve” (p. 633). Furthermore, the problems associated with SOEs are not the ownership,but the weaknesses of goals and objectives, absence of proper organizational cultures and supportive systems.

SOEs in Sri Lanka

In accordance to the previous manifesto “Mahinda Chinthana”, the importance of the public sector is highly emphasized. In the vision statement it states “the creation of prosperity to the majority of the people who cannot purely rely on market based solutions requires connectivity through roads, electricity, telecommunications, information technology, education, and health services. hence, the development strategy relies not only on promoting investments on infrastructure based on commercial and economic returns but also on the creation of equitable access to such infrastructure development to enable people to engage in gainful economic activities" (Ministry of Finance and Planning, 2010, p. 4).

In the "Vistas of Prosperity and Splendour" policy document also emphasizes the importance of SOEs in strategic sectors of the economy, such as energy and infrastructure. These SOEs will continue to be owned and operated by the government, but will be expected to operate efficiently and profitably (Ministry of Finance, Planning and Economic Development,2020).

Therefore, the magnitude and importance of public enterprise sector still remains higher in Sri Lankan context.

"Public Enterprise" means any public Corporation, Board or other body, which was or is established under any written law, including Companies Act, where the Government has the controlling interest"(Ministry of Finance and Planning, 2012b, p.8).There are more than 244 public enterprises at present and they could be classified in to five namely, Regulatory Bodies, Promotional Agencies, State-Owned Enterprises, Educational Agencies, Development Agencies, and Research Institutions (COPE, 2013). Public enterprises consist of commercial corporations, government owned companies, statutory boards, subsidiaries of above. Out of those categories, government owned companies (also termed SOBEs) include two types of entities i.e. entities "established and operated under the Companies Ordinance/Act in which Government has a direct controlling interest by virtue of its shareholding and corporations" and government owned companies converted in terms of the "Conversion of Public Corporations or Government Owned Business Undertakings into Public Companies Act, No. 23 of 1987"(Ministry of Finance and Planning, 2012b).

The performance and the governance issues of public enterprises are oversight by the Auditor General and the Parliamentary Committee on Public Enterprises (COPE) (Saravananthan, 2007). According to the annual report of Ministry of Finance and Planning (2022), currently there are 52 operational SOBEs in Sri Lanka. Out of those, ten SOBEs account for 95 per cent of the asset base while playing a strategic role in the national economy. Said enterprises are, Sri Lanka Ports Authority (SLPA), Airport and Aviation Services Limited (AASL), SriLankan Airlines (SLA), Ceylon Petroleum Corporation (CPC), Ceylon Electricity Board (CEB) and National Water Supply and Drainage Board (NWS & DB) which dominate non-financial sector state business enterprises, and the Bank of Ceylon (BOC), People's Bank (PB), National Savings Bank (NSB), Sri Lanka Insurance Corporation (SLIC) which dominate the banking and insurance sector of SOEs (Ministry of Finance and Planninga, 2012, p.426).

The total number of employees in SOBEs is 251,278 and the average annual cost per employee is Rs. 469,185. This is 6.8 per cent more than for a central government employee. The revenue received from SOBEs in terms of dividends and levies have increased by 12.5 per cent, to Rs. 27.5 billion in 2012 from Rs. 24.6 billion in 2011, which accounted for almost 20 per cent of non-tax revenue. However, government has not received any dividend income from comparatively large enterprises such as National Water supply and Drainage Board, Sri Lanka Ports Authority and Airport and Aviation Services Limited due to capital investment expansions while CPC, CEB and SLA incurred heavy losses (Ministry of Finance and Planning, 2022).

