STATE INDUSTRIAL CORPORATIONS IN SRI LANKA:
SOME ASPECTS OF THEIR DEVELOPMENT AND ADMINISTRATION

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This thesis is my own work.

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CONTENTS

ABBREVIATIONS

ADR	*Administrative Report*
AG	Auditor General
CBR	*Central Bank Report*
CDN	*Ceylon Daily News*
CHRD	*Ceylon House of Representatives Debates*
CO	*Ceylon Observer*
CT	*Ceylon Today*
GSCA	Government Sponsored Corporations Act
IBRD	International Bank for Reconstruction and Development
IC	*Industrial Ceylon*
MEP	Mahajana Eksath Peramuna (People's United Front)
PAC	Public Accounts Committee
PSC	Public Service Commission
PS	Parliamentary Series
SICA	State Industrial Corporations Act
SLFP	Sri Lanka Freedom Party
SP	Sessional Paper
TC	*Times of Ceylon*
TCL	*Treasury Circular Letter*
ULF	United Left Front
UNP	United National Party
UN	United Nations

Note: Ceylon and Sri Lanka, as used in this thesis, are interchangeable.

Preface

This study was undertaken in the course of a Colombo Plan Scholarship which brought me to Australia in October 1972. I was first attached to the Department of Political Science in the University of Tasmania, where I studied public administration and in particular the machinery of government in preparation for the qualifying examination for the Master of Arts degree. In the course of this study I became conscious of the important place that the public corporation was taking in the administrative system and in the economic development of my own country, Sri Lanka. Enthused by the scope this subject offered for research and encouraged by my study supervisors, R.J.K. Chapman and Bruce Davis, I chose 'Public Corporations in Ceylon' as the topic for my Master's degree dissertation, with special reference to the corporations in the industrial field. After passing the qualifying examination I transferred to the Australian National University, having discovered that suitable source materials for this thesis were unobtainable in Tasmania, while the National Library of Australia held a fine collection of Sri Lanka official documents in the form of parliamentary debates, public accounts committee reports and sessional papers, together with a variety of Sri Lanka newspapers dating from 1956. Secondary literature in English on the theory and practice of public corporations was also accessible in Canberra.

Nevertheless the material I had to work with was deficient in a number of respects, and caused considerable difficulties in the preparation of this thesis. It has had to be a pioneering study in its

field, since I found hardly any secondary sources dealing with the politico-administrative aspects of public corporations in Sri Lanka, in contrast with the considerable number of studies of economic aspects of Sri Lanka corporations and of administrative aspects of corporations in other countries of the third world. Further, the material available in the official documents was incomplete and often scrappy: for example, there are no complete published lists of Sri Lanka public corporations as a whole, so that the elementary information in appendices 1-3 had to be compiled from innumerable scattered references and is there assembled, I believe, for the first time. It was impossible for me to return to Sri Lanka during the tenure of my scholarship so that I had to obtain additional documentation, where possible, through friends there, and I was not able to supplement the documentary sources by interviews with officials or politicians, with the exception of one board chairman who happened to visit Australia during the period.

Hence the structure of the thesis, the treatment of its subject matter and its selection of main themes must reflect some distortions and gaps in the range of original source materials available to me. I was encouraged, nevertheless, to persevere with this subject because I believe a better understanding of it is vital to the future development of my country, and because it has been almost completely neglected there. In addition my inquiries led me to believe that had I been working in Sri Lanka it would have been almost as difficult to obtain the additional documentation wanted (since internal departmental circulars and reports

are rarely released to research workers), and not at all easy to secure informative interviews with the most relevant people. At the same time I was reassured to some extent on learning from the board member I did interview that the picture of his own organisation I had assembled from documentary sources was not distorted.

For the reasons mentioned and also because of the nature of the inquiry I depended heavily on parliamentary debates, public accounts committee reports, administrative reports and circulars, commission inquiries and other printed government documents. Many of the Ceylonese newspapers such as *The Ceylon Daily News* and *The Ceylon Observer* also provided me with valuable information on a wide range of issues in corporate administration in general. These, in addition to the general books and articles which provided much valuable insight and understanding of the corporate system, form the major part of the bibliography arranged according to alphabetical order of author or source. All details of the sources of material used in the text are given in the bibliography, together with selected items found relevant to this work but not specifically cited in the text.

Before concluding, I wish to express my appreciation and thanks to my supervisor, Professor R.S. Parker, who gave generously of his knowledge and time in assisting me to prepare this thesis. It was a rare privilege and pleasure indeed to work with someone who is in every respect a superior, a teacher and above all kind and understanding.

I am thankful to Mr David Adams for his helpful comments and suggestions as my supervisor in a later stage of this study and to Messrs R.J.K. Chapman and Bruce Davis for their initial advice and encouragement. My grateful acknowledgements are also due to the government of Australia for providing me with a Colombo Plan Scholarship for the tenure of this study and to the staff of the National Library of Australia for their kind and courteous attention. John Pflugradt and Jim rendered timely assistance with proof reading. Needless to say, I alone remain responsible for the flaws, whether factual or interpretative, which exist in this work.

I THE AIMS OF THE STUDY

The main purpose of this study is to examine the corporate form as it exists in Sri Lanka and to analyse the conditions and problems under which it has been operating. It is therefore an attempt to relate the theory of public corporations to the actual functioning of corporations in a developing country.

The public corporation has now become a major feature of every administrative system of modern government. Almost every country in the world irrespective of its ruling political philosophy or form of government organises and operates a wide variety of public functions through the institution of the public corporation. Some corporations (Chester 1953: 46) are concerned with administrative matters, being entrusted with functions of a regulatory or supervisory nature. The Ceylon Coconut Board and Water Resources Board and the Australian Broadcasting Control Board and Film Censorship Board are corporations of this kind created to provide assistance or promote and regulate standards in the activity specified for the board's control and supervision.

The public corporation is also employed to organise some of the social service or welfare functions of the government. Professor Friedmann mentions the National Assistance Board and the Regional Hospital Board as examples of this type of corporation in Britain (Friedmann 1954: 167; see also Garner 1970: 6). The corporate form is also evident in such areas as culture, recreation, and academic research. The familiar Arts

Council, Universities and CISIR are clear Sri Lankan examples of this category of corporations. An essential characteristic of these types of corporations is that they are often dependent on government for financial support given in the form of 'grant-in-aid' or 'donations' and operate close to the administrative ministry charged with their affairs. Consequently major changes and shifts in policies of the government tend to affect the work of these groups of corporations more directly than in the case of other categories of corporations which will be referred to later. The major difference between them and the Department is that they are exempt from the rigid accounting methods the departments are normally subject to and from other restrictions, formalities and rules that hedge and hamper the work of a department. Corporate form is employed in the case of these activities in order to grant a certain degree of procedural autonomy so as to allow them to maintain separate accounts from that of the government and utilise funds allocated in the most flexible manner as decided by the corporate management. The institution of corporate form is believed to facilitate better than orthodox public service recruitment methods the drawing together of the technical, professional and managerial personnel most suited to the activity in question. In the case of cultural activity or academic research the advantage of corporate form has been to permit the greatest intellectual independence to bodies nevertheless financed from public funds.

However the rise to prominence of the corporate form as an instrument of public administration is most importantly to be seen in

the sphere of governmental industrial and commercial activities. It is here that the corporation asserted itself as an indispensable part of the governmental administrative machinery. With the entry of more and more governments into the spheres of trade, commerce and industrial production - a field once considered outside the scope of governmental activity - industrial, commercial and trading corporations have long been features of every administrative system. Professor Robson calls this category of industrial and commercial corporations the 'New Public Corporations' (Robson 1960: 47) because of their organisational features and also because of their operational characteristics. Unlike the corporations with supervisory and regulatory powers and other managerial bodies with social service functions, the industrial and commercial corporations operate as business enterprises deriving most of their income from the sale of goods and services; they enjoy greater latitude and operate according to commercial or business principles. They have varying degrees of what might be called 'policy independence' to take major decisions as regards the organisation and operation of the enterprises. In the words of President Roosevelt, these are corporations that operate with governmental power but possess much of the initiative and flexibility of private enterprise.

Most corporations that appear in a developing country are corporations of this type primarily concerned with the development of industry, commerce, and trade (Hanson 1961: 619; Teriba 1967: 39; Udoji 1970: 217). Corporations also undertake the management of other enterprises - in agriculture and public utilities required in the

interest of national development. Even a cursory look at a developing country will show the extent of their proliferation and the rapidity with which they have grown (Hanson 1955: La Porte 1967: 320). Corporations of this kind tend to multiply more rapidly than in the west because the development of the public sector in these nations, in the absence of private investment capital, technical know-how and managerial skill, is far more vital and crucial to the growth and prosperity of these nations. The governments in developing countries are forced to assume the position of an entrepreneur in bringing about the required growth and development of their economies (Hanson 1966: 116).

