NEWS ROUND UP

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Big expectations on Budget 2019

Finance Minister Mangala Samaraweera will today present the Government's Budget for 2019 under the theme 'Empowering the People, Nurturing the Poor,' which will set critical policies and priorities for an election year.

The Finance Ministry has outlined ambitious targets for the delayed Budget 2019 with plans to increase public revenue to 17% of Gross Domestic Product (GDP) and shrink the budget deficit to 4.5% of GDP. This was a change from the deficit of 3.5% announced in January. The deficit in 2018 was 5.3%, which was higher than the 4.6% it targeted in Budget 2018.

The Government has a target to reduce the deficit to 3.5% in 2020 but will find this a difficult goal to meet.

The World Bank in its latest Development Update has put the budget deficit for 2019 and 2020 at 4.8% with the number likely to decline only after 2021.

Finance Minister Mangala Samaraweera's second budget, which he will present to Parliament today, will have other tough targets, including maintaining the debt-to-GDP ratio to just 70% and limiting recurrent expenditure to 15% of GDP. Capital expenditure will also be limited to only 3.5% of GDP, the Finance Ministry had said. Total public expenditure is estimated to be Rs. 4.5 trillion while revenue is expected to be Rs. 2.4 trillion.

"The Budget will have proposals to expand Enterprise Sri Lanka and improve skills and entrepreneurship opportunities to improve the quality of Sri Lanka's human resources," a statement released by the Finance Ministry said on Monday. "Policies needed to empower the poor and reduce poverty will be included in this Budget."

State Minister of Finance Eran Wickramaratne told reporters that the Government is also likely to include new policies to improve Ease of Doing Business, revise vehicle taxes and introduce policies to increase the number of women in the formal workforce. Yet large tax concessions and other relief is expected to be limited given Sri Lanka's high debt repayments of $ 5.9 billion this year and limited reserves, which has limited the Government's space to manoeuvre, according to experts.

The Government received a boost on Friday when the International Monetary Fund (IMF) agreed to extend its $ 1.5 billion Extended Fund Facility (EFF) by one year and space out the remaining payments. Subject to the planned submission to Parliament of the 2019 Budget consistent with the EFF-supported program, the Board is expected to consider Sri Lanka's request for completion of the fifth review in May 2019. The authorities are taking steps to complete all the pending actions and structural benchmarks for this review over the next few weeks.

Tight monetary and fiscal policies, along with intermittent floods and drought, have led to growth slumping to a 17-year low of around 3% last year, while the rupee fell 19% mainly due to foreign outflows from Sri Lanka securities.

The Budget was initially expected to be presented in November 2018 but was postponed due to the constitutional crisis which erupted on 26 October when President Maithripala Sirisena sacked sitting Prime Minister Ranil Wickremesinghe and appointed Opposition Leader Mahinda Rajapaksa instead. A Vote on Account was passed following the reinstatement of Wickremesinghe and Budget 2019 is expected to cover the last eight months of this year.

The second reading of the Budget will be on 6 March with the vote to be held later the same day. The third reading of the Budget and the Budget debate will be from 13 March to 5 April with the final vote to be taken on the same day. .(Daily FT)

Recipe for SOE reform

Combined losses of State-Owned Enterprises (SOEs) rose to Rs. 87 billion in 2017, a new report said, calling for the Government to compile a comprehensive list of all SOEs and set basic reporting procedures, strengthen the Committee on Public Enterprise (COPE) and Committee on Public Accounts (COPA) and implement international standards to improve governance and reduce losses.

Speaking at the launch of the 'State of State Owned Enterprises 2019' report compiled by local think-tank Advocata, Resident Fellow Ravi Ratnasabapathy recapped the significant role played by SOEs in the Sri Lankan economy.

He pointed out they were vulnerable to mismanagement and corruption because of potential conflicts between the ownership and policy-making functions of the Government and undue political influence on their policies, appointments, and business practices.

"Losses and mismanagement of SOEs are so off the charts, the best we can hope for is to start with some level of basic control and accountability mechanisms so that we can bring some sanity to these proceedings. Set up basic reporting structures so we can get monthly updates of how they are performing; once you get that, you can take the next step of how to deal with it," he said, participating in a panel discussion at the 2019 Asia Liberty Forum.

The panel dwelt on the challenges posed by SOEs with speakers discussing a range of options, including complete privatisation of all SOEs, which was suggested by Carson Cumberbatch Director Suresh Shah, to finding a middle ground where ownership could be retained by the State but management would be made independent and efficient.

"If a public listed company can follow the rules, there is no reason why an SOE cannot do it because an SOE is far more public than any public listed company. I'm a strong believer in the Government having no business in business and I think the best long-term solution is privatisation," Shah said.

His views were somewhat contradicted by National Agency for Public Private Partnerships (PPPs) Chairman Thilan Wijesinha, who contended that even after privatisation, some SOEs had slipped on governance and performance.

