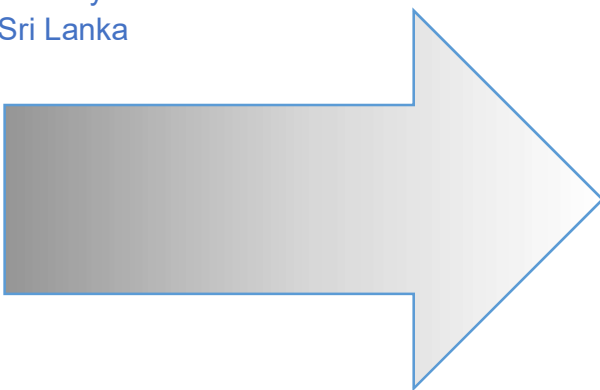




STATEMENT OF CORPORATE INTENT Second Round—2019

Department of Public Enterprises
Ministry of Finance
Sri Lanka



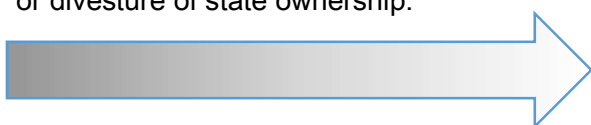
What is the Statement of Corporate Intent (SCI)?

SCI is an emerging tool uses as a policy instrument to boost overall performance of State Owned Enterprises (SOEs) focusing enhancement of the operational, financial and quality of service delivery within an agreed period in line with the macroeconomic policy framework. This is a tripartite agreement signed by Secretary of the Ministry of Finance, Secretary of relevant Line Ministry and the Chairman on behalf of the Board of Directors of the respective SOE. The SCI encompasses the SOE's Vision, Mission, Goals, objectives and targets and multiyear strategic plan; capital expenditure and financing plans; and explicit financial and non-financial key performance indicators (KPIs) for the medium term.

Emergence of SCI

According to the global phenomenon, existence of State Owned Enterprises can be rationalized under three main pillars; **i) compensation for market failure, ii) the furtherance of strategic objectives, and iii) the furtherance of development objectives.** An efficient SOE sector plays a vital role in order to create vibrant investment climate in any developing nation evidenced by China, Korea, and Malaysia etc.

However, there is also some evidence that development outcomes are adversely affected by poor SOE performance in key sectors especially in the fragile and conflict affected countries. This may lead to poor service delivery of utilities and lack of effective infrastructure provided by SOEs, constraining investment and economic growth with a disproportionate effect on the poor while creating an adverse effect on fiscal consolidation. According to the empirical studies, privatization is not a prudential and productive strategy on SOE reforms and the key measures on strengthening SOEs in the global context are now categorized under; strengthen SOE governance and transparency, performance oriented strategic planning, market driven pricing mechanism, strong regulatory and oversighting mechanism, business process re-engineering etc. The SCI is one of the main mechanisms in terms of ensuring the achievement of high level objectives of SOEs without privatization or divesture of state ownership.



Sri Lankan Context

SOEs in Sri Lankan context has a substantial correlation with entire economy and investment climate through providing essential services and public goods having contributed almost 13.3% by the 55 key SOEs to GDP in 2018. Efficient as well as vibrant business operation in SOEs is an essential factor needed to establish and maintain investor friendly economic climate which will contribute to the steady growth of the economy. In this backdrop, it is identified that improvement of efficiency and enhancement of impact on SOE's investment are key factors to turnaround the entire economy. As a part of the strengthening governance, accountability, and transparency of SOEs, the mechanism of Statement of Corporate Intent (SCI) was adopted by the Sri Lankan Government with the blessing of the Cabinet of Ministers in early 2017. This initiative leads to enhance oversight and financial discipline for the five largest and key SOEs;

SOEs which have already signed SCIs (2017-2019) CEB, CPC, NWS&DB, SLPA, AASL



Now the Ministry of Finance on behalf of the Government includes additional 10 SOEs to the SCI project with clearly defined medium-term challengeable and performance driven targets;

Goals to be achieved through the SCI Project

- Encourage the application of good corporate governance practices
- Encourage sustainable and private sector financing focusing impact investment
- Enhance strong and prudent operational and financial management practices
- Improve quality of service delivery
- Exposure to competitiveness
- Use of international best-practices
- Ensure effective use of human resource

Ultimate goal of the effort

SOE reform agenda has mainly based on three underlying Pillars;

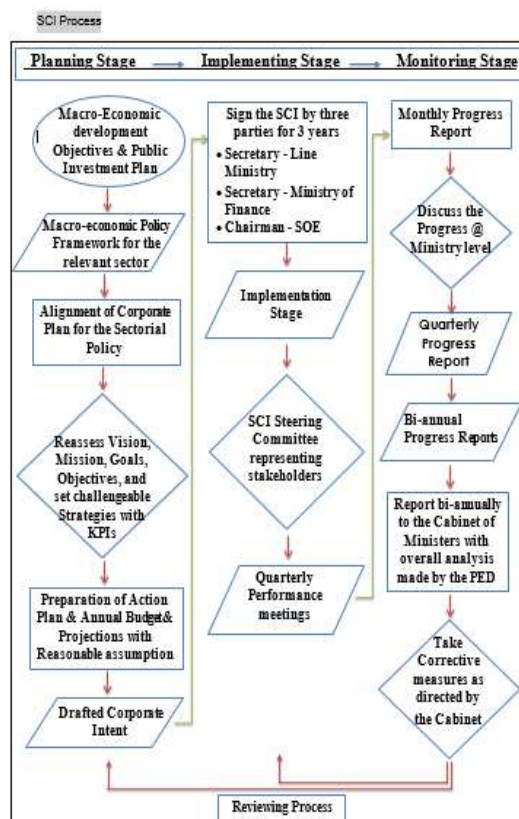
(i) **Performance driven;** SOEs should be anchored on profitability, ideally self-funding and minimize their reliance on fiscal support. SOEs should also pursue fiscal and service delivery performance on the basis of their set objectives aligned with sectorial policies and National Development.

(ii) **Accountability focus;** SOEs and ownership entity should ensure strong corporate governance is practiced.

(iii) **Development oriented;** SOEs should support the government’s macroeconomic policies and national development objectives, without compromising performance and governance.

SCIs signed for 2019-2021

SLSPC, LSL, GSMB, STC, CECB, NLDB, MILCO, SPC



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