Sri Lanka's Experience

Sri Lanka's quarter of a century's experience with the corporate form since independence is characteristic of the history of corporations in a developing country (Kearney 1966: 530; La Porte 1970: 159). Having attained independence in 1948, Sri Lanka faced an urgent need for economic development. Initially only one of many objects of concern, development became an issue of far-reaching importance as years went by. Sri Lanka's six-year programme of investment followed by the ten and five year plans are clear evidence of this overriding emphasis upon development. Her population grew at a rapid rate, while the economy sometimes remained stagnant and sometimes fell far below the required growth rate. Massive unemployment, unfavourable trade balances, falling exchange reserves coupled with poor living standards raised afresh the question of economic development and made inevitable the

entry of the state into the arena of economic management and resource allocation (Oliver 1962: 202-237; Corea 1965: 29-65). Planning, developing and coordinating the entire process of economic development became the primary responsibility of the state.

This reorientation of the state's role from that of 'provider of peace, order and good government' to that of planner, developer and co-ordinator of economic development has been the significant feature of the post-independence era of politics and administration in Sri Lanka. A direct consequence of this role has been the growth and development of corporate bodies in great number and variety. The necessity to create an industrial base to diversify the somewhat lopsided colonial economy, as explained in the six-year programme of investment followed by the ten and five year plans, led to the emergence of twenty-eight state industrial corporations. These were corporations to undertake the production of cement, steel, tyres, ceramics, sale, hardware, textiles and sugar for domestic consumption. In addition, corporations for Industrial Development, Development Finance and Industrial Credit were created to lend support to the willing entrepreneur in the country. In the sphere of agricultural development the Gal Oya and Mahaweli Development Boards were instituted in order to develop river basins and help settle landless peasants in suitable areas. The People's Bank and Agricultural Credit Corporation were established to enlarge the supply of farm credit. These were some of the many corporations charged with developmental functions. In short, of the one hundred corporate

bodies that appeared since independence more than sixty had functions relating to the development of industry, commerce and utilities (see Appendix 1).

This study is primarily concerned with this category of economic corporations in Sri Lanka, particularly those created to establish and manage industrial enterprises.

Apart from the economic importance of these corporations there was another reason for selecting them for this study. For any meaningful discussion of the problems and issues of public corporations, attention must be directed to a set of corporations with similar objectives and functions. This point was well emphasised by Professor L.C. Webb:

> The correct approach to the problems of statutory corporations as agencies of government is, I suggest, not to regard them as one category to which certain conventions or principles are applicable but to classify them according to their functions and, in the light of these functions, to deal with such issues as accountability and control from the centre. It is obvious, for instance, that controls appropriate to regulatory boards will not be appropriate to marketing boards or to corporations which manage industrial enterprises. (Webb 1955: 162).

With this in mind the following group of corporations has been chosen for the purpose of this study:

(1) Ceylon Mineral Sands Corporation

(2) National Salt Corporation

(3) Sri Lanka Sugar Corporation

(4) National Textile Corporation

(5) Eastern Paper Mills Corporation

(6) Ceylon Ceramics Corporation

(7) Ceylon Oils and Fats Corporation

(8) Ceylon Cement Corporation

(9) Ceylon Plywoods Corporation

(10) Paranthan Chemicals Corporation

(11) Ceylon Leather Products Corporation

(12) National Small Industries Corporation

(13) Ceylon Hardboard Board

(14) Industrial Estates Corporation

(15) Ceylon Steel Corporation

(16) Ceylon Tyre Corporation

(17) State Engineering Corporation

(18) Ceylon Hardware Corporation

(19) Ceylon Fisheries Corporation

(20) State Fertilizer Corporation

(21) Ceylon State Flour Milling Corporation

(22) Ceylon State Fertilizer Manufacturing Corporation

(23) State Ayurvedic Drugs Corporation

(24) State Graphite Corporation

(25) State Pharmaceuticals Corporation

(26) Ceylon Fisheries Harbour Board

(27) Sri Lanka Tobacco Industries Corporation

(28) State Distilleries Corporation

Some of the similarities and dissimilarities among these corporations should be noted. Firstly, they vary both as to size and the time of their creation. Many have been in existence for well over twenty years whereas others are relatively new ventures. Cement, Ceramics, Paper Mills, Textile, Leather Products, Oils and Fats, Chemicals, Mineral Sands and Plywood have been operating to capacity for some time, either realising profit or breaking even, whereas corporations like State Fertilizer, Pharmaceuticals and Ayurvedic Drugs have not as yet started production even though some of them have been in existence for well over five years. Even in regard to the size measured in terms of capital and labour involved in their working the corporations vary markedly.

In spite of these differences in scale and stage of operation, these corporations share certain common characteristics. Firstly, they are productive enterprises marketing some measurable commodity or service and therefore subject to similar experiences and problems regarding organisation and operation. Secondly, since their inception most of them have been functioning under the same administrative ministry, namely the Ministry of Industries, and as a result have tended to establish certain patterns of relationship with government. Thirdly, all of these corporations have been incorporated and operated within the power and authority defined in the State Industrial Corporations Act No. 49 of 1957.

Nature of the Study

Broadly two different approaches are possible in studying this group of corporations. They can be studied for instance for the way they are internally organised and operated to achieve the purposes for which they have been set up. The focus of attention would then be on the internal process of management and administration and the nature of the relationship between parts of each enterprise e.g., between management and labour, management and clientele etc.

This study is not concerned with the internal aspect of the working of the corporations except in so far as it is relevant to other areas of study. What it is concerned with however is their external relationships; the way they are related to the central administration, the sources of their finance and personnel and means and methods of ministerial and parliamentary control exercised over them. These aspects of the working of the corporation (Coombes 1971: 16), I believe, are even more important because what tends to pass within the managerial structure of public undertakings could largely be conditioned by them.

As already indicated the purpose of introducing the corporate form for agencies involved in the management of enterprises is to bring about a different pattern of relationship between the enterprises and government from that existing between government and Departments. This is normally achieved by exempting the public undertakings from the rules and regulations commonly applicable to the other organs of administration and by legally defining their scope and functions. The oft-quoted

statement by Professor Robson that 'the original impetus to the movement for public corporations came from the two-fold desire to secure freedom from parliamentary supervision over management on the one hand and treasury control over personnel and finance on the other' (Robson 1960: 59) also serves to emphasise the same point.

The extent of such freedom however is determined partly by the constitutional provisions embodied in the statutes which create corporations and partly by the socio-political and economic environment in which they operate. It is one of the basic assumptions of this study that even where a corporation has the necessary constitutional characteristics required to operate independently, social, economic and political factors play an important part in determining the precise scope and nature of that freedom in practice.

For corporations develop variously in different countries and acquire importance and functions according to the conditions prevalent in each country. For some countries the corporate form represents an administrative means to bring already established and operating enterprises under state control without endangering the business flexibility and initiative required in running them. For others such as developing countries they are primarily economic instruments to pioneer ventures in areas which private enterprise is hesitant to enter. Because of the way corporations develop they differ in their patterns of organisation and operation and in the way they relate to the broader fabric of government.

Using the theories and conceptualisations of others and weaving the theory with primary source data this dissertation will attempt to identify features and problems that are characteristic of corporate administration in Sri Lanka.

Organisation of the Study

This study is accordingly divided into seven chapters.

Chapter II deals with the history of state enterprises and the development of corporate form in Sri Lanka. Even though government enterprises and state corporations are a common feature today, their development, importance and functions are not identical. An attempt is made in this chapter to study the way the state enterprises developed and the purpose of their incorporation.

Chapter III provides an account of some of the major industrial corporations chosen for this study with a view to exposing their functional responsibilities and other features of their activities.

Chapter IV takes up the theme of control, co-ordination and supervision exercised by the central organs of administration. In particular the corporate relationship with the Administrative Ministry, Treasury and the Ministry of Economic Planning is analysed in order to evaluate the degree of latitude given to enterprises in decision-making.

Chapter V is devoted to corporate boards to identify issues and problems connected with tenure, size, composition and types.

Chapter VI reviews the nature and extent of parliamentary control exercised over industrial corporations.

Chapter VII discusses the suitability of organising the enterprise under a single structure such as the sector board and development corporation. Since the sector board now seems a likely set up to replace the present arrangement of industrial corporations, an attempt is made to study the early proposals made in this regard, and the advantage of recently proposed sector board.

II STATE ENTERPRISE AND THE ADOPTION OF CORPORATE FORM

This chapter seeks to explain the early state interest in the development of industrial enterprises and the circumstances that led to the choice of the corporate form.