"Listing per se is not a complete solution. What I feel is required is enforcement and empowerment. Sri Lanka has adequate legislation; we have the Bribery Act, Finance Act and enough anti-corruption laws, but what is lacking is enforcement. Empowerment of the Finance Ministry is also important because it is the beneficial owner of all State enterprises. But I have not yet seen a Finance Ministry assertive enough to control the mismanagement in SOEs," Wijesinha said.

Research from around the world has shown that State ownership does not necessarily result in inefficiency as long as governance remains a priority, stated Verite Research Consultant Malathy Knight.

"Ownership is not an issue as long as there is due process, oversight and accountability. We need to clearly identify the problem and tackle it, not just ownership. Lack of competition is a problem as well, there are also regulation lapses, which need to be addressed."

The report pointed out the internal control, monitoring and governance frameworks seem inadequate to deal with major problems. Of the 400-odd entities, regular information is only available for 55. Even obtaining a complete list of entities proved to be a challenge. Financials are routinely late and only a minority obtain 'clean' audit reports. Of the 55, only 11 had published an annual report for 2016 by the time the Department of Public Enterprises compiled its Performance Report for 2017, it said in the Executive Summary.

Underperformance appears common; according to the Department of Public Enterprises the 55 largest delivered a net Return on Assets (ROA) of only 0.64% in 2017. The combined losses among the loss-making entities reached Rs.87 billion in 2017 compared to Rs. 42 billion in 2016. Some are in deep trouble. The Petroleum Corporation carries a negative equity. Sheer incompetence and corruption have pushed SriLankan Airlines close to financial collapse. Central budget support to SOEs amounted to Rs. 41 billion in 2017, it said.

The reports of COPE and the Auditor General highlight repeated instances of fraud, mismanagement, corruption and negligence. The issues no longer appear to be isolated incidents of opportunistic behaviour by individuals or occasional lapses in control but point to deeper, structural weaknesses.

"While internal control and accountability mechanisms are important in checking abuses, they are insufficient in themselves. A climate of integrity is necessary but judged by the available evidence, largely absent. Patronage politics and a lack of oversight seem to have spawned a culture where politicians believe SOEs are to be exploited for their own ends," the report said.

"A trend for SOEs to be incorporated as limited liability companies allows politicians to bypass Treasury or budget restrictions and evade parliamentary accountability. Complex corporate structures provide a convenient shroud for abuse. A review of the reports of the Auditor General and the Committee on Public Enterprises paints a dismal picture of systemic failures of governance, leading to gross misappropriation of public funds."

Advocata also identified several challenges when compiling its report, including the lack of a comprehensive list of all SOEs and their subsidiaries. As many SOEs are incorporated under the Companies Act, they may not be captured within usual oversight mechanisms, allowing them to become vehicles for corruption. An immediate step is to assess the size of the problem and take steps to prevent further abuse, the think tank said.

The report goes on to request that the Department of Census and Statistics (DCS) compiles a comprehensive list of all entities, their subsidiaries and sub-subsidiaries and sets up a simple framework for monthly reporting based on key performance indicators for ongoing monitoring. All entities, regardless of ownership structure, should send performance reports to the Finance Ministry, it adds.

Advocata's report also recommends that the Government should adopt the principles set out by the Commonwealth Association of Public Accounts Committees, of which Sri Lanka is a member. Firstly COPA/COPE should be chaired by an opposition MP, Cabinet ministers should not be members of COPA/COPE, appoint several non-parliamentarians to COPA/ COPE, COPA/COPE meetings must be open to the public as well as the media, and performance audits (value for money audits) or reviews should be conducted by the AG.

"The Organisation for Economic Co-operation (OECD) has published guidelines on the corporate governance of SOEs. These guidelines are an internationally-accepted standard on how governments may effectively manage their responsibilities as company owners, thus helping to make State-Owned Enterprises more competitive, efficient and transparent."

The OECD Guide comprises seven sections that detail rationales for State ownership, the State's role as an owner, State-Owned Enterprises in the marketplace, equitable treatment of shareholders and other investors, stakeholder relations and responsible business, disclosure and transparency and responsibilities of the boards of SOEs. .(Daily FT)

Research firm PepperCube partners FT for nationwide post-Budget poll

The fastest growing market research company, PepperCube Consultants Ltd., has partnered with the Daily FT to conduct a nationwide poll on the 2019 Budget which will be presented by Finance Minister Mangala Samaraweera today in Parliament at 1.30 p.m.

The findings of the nationwide sample poll will be made public at tomorrow's post-Budget forum organised by the Daily FT – Colombo University MBA Alumni Association from 9.30 a.m. to 12 noon at Cinnamon Lakeside, Kings Court.