Performance of SOBEs

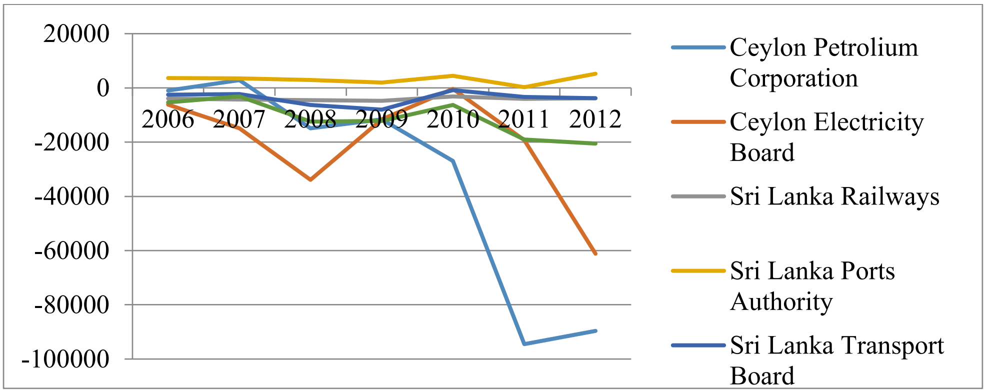
Being business oriented entities, SOBEs have to compete with domestic private businesses and sometimes with foreign business entities in a competitive market. At the same time they have to deliver their services to the poor communities and remote areas. Therefore, market operations alone, does not ensure a justifiable service. In that context, SOBEs have a great challenge to perform (Ministry of Finance and Planning, 2022).

According to the Ministry of Finance and Planning , several SOBEs have gained relatively higher importance despite their turnover, in terms of serving low income households. The SOBEs such as Lak Sathosa, Ceylon Fisheries Corporation, Sri Lanka Transport Board, and National Livestock Development Board are good examples. Sri Lankan State-Owned Enterprises (SOEs) experienced a sharp decline in financial performance in 2022, significantly deviating from historical trends. The collective losses of 52 key SOEs skyrocketed to Rs. 744.7 billion, marking a sixfold increase compared to the previous year. While a group of 34 SOEs demonstrated resilience by achieving a combined net profit of Rs. 214 billion amidst challenging economic conditions, a contrasting 18 SOEs incurred a substantial collective loss of Rs. 958.7 billion in 2022 (Ministry of Finance and Planning, 2022)

Six state-owned enterprises – the Ceylon Petroleum Corporation, Road Development Authority, National Water Supply and Drainage Board, Airport and Aviation Services (Sri Lanka) Ltd, Ceylon Electricity Board, and SriLankan Airlines – were primarily responsible for the escalating public guaranteed debt as of 2021. The total public guaranteed debt is LKR 1.5 Trillion (Advocata, 2022). Sandaratne (2013) argues the amount of total loss from SOBEs - Rs. 185 billion, which was a major reason for the large fiscal deficits of the government in 2012. In 2012 the fiscal deficit of 6.4 percent of GDP has been higher than the 6.2 per cent GDP deficit it had expected. He further explains that it would be difficult for the government to achieve its fiscal deficit target of 5.8 percent of GDP this year, if losses of public enterprises remain the same and the bulky fiscal deficit is in turn will be a ground for economic instability.

Figure 3

The performance of selected SOBEs



Source: *Ministry of Finance and Planning (2013)*

Ceylon Petroleum Corporation (CPC)

The CPC was established by Act No. 28 of 1961 with the main objectives of “to carry on business as an importer, exporter, seller, supplier and distributor of Petroleum products, to carry on business of exploring for the exploiting, producing, and refining of Petroleum and to carry on any such business as may be incidental or conducive to the attainment of the objectives"(Ceylon Petroleum Corporation, 2022). There are 2,616 permanent employees in CPC. The associate company is Ceylon Petroleum Storage Terminal Ltd (CPSTL) which is responsible for the provision of storage and distribution facilities and information technology services to CPC (Ceylon Petroleum Corporation, 2008). In 2007, CPC reported a profit of Rs. 2.8 billion, even with the effect of global oil price increase. According to the Chairman of CPC, “efficient operations at the refinery, effective usage of storage capacity, strategic procurement decisions, and timely adjustment of domestic fuel prices and effective management of foreign exchange all contributed to this result” (Ceylon Petroleum Corporation, 2007, p.3). However, CPC reported a significant Rs. 11.8 billion loss in 2021 (Ceylon Petroleum Corporation, 2022), and according to CPC the main factors behind were the concessions granted to the general public, power plants and airlines, despite the recorded highest oil prices prevailed during the year .