As in other developing countries, the growth of the public corporation in Sri Lanka is a recent development in consequence of the entrepreneurial functions that governments have been compelled to assume in the interest of the economy. This is clear in the number and variety of corporations that appear particularly in the sphere of economic production and promotion. Before independence public corporations were few and so were state enterprises. Even those enterprises established, particularly the industrial ones, were experimental in nature, mainly to foster interest and create an awareness of the industrial potential of the nation among would-be investors. Consequently whatever enterprises appeared had been organised and managed within the ministerial departments. Corporations did not assume much importance until the end of the Second World War when state policy became one of direct participation in the promotion and development of industries. To understand the nature and the development of state enterprises in Sri Lanka which had been a colony since 1802, a knowledge of its political development is essential.

Pre-Independent State and Enterprise

Sri Lanka passed through four phases of political control: British absolutism, limited self-government, semi-autonomy and independence (Weerawardena 1956: ch. VI). The development of government services

fairly corresponded to these phases of political status with no state enterprises in the first period, few at the time of semi-autonomy and a rapid growth since independence. Since it is difficult to recapture in detail every turn and twist of this pattern of development only the salient features are noted.

British Absolutism covers a long period in the colonial history of the country extending up to 1912, when governors had absolute authority over the administration of its affairs subject to the over-riding powers of the Secretary of State for Colonies in Britain (Wilson 1962: 200). It was a period in which there was no independent authority within the country to challenge that of the governors and their officials. When the legislative council was added to the executive council in 1833, it had no independent authority in spite of the formal law-making powers it shared with the governor. For presided over by the governor it was dominated by the majority of colonial officials. This was a typical colonial administration established and maintained more or less to preserve the imperial interest.

Since the main objective of the early years of British absolutism was to establish and consolidate colonial authority in Sri Lanka, the major government services to appear were those relating to that goal. Collection of revenue, maintenance of law and order, creation of communications, provision of provincial administration were foremost amongst them (Collins 1951: ch. II, III). The nucleus of a colonial bureaucracy that emerged at this time - comprising the chief secretary,

surveyor-general and colonial engineers - provided the essential requirements of this order, while departments such as Public Works, Irrigation, and Surveyor-General undertook the technical services necessary to colonise the country (Collins 1966: ch. 7). Because of the limited revenue derived mainly from taxes on land and property and the governmental monopoly in the cinnamon trade, plumbago and other products, and also because of the policy of the time that a colony must pay for its services, governmental activity did not extend much beyond law keeping and regulatory services.

Circumstances changed however with the development of natural resources in the latter half of the nineteenth century, particularly with the establishment of plantation industries in Sri Lanka first in coffee, then in tea and rubber which brought 'unexampled prosperity' to the nation (Ludowyke 1962: 202). Trade and commerce flourished; so did the governmental revenue by way of taxes, customs duties etc. Because of the open door policy and other concessions and incentives guaranteed by the colonial government in the form of exemption from customs duties and lowered land prices, large-scale investment capital entered the island in pursuit of profit in the plantation industry. About two hundred companies became established in Britain alone for the purpose of growing tea and rubber in Sri Lanka each paying a dividend of ten per cent.

The general economic prosperity that resulted was accompanied by an expansion in governmental services. While the early departments grew in size to cope with the new demands, new services began to appear

particularly in the sphere of social welfare such as Health and Education (Collins 1951: ch. VIII, IX; Symmonds 1966: ch. V). Since most of the governmental revenue came from the plantation industry, it became the policy of the government to spend a proportionate amount on public works and other aspects of the industry's infra-structure (Snodgrass 1966: 31). The chief elements in this were the construction of railways and roads, the provision of electric power and the development of the port of Colombo as the major seaport of the island. At the height of this period of building in 1871, public works, mainly for the plantation industry, absorbed 26 per cent of the government budget (Snodgrass 1966: 62).

Apart from arguing that the greater part of the revenue came from plantation enterprise, the European business community used the political powers they gained in this period to secure heavy spending on services for the industry. Success came in 1840 when the legislative council gained power to influence governmental expenditure (Weerawardena 1951: 3).

Thus up to 1923, when the Sri Lanka members constituted for the first time the majority in council, the policy of the government and the development of the government services were mainly those required to maintain the imperialistic interest in the country. Either they were regulatory law-keeping services or infra-structure or public utility services mainly to serve the plantation sector.

An important aspect of this development of government services up to this period was the absence of any initiative or encouragement given

to the development of industries (Kanesalingham 1970: 62). Partly because of its laissez-faire attitude and partly because of its unwillingness to undertake anything that might become a financial embarrassment, the colonial government took no interest. Consequently there was hardly any industrial activity; whatever existed was small and catered to the requirements of the plantation sector. The official view of the position was that the country had neither the raw materials nor the potentials necessary for industrial development. 'By reason of its natural resources Ceylon is destined to be an agricultural country' (*SP* 1 1922: 9) so it was argued; in developing her agricultural potential she should buy her other requirements from outside. This theory of economic development, though it served the imperial interest well, proved restricting and stifling for the industrial development of the country.

Even the industries commission appointed in 1916 - the first formal attempt to investigate the possibility - concluded that Ceylon had no potential. 'Ceylon is not belssed with mineral wealth and is absolutely deficient in coal and iron' observed the commission and concluded by saying:

> We have found it difficult in some cases and impossible in others to say whether certain industries though eminently suitable to Ceylon could be established as profitable ventures (*SP* 1 1922: 8).

Because of this pessimism the commission did not foresee any possibility of industrial development through state participation and promotion. 'It is not the function of the government' it said, 'to engage in

commercial enterprises' (*SP* 1 1922: 15). Consequently no major functions were assigned except to recommend the establishment of a hydro-electric scheme to provide cheap power and the setting up of a 'Central Bureau of Industry and Commerce' to foster experimental industries and render advice to private enterprise.

The commission's report which was made public in 1922 may well be regarded as the earliest statement of industrial policy in Sri Lanka; it saw no hope of industrial development either through state or through private investment.

The situation did not change in the period that ensued between 1923 and 1931 when Sri Lankans, as unofficial members in the legislative council, had an absolute majority. Lacking in responsibility the most these council members could do was to demand a greater government participation, particularly in assisting local entrepreneurs with capital funds and technical know-how, the lack of which they considered major obstacles to industrial growth. Apart from such demands and other opposition to colonial policy the council was unable to do anything. For in spite of their majority in council, Sri Lankan members had no rights associated with the initiation and execution of policies which were still in the hands of the colonial authority.

It was not until 1931 when Sri Lankans gained a certain measure of internal self-government to initiate and develop policies of their own that the state professed any interest in the development of industrial enterprises in Sri Lanka.

Towards State-Run Industries

The year 1931 constitutes an important landmark in this respect. The observations that the state council era 1931-48 was the seed time of the new nation and that many of the most significant nation building activities were initiated in this period (*Ceylon Yearbook* 1950) are especially true in respect of state activities connected with industrial development. For it was in this period that industrial development became for the first time a specific subject of administration under the direction of an elected minister (*SP* 15 1946: 7; *Quarter Century* 1956: 128).

The initial form of state interest however was not one of direct participation but merely of showing to private investors avenues of industrial opportunity and to provide them with technical and financial assistance for industrial ventures. 'The policy of the government was not to nationalise industries but to bring the possibilities of industrial development to the notice of the public (*SP* 15 1946: 8). No separate department of industries existed and the work involved in the creation of the Ministry of Commerce, Industry and Labour was assigned to a division in the Registrar General's Department called 'Bureau of Commercial Intelligence'. The first few years of the ministry were spent on exploratory surveys and construction of model factories.

It was at this time that the Report of the Banking Commission appeared and altered the course of industrial development. Appointed in 1931 under the chairmanship of Pockhanawela specifically to study the existing banking facilities, the Commission in its report, released in 1934,

came out strongly in favour of state directed industrial development. Attributing the country's weakness in this respect to the indifference of the early governments, and the reluctance of private capital, the commission emphasised that the country could no longer afford to depend solely on income from primary products. It pointed out:

> The first world war revealed an inherent weakness of the economic structure of a country whose natural prosperity depended on the welfare of the staple industries catering entirely for an export market. At the same time a public buoyed by the acquisition of a measure of political power aspired to achieve a similar measure of freedom in the economic sphere. It was considered essential for the attainment of this goal - economic freedom - that the public should have adequate financial assistance so as to enable indigenous capital and enterprise to participate in trade and industries... The most urgent problem is the opening up of new industries both agricultural and manufacturing with the main object of catering primarily for the home market and thereby rendering the economy less susceptible to the vagaries of the market abroad (*SP* 23 1934: 9).

