

NEWS ROUND UP

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Budget will be ‘important and interesting’: Mangala

Finance Minister Mangala Samaraweera yesterday said that the upcoming 2019 Budget, the first by the United National Front (UNF) Government following the breakaway of the coalition with SLFP, will be “important and interesting.”

Speaking at the American Chamber of Commerce Sri Lanka’s new monthly event “Breakfast Buzz”, Samaraweera didn’t give specifics, but quipped the 2019 Budget to be presented on 5 March will be “important and interesting.” He said that having stabilised the economy following the 52-day constitutional coup, the UNF Government’s twin programs, Gamperaliya and Enterprise Sri Lanka, will support economic growth and consumption. “This in turn drives consumption growth and helps all business activity as well,” said the Finance Minister, in what was his first talk at a business forum since the UNF Government was reinstated after the 26 October crisis.

In parallel, the Minister said the Government’s third priority is to continue reforms to enhance productivity and competitiveness.

He added that in the latter part of 2018, the country began to see results of recent efforts, as Sri Lanka moved up 11 places in the Doing Business index. “There is a lot more to be done, but it is clear that we are on the right path. We will continue to build competitiveness by liberalising the economy where we see excessive controls and costs. We are also investing heavily in training and skills development. We will work closely with the private sector in building the relevant skills. More on this will be revealed in the budget,” said Samaraweera.

On the eve of the Budget, the Finance Minister also used the AMCHAM Forum titled “ Changing the Paradigm: crafting and implementing evidence based policies” to update the private sector on the economic situation, and shared some thoughts on the Government’s broad plans and strategies.

He said that the Government will be implementing a rules-based economic framework that will create confidence in the sustainability of the policy outlook.

“The Inland Revenue Act for instance is an important piece of legislation that reduces individual discretion and builds in predictability. The same applies to a market-based fuel pricing mechanism. We will explore similar practices in other areas that help instil certainty and predictability,” the Finance Minister said.

“We will continue to consult with industry in policy implementation and provide the necessary time frames for industry to adjust to such measures,” he added.

Samaraweera also used the AMCHAM forum to explain the hard work put in to bring the country back to stability, after the cataclysmic disruptions to the economy during the 26 October political crisis.

He said in the lead up to 26 October, the Government had brought stability to an economy that had been adversely affected by successive years of drought, which debilitated rural incomes and hurt consumption across the economy. Global oil prices had doubled, and the US Federal reserve was ramping up interest rates, driving capital out of emerging/frontier markets.

However, from end October, global oil prices began to decline sharply, the Federal Reserve signalled an easing of their stance, and the consumption began to recover in the fourth quarter.

“Without any disruptions, Sri Lanka would have been able to enjoy a robust boost to the economy, and we would have seen a strong uplift in economic performance in 2019. Unfortunately, Sri Lanka was deprived of the opportunity to benefit from these emerging tailwinds, as we got engulfed in a political crisis,” the Finance Minister said.

The resulting loss in confidence triggered a surge in capital flight from debt and equity markets – bleeding over a billion dollars from hard earned foreign reserves and causing the currency to depreciate at a time when other emerging and frontier market currencies were recovering. Sri Lanka’s credit ratings were downgraded resulting in external borrowing cost surging into double digit levels just when the country had to re-finance US\$ 5.9 billion of external debt repayments in 2019. Tourist arrivals stalled soon after Sri Lanka was adjudged the best travel destination by Lonely Planet and a new campaign had just been launched.

Furthermore, Government cash flows were disrupted, as the plans to raise capital in the last quarter of 2018 could not materialise and without a Budget in November, spending plans were also disturbed. “As a result we are still behind target on cash disbursements, which would have typically been settled in January,” Finance Minister said.

It was in this context, he said, that the Government came back into power on 17 December.

“We have since repaired the damage to our external sector, and markets have regained confidence in the last 2 months. Today our external borrowing costs have declined by over 200 basis points – assuming \$ 3 billion in fresh borrowings this year, which translates into a saving of over Rs. 10.8 billion. Foreign capital is now flowing back into the economy with Rs. 8 billion inflows into government securities since January – and the rupee has also appreciated 2.3% year to date,” Samaraweera disclosed.

Therefore, a lot of the damage from the coup has been addressed and the economy has again been stabilised. The Government is now looking forward and focusing on rebuilding and re-positioning after the disruptions, with three major economic policy priorities;

- 1) Ensuring continued access to global capital markets at an affordable rate to enable Sri Lanka to re-finance external debt this year
- 2) Uplifting economic growth through Enterprise Sri Lanka and Gamperaliya
- 3) Continuing its reform program to build competitiveness of the economy

A lot of work has been done to ensure the first priority. A key element of this would be the continuation of the IMF program, which will signal to markets the continued commitment to disciplined, rules based economic management. The IMF staff mission is in Colombo this week continuing negotiations with officials of the Treasury and Central Bank. The objective is to ensure responsible fiscal policies whilst enabling space to invest in targeted growth supportive measures.