PepperCube Consultants will poll province wise to assess the public perception and reactions to 2019 Budget via several pertinent questions.

Incorporated in 2010, PepperCube Consultants is managed and led by individuals who have held global, regional and local leadership positions with various multinational agencies and clients.

They are tenaciously focused on the client and place them at the centre of the business. They believe in collaborating with clients by investing in their business, provide global expertise and recommend bespoke (vs. templated) solutions. .(Daily FT)

Budget 2018 figures show startling variances: COPF

Confronted with startling revelations in discrepancies in numbers presented in Budget estimates and actual numbers, the Committee on Public Finance (COPF) is calling for better transparency and accuracy in Government finance.

In analysing numbers presented in Budget 2018 in a report presented to the Parliament in February, the Committee has uncovered 'startling variances' in the amounts presented, Chairperson of the committee M. A. Sumanthiran told Daily FT.

"We have come up with startling revelations that there are huge variances at it has taken three years to crack this. The first two years there was one other kind of report that we presented, we were never able to present this report. This is in relation to 2018 and the Budget presented in 2017 November; and only now have we managed to give this," he said.

A closely-guarded secret of the officials, even the COPF were not privy to the actual numbers in public finances. According to Sumanthiran, Treasury officials were reluctant to corporate with the committee and provide the material needed for their work, instead they provided data that was difficult to be compared.

"The officials didn't cooperate with us, in that they gave us different figures at different times. At one point when we confronted them and said that none of this can be true, the reply we got was 'only we know those figures'. Then we had to force them to give us those figures. That in itself was a startling revelation, because that did not match with any of the disclosed figures," he said.

According to the Opposition Lawmaker, the Treasury officials work with four sets of numbers – one is the estimates printed and given, second is the numbers in the Budget speech, the fourth, as identified

by Sumanthiran, are the actuals incurred, while the third set is "the real figures of the estimates of revenue and expenditure, which are not disclosed to anybody," he said.

"The estimate of revenue is always overstated, so you show a small budget deficit. Because, in the proposal of expenditure they say they will do a whole host of things that require money. So to show that money is available to achieve that, they show a huge income which is never realisable. Then actual spending also doesn't happen [as projected]. So when the actual revenue is much lower, the gap for 2018 was Rs. 200 billion as at August 2018. We don't know how much was realised after," he said.

Any possible analysis is further deterred due to different formats in which the numbers are presented. To address the issue, the Committee has asked the Treasury to present all details in a format given by the Committee. The presentation under the new format is expected to be given to the committee tomorrow, following the Budget speech today.

"The details are given in totally different formats, the estimates are given in income and expenditure format, the Budget speech is given in economic format – you can never compare the two, so the discrepancies can't be figured out easily, unless people have been working for months on end, which is what we have done now. That is deliberately so. They have adopted these procedures deliberately to obfuscate the public knowing what is actually happening, it gives a measure of comfort to the officials not to be questioned on any of these matters."

As a remedy to the current situation, the COPF has suggested making its sessions public, which needs to be facilitated through an amendment to the Parliamentary Privileges Act. Further Sumanthiran is also calling for the establishment of the proposed Budget Office.

"The bill [to establish the Parliament Budget Office] has been ready for some time, but the Government has not still moved in that respect. By law establish it and staff it adequately so that it is an entirely independent parliamentary institution under Parliament, so that it will give information to Parliamentarians and others on all of these matters independent of the Treasury. Treasury will be by law required to give the information to the Parliament Budget Office," he said.

During the analysis the committee also uncovered that the Treasury does not maintain a proper asset registry either. Lack of such a document has made it difficult to keep track of vehicles used by each ministry, with new purchases being made for ministers as frequently as six months.

"We found that huge, unnecessary funds were spent on vehicles, because whenever the minister changed, he ordered a new vehicle even when the previous minister has only used the vehicle for six months. For all the old vehicles used, there was no trace of it, we tried to track it…Invariably it [the vehicle] was never over three years old, sometimes just six months, and in certain instances, the secretaries to the ministries, after we pressurised them, confessed saying they are using that vehicle," he said. .(Daily FT)

JKH back in MSCI Frontier Market 100 Index

Premier blue chip John Keells Holdings (JKH) has been included in the influential MSCI Frontier Markets 100 Index from 1 March after being removed in June 2018.

This was following the MSCI FM100's quarterly index review.

According to Bartleet Relegare Securities the MSCI FM100 Index is a representative and more easily replicable alternative to its broader parent index, MSCI Frontier Markets Investable Market Index (IMI).

The MSCI FM100 index includes approximately 100 of the largest and most liquid constituents of the parent index.