Having thus exposed the need for industrial development the commission set out the manner in which the state could usefully associate itself with this.

Capital, power, skilled labour, raw materials are essential pre-requisites for industrial development, but in Sri Lanka no effort had been made even to survey the resources of raw materials, while millions of rupees' worth of goods for the production of which raw materials were available were allowed to be imported. The commission recommended as a first step an immediate preliminary survey of raw materials to discover

not only what were available, but also which of them held out prospects of commercial development and how they could be profitably developed. For this purpose the commission suggested the establishment of model factories for experimentation and demonstration. When the industrial potential of a raw materials became known, the government could demonstrate the commercial viability of an industry and publicise costs, the production process and other particulars.

Apart from survey, research and experiment the commission also emphasised that the guaranteeing of certain types of investments, financial assistance, and technical education should receive governmental attention 'if industrial aspirations of the country are to be realised' (*SP* 23 1934: 174).

This was indeed a plea for state-directed industrial development, and to carry through the programme recommended the commission urged the setting up forthwith of a separate Department of Commerce and Industries whose functions would be:

(a) to undertake pioneer and demonstration work in relation to industries;

(b) to assist industries by placing at their disposal technical advice;

(c) in general to guide industrial policy (*SP* 23 1934: 182)

The banking commission's recommendations had a profound influence on the course of industrial policy.

The second Minister of Labour, Industry and Commerce in 1938 thus proceeded to set up a separate Department of Commerce and Industries.

This was undoubtedly a significant step towards industrial development as the new department's functions included the establishment and maintenance of factories, industrial centres, workshops, training schools, fostering the development of industries and the demonstration of modern methods of manufacture (*ADR* 1938).

In the first year of its existence the department carried out several surveys to ascertain the industries that could be developed with local raw materials. The industrial potential of plywoods, paper, cement, rubber goods, and glass was investigated and favourably reported on. A leather expert recruited to survey the position of the tanning industry found 'ample scope for establishing a leather factory to manufacture leather goods out of hides and skins presently exported' (*ADR* 1938: 34), and a textile expert reported favourably on the textile industry. In addition experimental work was done in connection with the possibility of manufacturing quinine, acetic acid, resins, and undertaking printing work.

On the basis of the surveys carried out the Department drew up a plan to promote the inauguration of industries. The state council sanctioned a sum of three million rupees for the same purpose. The intention first was to offer schemes prepared by experts to private enterprise for commercial production and to set up model factories to demonstrate some of their operations as the banking commission had intended.

But private enterprise was unresponsive. Thus when the scheme for the establishment of the plywood factory was first offered by the minister it was not taken up. The government tried then to attract interest with a new proposal that it would underwrite the full issue of the shares. That suggestion also met with failure. The government then decided to establish the factory on its own account (*SP* 15 1946: 8; *Debates of the State Council* 1938, Vol, III Column 3832-49).

Thus the first factory on a commercial scale was started as a governmental venture only after private enterprise had declined to come forward to invest in it. This failure seems to have had a determining effect on subsequent government policy towards industrial development.

With the decision in 1939 to undertake the plywood factory as a state enterprise the efforts of the government to industrialise began in earnest. In the same year several other pilot plants were approved for construction as state ventures and funds were set aside to train Sri Lankan personnel abroad to man the programme (*ADR* 1939: 28).

The policy of the government was still not to compete with private enterprise. In 1941 in reply to a request for a statement in relation to industrial projects begun and contemplated by the Department of Commerce and Industries the then Minister Corea pointed out that the beginning of state factories had already been seen, but there was no question of industrialisation being the monopoly of the government. The policy was to open up the avenues for industrial exploitation which

private enterprise had hitherto not attempted to traverse (*SP* 15 1946:9).

Just then the second world war intervened and hastened the process of state entry into the industrial field. A new industrial policy began to take shape - the beginnings of state owned and controlled factories 'to supply those items so essential to the life of the community' (*ADR* 1947). State factories and pilot plants conceived as models of industrial potentiality for the guidance of the local industrialists began to be converted into active production units.

It was in this fashion and under these circumstances that a plywood factory, a glass factory, a steel factory, a paper mill, a quinine and drugs factory, a ceramic factory became government-owned and operated industries.

The war-time 'pioneer' public sector industries were however small-scale experimental units. Some of them were designed and built primarily to meet wartime scarcities using old machines and improvised techniques (*ADR* 1947: 8). For instance, the steel mill at Maradana was operated with a second-hand rolling mill from an old coconut mill imported from India. The acetic factory at Madampe was built by D.H. Balfour and his eager pioneers entirely from second-hand machinery or locally fabricated plants. The Gunasena Commission in 1953 in fact applauded the ministry for its 'romantic resourcefulness in conjuring up an acetic acid factory, steel rolling factory, a drugs factory and a paper factory out of practically nothing in order to provide for the starving needs of a country during a period of direst difficulty' (*SP* 19 1953: 3).

Nonetheless they supplied essential goods, earned large profits and more importantly taught the government the first lessons of industrialisation. The first plywood factory, opened up under a considerable amount of criticism, supplied tea chests and building boards during the war and rendered its establishment unassailable. The steel rolling mill begun in 1942 played an important part during the war by meeting the demands of the construction industry for rolled bars and rods all made from scrap steel collected from government departments. In the same way the acetic acid factory established in 1941 supplied the entire requirements of the rubber industry for acetic acid and also produced several other by-products. The paper mill begun in 1943 supplied the war needs for paper and earned a profit. Similarly the ceramic factory and quinine factory established in 1943 met the consumer need for earthen and porcelain jars and for drugs. The former were produced from the local clays found in great abundance.

The choice of most of these industries, however, was not arbitrary nor made to meet temporary demands but based on a long term perspective. The executive committee responsible for these industries said:

> In selecting the industries to be developed we adopted the policy of selecting those which on expert and technical advice and from the point of view of availability of natural resources we were assured that permanency in establishment was quite within the realms of realisation (*SP* 15 1946: 9).

'Permanency in establishment' was the objective of early efforts at state ownership and operation and the established factories, though

experimental and seemingly risky ventures were to be elements in the longer term plan for industrialisation of the country.

With the end of the war in sight, the Ministry of Commerce and Industry began to plan ahead for the future. Because of its past experience with private enterprise, and of its current success with state industrial ventures, the Ministry became convinced of the necessity of state owned and operated enterprises as a means to further industrial development which it regarded as essential if Sri Lanka were to achieve any higher standard of living and full employment. 'We are aware that Ceylon is and will continue to be mainly an agricultural country but we realise that there is certainly a place for industrial development' (*SP* 15 1946: 13).

On the basis of this belief in state ownership the Ministry announced in 1946 its proposals for 'Post-War Development'. Included in it was a five-year plan for industrialisation. Cement, steel rolling, caustic soda, hydrogenation of coconut oil, sulphuric acid, and textiles were items planned for its five-year industrialisation programme. Unlike the war-time 'pioneers' these were to be large-scale state enterprises fully planned and well designed.

A cabinet sub-committee appointed in the meantime in 1946 to define state policy towards industrial development also favoured state control and ownership of the basic industries which it defined as those (a) which had strategic value in the development of industrial resources; (b) which

might become monopolies; and (c) which required large-scale capital outlay. In terms of these criteria the committee recommended that (1) power; (2) heavy industries - iron, steel, cement; (3) heavy chemicals, including a group of fertilizer chemicals; (4) specified drugs and pharmaceuticals; (5) cotton spinning should be nationalised and be the exclusive monopoly of state enterprises (*SP* 15 1946: 17).

This was in agreement with what the Ministry had already planned and proposed for state ownership.

Apart from those it planned earlier such as cement, hydrogenation of oil, sulphuric acid, etc., it became clear that some of the pioneer wartime factories would have to be reorganised and others closed down to be replaced by new schemes. Accordingly government initiated new schemes to reorganise the manufacture of ceramics, paper, and acetic acid, while in the case of plywood, glass, and leather factories plans were made to re-model them for expanded production.

Thus Sri Lanka gained independence announcing plans for the state to own and operate basic industries and reorganise and reconstruct the existing factories.