By targeted growth supportive measures, the Minister referred primarily to Enterprise Sri Lanka and Gamperaliya. Enterprise Sri Lanka is a program to support private investment in small business, start-ups, and drive entrepreneurship. Sri Lanka has for too long relied on hand outs and artificial consumption booms to drive growth.

These are unsustainable measures that have repeatedly resulted in balance of payments crises. Enterprise Sri Lanka will drive growth through private investment and expand economic capacity for future growth. It has already seen over Rs. 70 billion in new credit disbursements going into SME exports, agriculture, and the service economy.

In parallel, Gamperaliya is a rapid rural infrastructure investment program. The need of this was highlighted due to the droughts that adversely affected cash flows into the rural economy. By October 2018 Gamperaliya was fast tracking investment into rural roads, small markets, and irrigation – and importantly putting cash back into the hands of the rural economy. This is no doubt one factor that supported the recovery of consumption in the fourth quarter of last year. In fact given the success of Gamperaliya, one of the first actions of the illegal coup government was to halt the Gamperaliya program by a cabinet decision. The Government has now resumed the program with renewed vigour.

Gamperaliya, for instance, includes investments in irrigation to improve climate resistance and reduce vulnerability of the rural economy. It includes investments in rural roads and markets to improve connectivity and integration into value chains that can uplift sustained income generation.

AMCHAM Sri Lanka President Michael Koest said: “Our goal for the Breakfast Buzz series is to create a platform where policymakers can partner with businesses and have open conversations to build sound and balanced policies. This kind of dialogue would make policy enforcement and compliance easier as policymakers can tap into industry expertise to aide in economic and national development.”

The forum included a panel discussion where leading economics and business experts deliberated on the key issues for the Sri Lankan economy. The panellists included Mano Tittawela (Senior Adviser, Ministry of Finance); Deshal de Mel (Economic Adviser, Ministry of Finance); Maninda Wickramasinghe (Country Head, Fitch Ratings Sri Lanka); and Jeevan Gnanam (Chairman, SLASSCOM). It was moderated by Arittha Wikramanayake, Precedent Partner, Nithya Partners. (Daily FT)

Showdown between Lakdanavi and Power Ministry Secy over flawed LNG tender

As the Power Ministry attempts to work out the legality of awarding a second 300MW LNG project sans a tender process, Lakdanavi Ltd. yesterday claimed the move was outside of the regulations stipulated in Sri Lanka’s Electricity Act.

In a rare tell-all media briefing called by the Power, Energy and Business Development Ministry, all stakeholders were invited and were present to discuss grievances and raise issues, with subject Minister Ravi Karunanayake and Deputy Minister Champika Premadasa acting as self-appointed observers.

Taking the opportunity, representatives of Lakdanavi Ltd., a wholly owned subsidiary of LTL Holdings, raised questions over the legality of the Ministry’s decision to award a second project to the company outside the accepted tender process. LTL Holdings is an institution set up under the Companies Act with 63% shares held by the Ceylon Electricity Board.

“Our position is that awarding the project is illegal according to the Electricity Act,” LTL Holdings Deputy Chief Executive Officer Ravindra Pitigalage said, raising concerns over the bankability of the project.

The Cabinet two weeks ago approved a proposal by Power, Energy and Business Development Minister Ravi Karunanayake to award the tender to set up the Build Own Operate and Transfer (BOOT) 300MW LNG plant, which was tendered in 2016, to Consortium of GCL WindForce and RenewGen as per the Procurement Appeal Board (PAB) recommendations, while simultaneously approving the awarding of a project to build a second 300MW LNG plant at the same location to LTL, at the rates quoted by the company for the first tender.

In a two-year-long procurement process, where several Technical Evaluation Committees were appointed to assess the same tender, Lakdanavi Ltd. was recommended to be awarded the contract twice, while GCL was recommended twice. The proposal by Karunanayake followed PAB recommendations, but also recommended that the project for another plant, to be commissioned in 2021, be awarded to Lakdanavi on the rates given for the first tender.

Bidding by Lakdanavi Ltd. has been mired in controversy, as other bidders have raised concerns of conflict of interest due to the role played by Ceylon Electricity Board in the company.

Accusing the Ministry Secretary Dr. B. M. S. Batagoda of being partisan to one party, LTL Holdings Chief Operations Officer Dhammika Nanayakkara accused that the Secretary tried negotiating a settlement with Lakdanavi Ltd. to accept the second project. However Secretary Dr. Batagoda maintained that he was acting within his official capacity, denying allegations of partiality.