During a quarterly index review, securities from the parent index are added to MSCI FM 100 Index if they have a minimum liquidity level (have a 12-month annualised traded value ratio – AVTR – above 10%); have sufficient foreign room (must not be subject to a limited investability factor due to low foreign room) and have a free float-adjusted market capitalisation above 1.8 times the minimum free float-adjusted market capitalisation requirement. .(Daily FT)

Sri Lanka launches apex trade quality operation

In the pursuit of its ambitious new export target of $ 23 b by next year, Sri Lanka is enlisting unprecedented international backing to advance its export standards, specifically on quality.

The latest nationwide effort which would see the birth of a national quality infrastructure scheme led by a National Quality Council – the first-ever apex structure for quality – is now on the cards.

Backing this global trade effort are major catalysts in international trade – the European Union, Geneva's International Trade Centre, UNIDO, the German Federal Ministry for Economic Cooperation and Development (BMZ) and Germany's metrology institution, the PTB.

"As the Government focuses on a $ 23 billion export target by 2020, the need to enhance global market access through overcoming border rejections, delays in conformity assessment, higher testing costs for the private sector and risk management associated to border operations and e-commerce, is now experienced more and more. Therefore, there is no doubt that our quality infrastructure should be updated on par with global standards," said Minister of Industry Commerce, Resettlement of Protracted Displaced Persons and Cooperative Development Rishad Bathiudeen on 28 February in Colombo, addressing the joint launch of publications on quality infrastructure in Sri Lanka at Movenpick Hotel.

Also present were Minister of Science, Technology and Research Sujeewa Senasinghe, Ambassador of Delegation of the European Union to Sri Lanka and Maldives Tung-Lai Margue, German Ambassador in Sri Lanka Jörn Rohd, National Quality Expert Sumathy Rajasingham, National Director of UNIDO Focal Point Nawaz Rajabdeen, Project Coordinator of Physikalisch-Technische Bundesanstalt (PTB)-Germany, Verena Stauber, technical expert Jairo V Diaz and many other local and international quality infrastructure experts.

The event saw the launch of publications such as results derived from the EU-Sri Lanka Trade Related Assistance Project funded by the European Union and implemented by UNIDO (with the International Trade Centre, Geneva) and Strengthening Quality Infrastructure in Sri Lanka Project funded by the German Federal Ministry for Economic Cooperation and Development (BMZ) and implemented by PTB.

UNIDO launched the NQI Strategy (NQI-S) document that paves the way to achieve international recognition for Sri Lanka's NQI system through the implementation of a National Quality Policy, while Germany's PTB showcased the Quality Infrastructure (QI) Catalogue, a directory for understanding the NQI and its services in Sri Lanka.

During her presentation, National Quality Expert Sumathy Rajasingham announced the framework for Sri Lanka's first National Quality Council, which would, when set up, become the apex cross-functional agency on quality infrastructure. Minister Senasinghe stressed his Ministry's role in innovations and development of quality standards.

“Today, we thank the EU, and Geneva’s International Trade Centre, UNIDO, the German Federal Ministry for Economic Cooperation and Development (BMZ) and Germany’s PTB for this invaluable support to Sri Lanka’s trade,” said Bathiudeen.

He added: “Global market access is not only important for our export revenues but also is vital for the success of Sri Lankan brands internationally. More and more trade forums across the world increasingly discuss about market access rather than free trade which they used to do earlier. As a result, we have to understand that market access is the new trade reality, and adjust our export strategies and resources accordingly. Thus, the challenges we face to enhance our global market access have to be resolved well for Sri Lanka to move forward in world trade. Today’s initiative is a vital step towards greater global market access for Sri Lankan exports as well as Sri Lankan brands in competitive international trade.”

Margue said that latest publications were part of enhancing international recognition of Lankan NQI institutions and added: “NQI Strategy was launched in July 2018 under the National Export Strategy of PM Ranil Wickremesinghe. I thank Minister Bathiudeen for his kind words and I confirm our good cooperation on NES, which is part of comprehensive Sri Lanka-EU trade related assistance project of Euro 8 million, on a request made by Lankan Government.” Rohd said as Sri Lanka’s tourism grows, quality infrastructure would play a bigger role. “The question of quality is very important as Sri Lanka aims at higher number of tourists. Quality becomes paramount as tourists get diverse. A small destination like Bali is getting six million tourists annually due to its high quality infrastructure.”

Among the challenges Sri Lanka is facing in enhancing global market access, as noted by Minister Bathiudeen, are shortages in harmonised local certifications and conformity assessment, a standardised sets of practices to ensure compliance with international standards, transparent inspection and certification systems, and simplified trade to fulfil Trade Facilitation Agreement (TFA) requirements that relate to SPS and TBT.

The other stages in the project unveiled on 28 February – such as the national base-line and end-line surveys planned with the support of Germany’s PTB – will ensure that Sri Lankan producers and exporters become well versed in global best practices to boost their market access rates. Sri Lanka recently revised its export target (by 2020) to $ 23 b from an earlier target of $ 20 b.(Daily FT)