Post-Independence Industrial Policies and State Enterprises

The first five years after 1948 when Sri Lanka became a sovereign state under a cabinet system of government saw no change in the basic policy or attitude of the government towards industrial development (Wriggins 1960: 304). The United National Party (U.N.P.) which formed

the government seemed fully in favour of state ownership of industrial enterprises and continued to operate the war-time factories. Indeed in the initial phase of its rule plans were also announced to 'bring into production schemes nearing completion and the sound launching of new enterprises' (*U.N.P.* Souvenir 1952; *Far Eastern Economic Review* 12 June 1952: 757). Nevertheless the period seems in retrospect to have been one of inaction. Whereas in 1938-46 so much was achieved with so little available in men and materials, the only enterprise to come into operation in the later period was the cement works on which construction in fact started back in 1946 (*Economic Survey 1926-50* 1951: 34). Even though plans were made for the production of paper, coconut oil, sugar, steel, fertilizer, caustic soda and concentrated ilmenite, little was done to implement them. Government itself was uncertain as evidenced by the constant changes that occurred when four ministers in five years took over the portfolio of industrial development without a permanent head to administer the programme.

In addition, the failure to update the war-time state enterprises to post-war conditions resulted in heavy losses and the enterprises, once the pride of the nation, became the liability of the state when in the single year 1951-52 they incurred a loss of Rs. 5.5 million.

It was no accident that a major set-back to the two decades of positive industrial policy should occur under this regime; it began with the recommendations of an International Bank for Reconstruction and Development (IBRD) mission in 1953 (*The Times Review of Industry*

May 1953: 92). Disapproving the industrial programme of the government as premature, the mission, invited to survey the country's resources and prepare a long range plan for their development, condemned the emphasis on state enterprises. The mission said that in the then existing state of economic development in which land was not being fully utilised industrial development should be assigned a second place, and cautioned:

> We cannot escape the conclusion that the Ministry intent on building large scale factories on its own has had its attention turned from ... the enlistment of private capital and energies towards the development of the sounder pattern of diversified small industries which the country needs (*IBRD* Report 1952: 514).

Accepting these recommendations the government sought to reverse its policy towards state enterprises (*Economic Survey* 1955: 49).

The six-year programme of investment which included most of the IBRD mission's recommendations thus allocated no more than Rs. 112 million or 4.9 per cent for purposes of industrial development (See *Community* 1955 252-70). Even this was mainly intended not to develop state enterprises but to serve private enterprise. 'The objective is, in fact, to promote industrial development through the private sector and the Government's (industrial) programme is therefore confined to such requirements as are ancillary to this objective' (*Six Year Programme of Investment 1954/55 to 1959/60* 1955: 12).

Aside from allocating such a meagre sum to industrial development, the government also hastened to strengthen the private sector by disposing of whatever enterprises had existed in the public sector and

unashamedly declared: 'the industrialisation is based on the new policy to help the private sector to help itself. As a first step towards the implementation of this policy the State Sponsored Corporation Act No 19 of 1955 has been placed on the statute book' (*Six Year Programme of Investment* 1955: 238).

The primary object of the State Sponsored Corporation Act was to phase out the state ownership of industrial enterprises in three different stages. First, the intention was to convert them into public corporations to enable private capital to subscribe to their ownership. Second, when the enterprise was established on a firm footing the government was to withdraw gradually. Finally, when the government's share holding was below 20 per cent, the enterprise was to be constituted as a public company under the Company Law Act. Under the new policy, explained the minister, government would undertake the initial risk partly or wholly and once the industry was firmly established private capital would be invited to participate. In so far as the setting up of the new enterprises was concerned, the government was to act as a sponsoring agency (Das 1966: 43).

In adopting the programme and passing this act to transfer public ownership to private capital, government went much too far in accepting the recommendations of the IBRD and jettisoning the plans and programmes envisaged earlier (Kanesalingham 1970). The radical politicians of the country reasoned that this was mainly because of the character of the party that was in office: being dependent on planter's wealth and the

villagers' vote it became fearful of the future voting strength of a rising industrial proletariat.

However this reversal in policy on the part of the United National Party did not last long. The year following the passage of the State Sponsored Corporation Act saw the first change in government (1956). The U.N.P. which had held office for eight years after independence gave place to a government whose election platform had been socialisation of industries and state directed industrial development.

With the success of Mahajana Eksath Peramuna (M.E.P.) government planned development in industries became a major objective with the state having the 'decisive and directive voice'. The minister responsible for industries saw the change in policy in this way:

> On the basic question of the public sector ours is a different policy, particularly with regard to investment in industries.
>
> Having recognised the necessity for the state to play a direct role in controlling and guiding the development of the country a decision of policy has been taken that greater emphasis should be placed on the industrial development, and in that programme the public sector will play the dominant role particularly with regard to the basic industries and in the industries of a major nature essential to the life of the community. (*CHRD* 28 July 1957: 1570).

The state policy thus shifted irrevocably in favour of public sector industrial enterprise. Government was to build not only medium sized industries, as was envisaged under the previous regime, but also to undertake as state concerns large scale industrial enterprises. 'You cannot ignore large scale industries when you are thinking of economic development

with a view to increasing national income. It is the policy of the government that they should be initiated and owned entirely by the government' (*CHRD* 28 July 1957: 1574).

On the basis of this statement government ear-marked the industries that would be the specific concern of the state, those that should remain in the private sector and industries that should be shared between the state and the private sector. Seven industries were specified in the first category (Schedule A), twenty-three were opened up both for state and private ownership either jointly or separately (Schedule B), and eighty-two specified industries were left free for development through the private sector (Schedule C). (See Appendix 3).

In their first year of office the government made a budgetary allocation of twenty-three million rupees for investment in industrial projects. This was to be the first instalment in a total of 2,300 million rupees planned for expenditure over a period of ten years. Cement, sugar, textiles, iron and steel, chemicals, were to receive the greater portion of this expenditure for expansion and development, while rayon, alcohol, power and mineral sands were to be developed as medium sized state enterprises.

Dr Nicholas Kaldor, Professor Joan Robinson, Gunnar Myrdal, Kenneth Galbraith who advised the planning council which initiated the ten-year plan and recommended several of the above projects for state development,

welcomed state enterprises to relieve unemployment and achieve economic growth. 'This is an imperative', said Galbraith, 'that is largely independent of ideology or political preference. If the private sector had been competent for the task it would already have asserted itself'.

The next ten years thus saw continuous investment in industrial projects which absorbed a large part of the capital expenditure of the state budget.

The commitment of the government to long-term industrial development made it necessary to revise the State Sponsored Corporations Act of 1955 which being a de-nationalisation act did not enable any new industries to be undertaken by the government. 'When it came to starting new industries, it was found necessary either to amend the act or to introduce a new bill, because there was no provision under that.. for the government to start a new industry' (*CHRD* 17 October 1957: 919).

Thus after passing the State Industrial Corporations Act No. 49 of 1957, empowering it to take over and carry on any corporation previously carried on by corporations, and to establish and carry on new industrial undertakings, the government began to create new enterprises as state concerns. New enterprises such as mineral sands, salt mining, and sugar milling were established in 1957 while enterprises for the manufacture of plywood, paper, leather goods, chemicals, oils and fats which were earlier constituted as corporations with the intention of transferring them to private capital were dissolved and reconstituted under the new act.

With the passage of this act several new industrial ventures were begun as state concerns. Textiles and Carpentry in 1958, Ceylon Hardboard in 1959, Industrial Estates in 1960, Ceylon Tyre, State Engineering and Ceylon Steel in 1962, State Hardware in 1963, Ceylon Fertilizer, State Flour Mill and Ceylon Fisheries in 1964, were all constituted under this act. The change of government that occurred in 1965 did not see any change in the act, instead the U.N.P. found it useful to create a State Fertilizer Manufacturing Corporation in 1966. With the return of a United Left Front (ULF) government in 1970, several new state enterprises, State Rubber Manufacturing, State Pharmaceuticals in 1970, Sri Lanka Tobacco and State Graphite in 1971 were established.

The State Industrial Corporation Act thus became the main instrument of the state to pioneer state enterprises and its presence in the statute book for the past eighteen years symbolises the acceptance by both major coalitions of public sector industries, and more importantly the acceptance of the public corporation as an instrument to operate these ventures.

The development of state industrial enterprises is thus a relatively recent phenomenon, compressed into the last few decades commencing from the establishment of the state council in 1931. Whatever enterprises existed prior to this date were mainly public utilities and essential services. Until 1956, partly because of the reluctance of indigenous capital and partly because of the attractiveness of profit elsewhere, these state-promoted industrial enterprises constituted the only substantial effort towards industrial development and economic diversification in an otherwise agricultural country.

The return of the U.L.F. government in 1970, with its definite objective of socialising essential services and owning and operating basic industries, signifies once again the dominant and active role expected of the public sector in industrial development. (*CHRD* 25 October 1970: Col. 505; *CO* 17 August 1970). And in the time this government has been in office it has created many enterprises and expanded the scope of others in its quest for economic growth and a socialist pattern of society.

The success or failure of such a policy depends on the efficiency of the management of the projects and the effectiveness with which the instruments chosen for their operation achieve their goals. Except for a brief period in the initial stages almost every industrial enterprise has so far been organised as a state corporation.