Commenting on the losses incurred, IMF states that, despite of the global oil price increase, the continued supply fuel oils to CEB at a subsidized rate and providing petroleum to the consumers without passing the full cost have been contributed to the losses of CPC to increase of 1.25 per cent of GDP in 2010. The main governance issues led to the losses of CPC will be discussed.

Ceylon Electricity Board

The Ceylon Electricity Board was established in terms of Parliament Act No.17 of 1969 as the successor to the Department of Government Electrical Undertakings. The main responsibility is “generation, transmission and distribution electrical energy to reach all categories of consumers nationwide” with the vision of ‘Enrich Life through Power’(Ceylon Electricity Board, 2010, p.1). The present workforce of CEB is more than 24,272 employees, with more than1,000 professionally-qualified executives (Ceylon Electricity Board, 2022). The performance of CEB shows an ambiguous pattern (see figure 3). In 2008, the loss incurred was Rs. 33.8 billion, whereas a significant decrease could be observed in 2009 and 2010, as Rs.11.5 billion and Rs. 0.3 billion respectively. Conversely, in 2011 and 2012 this loss has increased at a significant rate as Rs. 19.2 billion and Rs. 61.1billion respectively (Ministry of Finance and Planning, 2012a). In fact, IMF (2012a) states that, the losses of the CEB has risen to 0.25per cent of GDP, despite an increase in electricity prices of 8 per cent, due to higher oil prices and a shift from hydro to costlier thermal power.

With the aim of reducing the loss, currently electricity price revision has been done. This is more than 60 per cent of increase at a single time and the present power tariffs are the highest in the region (Central Bank, 2001 as cited in Wijewardena, 2013). Therefore people raise questions, whether the consumer has to pay for the inefficiencies within the corporation? (Wijewardena, 2013). Yet, the CEB is still running at a huge loss infact, CEB incurred an operating loss of Rs. 167.2 billion for the year 2022 (Ministry of Finance and Planning, 2022).

Governance issues of CPC

Lack of transparency and corruption

According to the COPE report, there are three questionable transactions have been performed, namely importation of low standard petrol from ENOC Company in June 2012, importation of low standard fuel for aircrafts in March 2012 and importation of low standard diesel from VITOL Company in July 2012. In 2011 also CPC was blamed for the low quality oil importation where number of vehicles and about 125 oil pumps were damaged. The CPC had to pay compensations for the damages (Lanka Business Online, 2011). Nevertheless, COPE is not satisfied with the given explanations by the CPC regarding the said transactions, thus the case has been handed over to the Auditor General for further investigations and to submit a report to COPE (COPE, 2013).

Furthermore, COPE has observed an overpayment made to the Fujairah Petroleum Products Limited, for the purchase of low Sulphur fuel oil. Since this matter has been sent to the Cabinet, COPE decided to seek the cabinet decision authorising of the above transaction (COPE, 2013).

Poor accountability mechanisms

COPE found out that the consolidated accounts of Ceylon Petroleum Storage Terminal Ltd. (CPSTL) has prepared by the CPC based on un-audited statements, thus cannot be accepted. But the Chief Accounting Officer (CAO) has explained that CPSTL had not been appointed auditors and CPC hasadvised CPSTL to submit audited accounts. However, CAO was instructed to submit the name list of board of directors of the CPSTL to summon them before COPE (COPE, 2013).

In addition, CPC has not tabled their annual reports since 2010. "As per the Public Enterprises Circular No.12, the annual reports of all public corporations should be tabled in Parliament within 150 days after the close of the financial year" (COPE, 2013, p.8). Therefore, violation of the provisions of the circular is a serious problem regarding the accountability of CPC.