In defending their position, the representatives of Lakdanavi Ltd. came near to blows with journalists raising questions on their involvement in the West Coast plant, refusing to give direct answers and prompting Minister Ravi Karunanayake to take the role of a strict disciplinarian, issuing warnings against aggressive behaviour. Denying involvement in the West Coast plant despite LTL Holdings claiming to have built the plant on their website, Nanayakkara insisted that their only involvement was to manage the plant, with no connection to price determination. The 300MW Combined Cycle Power Plant, built to be converted to LNG in two years and selling power to Ceylon Electricity Board (CEB), has one of the highest unit prices.

According to Minister Karunanayake, the attempt by the Ministry to award a second plant to Lakdanavi Ltd. was to retire such high-cost plants which were increasing tariff cost for consumers.

According to the Minister, CEB has incurred total losses of Rs. 480 billion while raking up a loss of Rs. 27 billion in 2018 alone. The estimated loss for 2019 is Rs. 89 billion, he said.

“We have to work around reducing this, we will try and give the consumers at a lower rate by next year if that is possible,” he said.

Defending his decision to award the second project to Lakdanavi Ltd., Karunanayake claimed that the Cabinet has been advised of all issues, where the advice of the Attorney General has been sought to ensure legality of the award.

“We have not hidden anything from anyone, if the AG gives the clearance that the proposal is ok, then what is the issue in it? We will can move ahead. Our intention is to give the power to the consumers as soon as possible,” Karunanayake said.

The Minister however noted that that the dividendance paid by LTL Holdings was not adequate for the investment made by the CEB, adding that a separate investigation will be carried out to sort out the ownership issue around the company of which 63% shares are owned by CEB.

Noting that under the 19th Amendment, even institutions set up under the Companies Act are to be audited by the Auditor General, Karunanayake said that the issues will be sorted out in the future, with due focus being paid to ownership and compliance.

“We will investigate the matter separately and take proper action. We will discuss and sort the issues out through negotiations,” he said. (Daily FT)

Parakrama to be new Deputy Chairman/MD at Aitken Spence

Top professional Dr. Parakrama Dissanayake has been appointed as the Deputy Chairman and Managing Director of Aitken Spence PLC with effect from 15 March.

Dr. Parakrama Dissanayake

This is following the retirement of longstanding Rajan Brito from the post next month after 17-year stint. However, he will continue to serve on Aitken Spence Board as a Non-Executive Director.

Brito joined the Board in April 2000 and was appointed Deputy Chairman and Managing Director in January 2002. Dissanayake will step down as Secretary Ministry of Ports and Shipping and Southern Development on 14 March.

Prior to taking up as the Chairman of Sri Lanka Ports Authority in 2015, Dissanayake was Chairman/CEO of Aitken Spence Maritime and Logistics and was appointed to the parent's Board in September 2009.

With a multidiscipline academic background, Brito has a wealth of experience from a career counting over 40 years that includes experience working with several international organisations. Brito is an acclaimed senior professional in both the private and the public sector industries in Sri Lanka.

He is a former chairman of DFCC Bank, Employers' Federation of Ceylon, Sri Lankan Airlines, and has also served on the Board of the Sri Lanka Insurance Corporation. He holds a LLB degree from the University of London, MBA degree from London City Business School and is a Fellow of the Institutes of Chartered Accountants of both Sri Lanka and England and Wales. (Daily FT)

19th A is my legitimate, abused child: Sirisena

Taking his battle with the Constitutional Council for rejecting the promotion of 14 judges up a notch, President Maithripala Sirisena yesterday challenged the legitimacy of the 19th Amendment and the purposes it was passed for in Parliament in April 2015, describing it as a "legitimate child that has been abused."

Referring to the 19th Amendment as his child, the President blasted the Government and the Constitutional Council along with the members of independent Committees for allegedly failing to uphold its purpose for the betterment of the people. "The 19th Amendment is a child I brought to this world. A legitimate child. I had many expectations for this child for better governance. But this legitimate child was born differently abled. But it is sad to say that my legitimate child has been raped. I have reasons to prove it," said President Sirisena.

Listing his concerns, Sirisena went on to say that his statements in Parliament were interpreted to give the wrong impression to the public. "A recent statement I made with regards to the independent Commissions was taken up in this House, at various press conferences, forums and stages. The Prime Minister has replied on a few occasions, and the Speaker has sent me his reply in writing on the following day. Some lawmakers who took part in the debate gave a wrong interpretation to my understanding of this matter, leading them to criticise me. I reject all explanations you have given. But some take efforts to give a wrong picture to the country by overturning the issue. I am not a Member of Parliament, but address this House making use of the Constitutional provisions available for the President to address it," he said.

However, Sirisena agrees with the Constitutional Council's nominations for the appointment of judges to the Supreme Court and the Court of Appeal. "The Constitutional Council has rejected 14 judges their promotion. I have presented some names three times to ensure their grievances are heard. The Constitutional Council should inform the reasons for the refusal of the promotion to the respective judges working in different courts," said President.