The choice of the corporate form may seem obvious but it is important to understand what brought about that choice and what principles and policies underlie its continued acceptance as the best form to organise and operate industrial enterprises.

The Rise of the Public Corporation

Early efforts in developing state enterprises were made without much consideration of administrative aspects. Partly because of the circumstances in which these enterprises came to be state-owned and partly because they were experimental in nature, almost every single enterprise undertaken was organised under departmental administration. This was not unusual at a time when railways, ports and electricity and even some other enterprises in the sphere of public utilities and

essential services had a similar form of organisation and management. The public corporation as such was not widely used in Ceylon, being confined to research and financial institutions (Paul, 1957: 156). The Tea Research Institute (Paul 1957: 156) established in 1925, the Coconut Research Institute in 1928, the Rubber Research Institute in 1930 and the Tea Propaganda Board in 1932 were the first set of corporate bodies to appear in the island. In 1932 in accord with the findings of a committee appointed under the chairmanship of C.V. Brayne (*SP* 21, 1929) a State Mortgage Bank was set up to provide long term agricultural credit on the first mortgage of landed property situated in Ceylon. This was the first financial institution incorporated to operate autonomously outside the public service, the earliest institution of the kind, the National Savings Bank set up in 1859 having failed to receive corporate status. Apart from these every activity of the government up to world war II was centrally controlled and departmentally supervised and administered.

However by about 1939-40 when the state concern for industrial enterprises became serious, a system of 'advance accounts' was much in fashion to operate commercial and trading enterprises as separate activities outside the framework of the departmental accounts and finance (Balasingham 1968: 39). Thus when in 1937-38 the government undertook to buy and sell machinery and equipment to stimulate the coir industry an advance account was instituted to carry through its operation. This was the first trading activity to be organised under the advance account system and whatever commercial and trading activities government acquired thereafter were organised and operated within the department under the advance account system (see for details *PAC* 1961 b, Minute of Evidence, 18 August 1961). The essential features of that system were as follows:

(a) Unlike an ordinary Department, business activities organised under the system were able to obtain their finances as advances from the Treasury. Parliament passed a token vote of Rs.10, 100, 1000 and the Treasury was authorised to make advances of cash to the activity in order to enable it to meet its working expenses. This simplicity in the method of financing the activities obviated the necessity to submit detailed estimates and avoided the practice of tying the expenditure to a head of the voted funds (Kanesalingham 1962: 76).

(b) In contrast to the Department, these advance account activities had the advantage of a separate account maintained in the form of receipts and payments. As a result all the incomings and outgoings were brought under a single account, which was a departure from the governmental practice of crediting revenue whatever its source to some head of revenue.

(c) Obtaining their capital expenditure through a vote out of the loan funds, these activities were made to pay interest, annuity (an hypothetical charge for depreciation) and insurance to the government just as any other business concern pays these charges to its creditors.

(d) At the end of each financial year these undertakings unlike the Department were expected to prepare a Trading Account, a Profit and Loss Account and a Balance Sheet showing their assets and liabilities.

(e) In the event of a loss parliament normally subsidised the activity by a vote in the operating Department to cover such losses and in the event of a profit a token vote sufficed to continue their operation.

In essence the advance account system offered a certain degree of financial flexibility, not often enjoyed by the Department, being

fixed on an annual estimate, in regard to enterprises operated within the Department. (Hanson 1959: 240). Obtaining their capital expenditure out of loan funds and working expenses as advances from the Treasury, these activities were able to operate as any other business concerns within their own single account. The advance account system thus was an innovation within the departmental form in order to conduct business enterprises.

Partly because of the limited financial flexibility it introduced and partly because of the changing character of the government the advance account system was much in use at the time state industrial enterprises were initiated. Apart from railways, air transport, broadcasting and electrical undertakings, several other activities such as dairy farming, canning and processing, rice milling and distilling were operated through this system. Further, many of the government's purchases and sales, involved in marketing some products to provide economic support to certain industries, were also conducted through the same system of advance accounts. Thus government had no obvious reason to go out of the orbit of an administrative Ministry to conduct its industrial activities. The Plywood Factory in 1938, Steel Rolling Factory in 1941, Glass Factory in 1942, Drugs Factory in 1942 thus became advance account activities within the Department of Industries. As in the cases of other advance account activities capital expenditure was obtained through a vote in the Ministry of Labour, Industry and Commerce for construction of the factory and purchase of machinery and equipment, while Treasury advances provided the working expenses of operating the industries. In fact, in the initial period, because of the near monopolistic conditions created by war-time scarcities, many of the enterprises proved a success and realised a good return on the investment.

Despite this initial success of the industrial enterprises, the problems of running an industrial enterprise through an advance account system under Ministerial supervision and control soon began to surface. When in the latter part of 1940 many of the enterprises became heavy losers doubts began to be expressed on the wisdom of the existing organisation of industrial and commercial enterprises. Thus the then Director of Industries in his Report for the year 1940 saw the organisational arrangements for conducting these enterprises as a reason for their failure, apart from their technical and other deficiencies:

> In normal business the machinery exists for making quick decisions whether an offer be made or accepted, whether staff be appointed or discontinued or whether a change be made to make a profit cutting losses previously made ... This is not possible under the existing regulations ... designed to meet the needs of the state which governed and administered without intervening in the field of commerce and industries. Under the present set up a Head of the Department has considerable amount of authority but in many matters he can act only with the approval of the Tender Board, Public Service Commission and Treasury. All these authorities have to be given full facts before they can make a decision ... and this takes time (*ADR* 1947: 9).

This was the first clear statement to be made against the conduct of commercial enterprises through the advance account system within a Department. In the following year 1948, the Commission on Organisation, Staffing and Operative Methods also saw no reason for complacency about the running of the existing enterprises:

> In our view no industry which has to make manufactured goods for sale to the public can ever be run successfully by a government officer with government employees under

> him bound by government regulations even if those regulations are considerably modified in order to facilitate business. We are emphatically of the opinion that a number of industries cannot be run efficiently on ordinary departmental lines (*SP* 5 1948: 172).

Because of the indecision over whether to run them as state concerns or to dispose of them to the public, government failed to come to terms with the organisational problems of state enterprises. In establishing the cement industry in 1950 under the advance account system it disregarded the earlier advice of the Sub-Committee on Industrial Development and Policy that 'the management of basic industries should be vested in separate corporations styled National Industries Corporations' (*SP* 15 1946: 19). Other enterprises started in this period of uncertainty continued to be organised as advance account activities and many others also adhered to the same system. Partly because of the technical and marketing difficulties and partly because of the organisational arrangements, financial losses on these enterprises began to mount, compelling the government for the first time to inquire into the organisational aspects of these enterprises. The Gunasena Commission (*SP* 19 1953) which undertook this inquiry into the 'operation by government Departments of business and commercial undertakings' condemned outright the advance account system as unsuitable to the operation of commercial and industrial enterprises:

> We have considered many reports, we have heard many witnesses, we have examined many of the undertakings, we are unanimous in our view that the Advance Account System is entirely unsuited to the conduct of commercial activities (*SP* 19 1953: 19).

When an enterprise is established within the Department, the Commission said, several different governmental rules and regulations operate to stifle initiative and individual discretion and responsibility so essential to the

conduct of commercial and business enterprises. When the rules regarding supplies are applied to business transactions, for instance, enterprises are forced to go through established procedures. This, to say the least, precludes an enterprise from taking advantage of an attractive offer and tends to ignore other aspects of supply such as quality and durability of the goods purchased. Furthermore, Financial Regulations which govern supplies do not always allow discretion to the management to conduct its transactions except through Tender Board procedures. This creates a delay since any deviations from such procedures must have the prior approval and consent of the Minister.

> Trade [said the commission], demands prompt decision and quick action and it cannot wait until the circumlocution of reference to the Department, Department to the Ministry Ministry to the Treasury and sometimes Treasury to the Ministry has been inexorably gone through (*SP* 19 1953: 15).

Apart from the financial regulations and Tender Board procedures the Commission also brought to focus the stifling effect of the Public Service Commission (PSC) rules and regulations regarding appointment and dismissal of employees and the Treasury instructions on numbers and scale of pay. A business organisation in normal circumstances should be able to recruit and discontinue staff in accordance with the needs of the enterprise, a freedom so indispensable for a commercial organisation yet virtually denied to an enterprise when it is organised within a Department. Since anyone drawing his pay from the public funds - whether permanent or temporary - is a civil servant, no employee can be recruited or discontinued except as provided in the Publis Service Commission rules and no salary or wages can be paid except at government rates. In all staff matters - rates of pay, number of employees and holiday and leave facilities - the Treasury instructions must be strictly adhered to. Where

any deviation is required to pay salaries and wages different from the government rates, prior sanction must be obtained. But to convince the Treasury of such a necessity was an uphill task.