Improper financial planning

It is a great challenge for SOBEs to perform in a competitive market while compromising on furnishing national interest of the country. A major reason for the heavy losses incurred is not passing the burden to the general public. According to the COPE report (2013),CPC was supplying fuel at a subsidized rate to CEB, resulting 60% of the loss amounting Rs. 41 billion out of Rs. 77.7 billion up to 30.09.2012. Yet, IMF (2012a) has warned that the issue should be addressed promptly since the collapse of the entity would affect the banking sector too.

Another evidence of poor financial planning was the hedging transaction (COPE, 2013). The agreement was made in 2008, between CPC and Standard Charted Bank (SCB) in relation to 'zero-cost collar' derivative transactions on Singapore Gasoil. There, CPC has purchased a call option from SCB and sold a put option to SCB which resulted periodic payment to SCB when oil prices are higher. Conversely, CPC was required to pay SCB if the oil prices decreased below the agreed floor (Beaton, 2012).However, world oil prices fell rapidly during the second half of 2008 whilst the transaction was a loss to CPC. It was a questionable agreement, since there was a clear decreasing trend of world oil price (Beaton, 2012).

Governance issues of CEB

Poor financial management

In COPE report, it is mentioned that "it was highly concerned by the Committee that the difference between the income and expenditure of the CEB continuously increasing due to the escalating generation cost which would ultimately lead to a severe financial crisis" (2013, p.59). This is mainly due to poor financial management. It should be noted that in 2012 CPC has provided fuel to CEB at subsidized price which cost Rs. 54 billion(Ministry of Finance and Planning, 2012a). Therefore the performance of CPC and CEB are very much interconnected. Furthermore, COPE has pointed out the higher debt burden of the CEB.In 2011, the total borrowings from banks has raised to Rs. 43.8 billion from Rs. 14.6 billion. Hence, this directly affects the banks' performance (Ministry of Finance and Planning, 2012a).

Appointing unqualified officials

According to the COPE report (2013) the post of Finance Manager of CEB had been vacant for long. It is clear that without a qualified finance manager, poor financial performance is possible. Moreover, the post of Human Resource Manager is not held by professionally qualified personnel, but by an engineer who does not possess knowledge on the subject (COPE, 2013).

Poor accountability

It is noted by the COPE that CEB has provided a erroneous corporate plan for 2009-2013 that does not contain information on 2013. Since the document is misleading, COPE has expressed its dissatisfaction and ordered the CAO to investigate on the matter to find the responsible officials. Also it is noted that the internal audit mechanism is not up to the standards (COPE, 2013).

Comparing the governance issues of CPC and CEB, it is clear that there are some similarities; inter connections as well as differences. The comparison is shown in Table 1.

Table 1
Comparison of governance issues of CPC and CEB

Good Governance principle	Governance issue	CPC	CEB
Transparency	Lackof transparency in transactions	Yes	-
	Lack of transparency in appointments	-	Yes
	Corruption	Yes	-
Accountability	Poor accountability mechanisms	Yes	Yes
Predictability	Poor financial management	Yes	Yes
Participation	No evidence	-	-

Source: *Ethugala, 2009; Hodge & Coghill, 2007; COPE, 2013*

Conclusion

It is clear that, while there are number of reasons, governance issues also have contributed considerably for the heavy losses incurred by CPC and CEB. The most significant governance issues found in CPC are lack of transparency and corruption, poor accountability mechanisms and improper financial planning while in CEB poor financial management, appointing unqualified officials and poor accountability mechanisms are observed. To achieve better performance, privatization is a better solution since there are evidences of significant increases of efficiency, profitability, productivity and accessibility both in international and Sri Lankan contexts. However, this contradicts current government policy. Within such a political and ideological context, the only option is to reform state enterprises. Therefore, this paper concludes the most promising way to improve the performance of CPC and CEB is reforming the entities, with special concern on goals and objectives, establishing proper organizational cultures and supportive systems to ensure good governance. However, further researches are needed to find out all the issues leading to low performances and to find a better mechanism to be adopted.

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