Explaining the background to establish the 19th Amendment, Sirisena reminded the United National Party (UNP) lawmakers of the joint efforts put in for the January 2015 Presidential Election to topple the corrupt Rajapaksa regime.

"A political manifesto was agreed and signed by the participants in January 2015 to face the Presidential Election with a Common Candidate. Many of the Government MPs and some in the Opposition lawmakers will remember that 49 civil society organisations signed that at the Viharamahadevi Park. It was an international document prepared based on the good governance principles of the United Nations. The 19th Amendment was a promise we gave. Until the August 2015 General Elections, there were 142 seats for the United Peoples Freedom Alliance (UPFA) that includes the Sri Lanka Freedom Party. Unless mistaken, the United National Party had only 41 or 47 seats in Parliament, despite Ranil Wickremesinghe being appointed Prime Minister," he said.

According to Sirisena, the responsibility of the Constitutional Assembly is clearly given in the 19th Amendment, but it has failed to follow them. "We should realign the Constitutional Council and the independent Commissions that have taken a wrong route. As a result the dangerous criminals, now in custody but still difficult to control, get the mercy of the Human Rights Commission compared to millions of other Sri Lankans. It is a question whether the Human Rights Commission appears for the rights of the wrongdoers. None of those human rights apply on criminals in other countries and in their prisons," he charged.

Bringing in the concept of donation practiced in all religions, Sirisena held that he could be the only person to give up power for lesser authority. "After I was appointed President and was awarded the Chairmanship of the Sri Lanka Freedom Party, we had no difference in the Parliament be it the Government or the Opposition. We received the majority to work as the new Government. All parties supported the Government, and as a result we were able to pass the 19th Amendment with 215 voting in favour. The 19th Amendment curtailed the limitless powers of the Executive President for the first time in history. I have donated food, clothes, money, and blood during my youth. I gave up these powers as part of the worldly principle of donation. Could be the first time in the world to give up powers. This was my contribution to this Government," said President Sirisena. (Daily FT)

Public sector change essential for growth: CIMA President

Public employees must step up to serve the masses by breaking through archaic systems, improving efficiency and self-learning, Chartered Institute of Management Accountants (CIMA) President Steven Swientozielskyj said yesterday, warning that when the public sector is sluggish that could spill over into an overall development slowdown.

Drawing extensively from his 40-year experience in the British rail industry, Swientozielskyj, speaking at a CIMA event titled "Break Session on Lessons from British Public Sector to Improve Performance," on Thursday, noted that it was the duty of public servants to serve the masses, but this is often lost in outdated systems, red tape, and bureaucracy. This calcified system then creates space for inefficiency, lack of transparency, and incompetence. He issued a "call to arms" for all public sector members, encouraging them to break through outdated systems, and find new ways to make their public institutions more efficient and effective.

“I took British Railway to a world class institution in just three years. So I’m here to tell you it can be done. The issue with the public sector is often described as an attitudinal one. But it can be changed. It can be changed based on what you are willing to do about it. What are you going to do about it? Are you simply going to look away or are you doing to create change? That is the difference.”

“The world does not owe you a living,” he said.

Swientozielskyj went on to say that he had to work hard to increase systemic change within his organisation, but even though he was audited about 16 times during the process, there were no negative statements, as the reforms improved efficiency and transparency. He advocated for public servants to create a “balanced economic model,” in their mind, that would allow them to provide services to the public, but also make the most of limited public funds.

“I don’t think the answer is to privatise the public sector. The private sector is driven by growth, but the public sector is driven by its responsibility to provide services. Nonetheless the public sector can take the best practices of the private sector and adapt them to their institutions. The duty of the public sector is to serve the public. But it must also be cost-effective and have good priorities for their services to be easily accessible to the public,” he added.

The CIMA President pointed out that unless efficiency is infused into the public sector, it would be difficult for a country to develop in the increasingly competitive global environment. In a world where 65% of children are studying for jobs that have not been created yet, and 375 million professionals will have to reskill themselves before 2030 in order to have a job, Swientozielskyj advocated for a dynamic public sector. He warned that without a progressive and efficient public sector to make crucial policy decisions and implement them, a country could be left behind and may see its growth being too slow.

Quoting figures from the World Economic Forum, Swientozielskyj stated that research had shown countries that can evolve their economies to sectors involving Artificial Intelligence, data gathering and data processing, and robotics, will have an edge over economies that are still dependent on traditional industries.

“For this shift to happen within countries, it is the public sector that has to play a key role. There is no magic here, it’s pretty straightforward. Singapore has become a successful country because its central policy is focused on one of the best education and training models in the world.” (Daily FT)