Another fundamental and important weakness of the departmental arrangement, said the Commission, is the financial control wielded by the Treasury over the capital expenditure of business enterprises. In a system where capital funds are normally obtained through annual estimates and no provision is made for emergencies any excess over the estimated cost of any work undertaken by an enterprise within the Department requires prior approval and consent of several authorities, primary among which is the Treasury. If the excess, for instance, is Rs. 250,000 the Ministry of Industries, Treasury and the Cabinet must concur before funds can be released to the undertaking. In the meantime an enterprise may well be forced to stand still as it will be a breach of a financial procedure to continue operations where no certificate has been given regarding availability of funds. All this means that lengthy negotiations must take place between the Activity and the Treasury.

Financial control by the Treasury is not confined merely to capital expenditure. In the case of recurrent expenditure it sets three limits which the Activity is not expected to exceed. The 'limit of total debits' for instance, represents the maximum amount which an undertaking can spend on working expenses in a financial year. There are limits of expenditure that an Activity should not exceed by the end of September. These and other boundaries set on expenditure are constraints on the management. If for example a manager of a factory is not alert

he may well exceed his limits on expenditure in which case 'a serious situation will arise as he cannot incur further expenditure without cabinet sanction (*SP* 19 1953: 67). In sum, stringent control of expenditure and the lack of fluidity of funds are the twin evils of Treasury control and so long as enterprises are organised within the departmental framework these controls are unavoidable.

Lest we be misunderstood it should be made clear that Treasury controls as applied to government activities are not altogether indefensible. They are in fact the time honoured devices to ensure propriety and regularity in the employment of public funds necessary to prevent official extravagance and personal diversion. It is only when they are extended to business activities which require a certain measure of financial freedom to realise their overall objectives that Treasury controls become unacceptable.

One may wonder in this context whether a few modifications here and a few revisions there of the Financial Regulations and procedures might help to clear unnecessary or obnoxious restrictions out of the Financial Regulations to allow enterprises to be conducted through the Departmental System. This was in fact attempted in the case of a trading activity, the Co-operative Wholesale Establishment, and a manufacturing enterprise, the cement factory, but deterred as they were by the bogey of 'accountability' the government officers who ran these enterprises failed to take advantage of the concessions and discretions guaranteed by the revision. The Auditor-General in his recommendations to the Commission also warned that such changes and revisions in the Financial Regulations would not bring about the desired effect.

> It is not to my mind a question of ending or revising certain Financial Regulations and attempting to apply them to activities for which they were never intended. Industrial, commercial and in many instances agricultural undertakings require in fact a very carefully drafted code of procedure sufficiently concise to be placed on a statutory footing and containing those elements of elasticity which a business undertaking for its competition needs (Treasury Memorandum, *SP* 19 1953: 63).

Thus outlining the problems with concrete examples of the rigidities and red tape from which the enterprises suffered within the Departmental arrangements, and seeing them as one cause for financial losses, the Commission on Commercial Undertakings submitted that all commercial and industrial activities of the government should be exempted from the government rules and regulations and corporations should be instituted to run industrial enterprises. 'The type of corporation we recommend for Ceylon' said the Commission 'is what is known in the U.K. as the classic type'. In this system a ministerially appointed board would be responsible to the government for the enterprises and in all cases in day to day administration the discretion would be vested in the board of directors. The Minister however would have power to give directions to the board but that would be restricted to matters closely touching the national interest.

When the bill to convert the industrial undertakings to corporations was finally brought before the House in 1955 no member of the House questioned the appropriateness of the corporate form to run state enterprises. On the contrary members of the left as of the right came out strongly in favour of such a step. 'How often in this House have I argued', said Dr N.M. Perera, a well known left-winger and ardent sympathiser with the corporate form, 'that a reasonable latitude should be given to the Leather Factory to operate successfully'.

> Over and over again I have in this House appealed to the government to see that the officers in charge are given reasonable latitude without imposing on them various Treasury instructions. When the Carpentry workshops wanted to buy hinges for desks for instance they had to call for tenders involving a delay of one month while men had to wait all that time. That is the kind of regulation under which the factories had to work and no wonder they lost (*CHRD* 4 April 1955: Col. 3674-5).

Summing up the case of the government, the leader of the House J.R. Jayawardena explained succinctly why it became necessary for the government to establish corporations to run industrial enterprises:

> We have found that it is not possible to run factories through civil servants, factories where all the employees are appointed by the Public Service Commission, where every little day to day transaction is governed by Public Service Commission regulations and financial regulations. I don't suggest that they are there on purpose. But obstructions and delays have to be encountered in the working of a government department which is governed by Public Service and Financial Regulations. These regulations have led our factories to such a position that they cannot go further (*CHRD* 4 April 1955: Col. 3720-1).

The consensus in the House was that the Ministerial Department was an unsuitable medium for the conduct of state industrial enterprises and the corporate form was the most acceptable alternative. The Gunasena Commission was partly responsible for such crystallisation of views on the corporate form and for popularising it as a device most appropriate for the administration of state enterprises. The choice of the public

corporations was thus made on the grounds of the practical necessity to import business principles into the management of industrial enterprises and of the difficulty of operating them through the departmental system. The advantages seen in the corporate form for this purpose were:

(a) it would free state enterprises from governmental rules and regulations which are useful in their proper place, but had proved restrictive and negative to the conduct of business enterprises;

(b) it would give the enterprises the necessary financial flexibility without their being hamstrung by the financial regulations and governmental procedures, budgets and accounts system commonly applicable to the Ministerial Department;

(c) it would give the enterprises the necessary freedom to hire and fire personnel and build a personnel structure most suited to the needs of the business concerns;

(d) it would relieve business enterprises of unnecessary interference, jobbery and log-rolling and help achieve the right combination of commercial freedom and government control

The Government Sponsored Corporations Act (1955) which converted the industrial undertakings into corporations in fact carried every major feature of the British corporate administration into the system of administration it instituted for industrial management in Sri Lanka. Thus by section 13 (1) (2) it provided for the appointment and dismissal of the corporate Board of Directors by the Minister and by

section 32 (1) it empowered the Minister to give the Board general and special directions as to the exercise of its powers and discharge of its duties - characteristic of every British corporate statute. Apart from the right to appoint and remove directors and issue general and specific directions the Minister also had the right under the provisions of this statute to direct and enforce an inquiry into the working of the corporations and fix the salary of the staff of the corporation and to do anything necessary for or conducive or incidental to the carrying out of its objects. The Act also contained other provisions common to the British statutes dealing with Accounts and Audits and the submission of Annual Accounts and Reports to the Parliament.

The State Industrial Corporations Act which replaced the Government Sponsored Corporations Act in 1957 embodies every one of the above clauses, while omitting those provisions and sections relating to the eventual transfer of these undertakings to private ownership which were part of the 1955 act. In every respect the corporate system that Sri Lanka established was to be a replica of the British one, but the extent to which Sri Lanka has worked this system in a similar way remains to be seen.

To summarise: public corporations are of recent origin in Sri Lanka as is state enterprise itself. Before the year 1931 the government of Ceylon had perhaps never seriously considered whether it should have any industries at all. When the country achieved certain measure of self-government in 1931 the question of industrial development received

its first serious consideration. Since then the development of state enterprises has been very rapid. But it was not until 1957 that the management of state enterprises was transferred to the state corporations partly because of the unsuccessful experience with ministerial operation and partly because of the necessity to import business principles into the management of business enterprises. The consensus of the time was that the corporate form was the most appropriate device to operate government industrial ventures.

In establishing these corporations however two basic questions arose: whether the various enterprises should be organised under the management and control of a single development corporation with comprehensive powers and responsibilities or as separate corporations established under a single statute, and secondly what procedures and methods should be adopted in creating enterprises since initial investigation and study are as important as the institutional arrangements to manage them. This aspect which is still being discussed in Sri Lanka is considered last in a concluding chapter following the discussion on personnel and control. But to set the scene the section that follows gives a brief account of the functions assigned and activities in fact undertaken by the selected corporations.

III A BRIEF ACCOUNT OF CORPORATIONS

In the following account of the corporations created under the State Industrial Corporations Act (SICA) No. 49 of 1957, only the salient features of their operation are noted. The objective, as stated earlier, is to provide a clear description of the functions legally assigned to these corporations and the activities actually carried out by them. Certain general features of their organisation and operation may be mentioned to preface this account. Of the twenty-eight corporations so far created under the above statute, twenty-three operate under the Ministry of Industries and Scientific Affairs (see Appendix 2) and five, i.e. Sugar, State Engineering, Fertiliser, Fisheries, Fisheries Harbour operate under other ministries. Only two of them - National Small Industries and Ceylon Hardboard Board - have so far been disestablished (*CBR* 1973: 93) and their activities have been transferred to other corporations (see page 62 below).

In so far as the scope and scale of operations are concerned these corporations vary significantly. The biggest of them all employs as many as 7,000 persons and utilises capital to the value of Rs. 400 million, while the smallest has a capital of Rs. 1 million with fewer than 50 persons in its employment. Since many of the small enterprises are at present in their initial phase of operations it is possible, given the present trend and concern for public enterprises, that they would grow to a scale of operations at least as large as that of the Cement Corporation or the National Textile Corporation.

As a group these corporations are of considerable importance to the country with a total capital outlay of over Rs. 2,000 million and the provision of employment for over 50,000 persons (*CBR* 1973). Also they support an infra-structural investment of high magnitude. At present these corporations supply goods and services to the value of Rs. 1,500 million enabling the country to save annually around Rs. 342 million in foreign exchange (*Review of Activities* 1973: 2). Another feature noteworthy in the organisational history of these corporations is that many of them had their beginnings in the periods when the SLFP was in office.

Plywood was the first large scale commercial enterprise to appear in the public sector. The Plywood Corporation (PC) was first incorporated as a public sector corporation under the GSCA on 1 March 1956 with an authorised capital of Rs. 2,800,000 and subsequently under the SICA. Functions assigned to this corporation were: (a) manufacture and sale of plywoods and articles made from plywood; (b) sawing and selling of all kinds of timber; and (c) manufacture and sale of all kinds of furniture (Gazette No. 11632). Initially its main objective was to operate the Gintota Plywood Factory established by the Ministry of Industries to produce tea chests. In addition PC now controls a complex at Salawa equipped for the manufacture of plywoods, chipboards and furniture, a timber extraction unit at Kandaeliya and seven carpentry workshops transferred from the National Small Industries Corporation. PC's factory serves three-sevenths of the market for plywood, chipboard and other articles made by it. Expansion of its

capacity should not prove difficult since it is one industry where the local input is very high. Because of its initial success at making a large profit, PC has had its capital increased several times and at present it has a total capital outlay of RS. 132 million, and a total workforce of 2,500 (*CBR* 1973).

Paper production in Ceylon was first attempted during the second world war when a semi-mechanised paper factory was set up by the Department of Industries at Kakkapelliya. The factory was designed to convert waste paper to wrapping paper. Then in 1952, after a comprehensive study of the technical and economic problems involved in the establishment of a paper factory in Ceylon on a commercial basis, the then Ministry of Industries, Industrial Research and Fisheries prepared and implemented plans for the erection of a paper factory at Valaichenai. Construction of the mill was completed in 1956 at a cost of Rs. 22 million. The Eastern Paper Mills Corporation (EPC) was formed under SICA on 1 January 1958 initially to operate this mill (a) to manufacture and sell all kinds of paper (writing, packing, printing, etc.); (b) to manufacture and sell all kinds of insulated boards (press boards, cardboards, mill board etc.); (c) to manufacture and sell stationery of all kinds made from pulp and paper (Gazette No. 11404). Paper production (*CT* August 1961, February 1969) is now a successful and well established public sector enterprise in Ceylon. For apart from the pulp and paper mill with which it started EPC has established another paper mill designed and constructed for the production of 10,500 tons of writing paper (EPC 1970) for constructing two other paper mills, one at Empilipitiba and the other at Rajangana. The present local demand for

paper of all types is running around 60,000 tons a year and the Corporation in the near future should be able to meet the country's demand for paper.

The first cement factory in Ceylon was started at Kankesanturai under the Department of Industries in the later part of 1950 at an initial cost of Rs. 23.4 million. For six years following inception, the cement industry continued to be managed by the Department of Industries. In November 1956 it achieved corporate status under GSCA. Subsequently it was reconstituted under SICA, with the following functions: (a) to manufacture and sell cement; and (b) to manufacture and sell articles made of cement (telephone and telegraph posts, hume pipes, tiling, etc.) (Gazette No. 11634). It was also entrusted with the monopoly of cement imports in 1963. Since its inception the Ceylon Cement Corporation (CCC) has presented a success story (*CDN* 1 January 1969). The excellent site and raw materials at Kankesanturai combined with the efficient personnel charged with its affairs made its progress a rapid one. CCC today has an annual production of 400,000 tons, five times what it produced at the start (*CBR* 1972: 55). The production and consumption of cement in a country is rightly considered to be an index to its industrial prosperity. Cement is one of the products that could be produced in Ceylon on a large scale (*CT* September 1967) with a minimum of imported inputs because plenty of the raw materials, limestone and clay, is available in several parts of the island.

The Ceylon Ceramics Corporation is a multi-plant organisation with three factories located at Negombo, Piliyandala and the Matale district, and akaolin refinery located at Boralesgamuwa. The Negombo factory

was established in 1956 while the Piliyandala factory started production in 1968. In 1973 the ceramic factory in the Matale district began producing porcelain and table ware. Like the Ceylon Cement and Plywood Corporations, this corporation was first constituted under the GSCA, and later in 1959 reconstituted under the SICA. It has the following functions: (a) to manufacture and sell ceramic ware, china, pottery, bricks, tiles and porcelain articles of every description; and (b) to manufacture and sell artificial stones (Gazette No. 11466). Total sales of the corporation have risen from Rs. 3 million in 1964-65 to Rs. 27 million in 1972, and it has operated at a profit throughout its existence.

The Ceylon Mineral Sands Corporation (CMSC) was established on 12 March 1957 with an initial capital of Rs. 8 million (*CT* June 1960). Its objectives as stated in the incorporation order were (a) mining, refining and processing heavy mineral sands; and (b) the manufacture and sale of any product of commercial value from heavy mineral sands (Gazette No. 12212). CMSC at present is engaged in exploiting an estimated 4 million tons of heavy mineral-bearing beach sands on the north east of Ceylon. The minerals ilmenite, zircon and rutile are found in sufficiently high concentration for economic exploitation in beaches near Pulmoddai, Tirukkovil, Kaikawala and Polkotuwa. The Corporation has two plants, one at Pulmoddai for ilmenite recovery and the other at China Bay for the extraction of rutile and zircon. It has an annual production of Rs. 8 million. In 1972 it earned a profit of RS. 3 million (*CBR* 1972: 57).

The Ceylon Oils and Fats Corporation was one of the earliest to be set up under SICA. The functions assigned to the corporation were: (a) the manufacture and sale of all kinds of oils, food products, detergents, fats, waxes and resinous substances; and (b) the manufacture and sale of chemical compounds of all kinds, including pharmaceuticals, medicines, plastics, dyes, manures, paints etc. (Gazette No. 11466). Initially the corporation has the responsibility of working the Seeduwa oil project planned and installed by the Department of Industries. The factory now operated by the Corporation has a number of production units: a continuous solvent extraction plant to extract oil from poonac, a provender plant to produce 60,000 tons of mixed animal feed a year, an oil refinery to upgrade vegetable oil and a fats splitting plant to distil the crude fatty acids. In 1967 a major reorganisation of the entire factory was carried out on the advice of an ECAFE expert. After a series of trials the Corporation commissioned the fats splitter and fatty acids distillation and sweet water evaporation plant. Since reorganisation the corporation has been running at a profit. The major items now produced by this corporation are coconut oil, provender, fatty acids, glycerine, white oil, and deodorised oil and they are valued at a total of Rs. 38 million a year.

The Ceylon Leather Products Corporation was established in 1959 under the SICA to take over the management and assets of its predecessor, the Department of Industries Leather Products Corporation established under the repealed GSCA. The Corporation now controls the tannery and shoe factory at Mattakuliya and a leather goods factory at the Ekala

Industrial Estate. When constituted under the SICA with an initial capital of Rs. 10.5 million, it had the following functions: (a) tanning and sale of hides and skins; (b) manufacture and sale of articles made of leather; and (c) the export of raw processed hides and skins (Gazette No. 11632). The Corporation at present produces shoes, chrome and bark leather and other miscellaneous leather goods. The value of its output has risen from Rs. 6 million in 1966-67 to Rs. 15 million in 1972. In 1968-69 the production of chrome leather was 61,000 square feet and the total output of shoes 275,000 pairs. The corporation provided employment in 1972 for 1,053 persons. A new tannery designed for larger output and better quality products commenced operation in March 1972.

The Parathan Chemicals Corporation, originally established in March 1956, like others was subsequently dissolved and reconstituted under SICA in January 1959. The main activities of this corporation are: (a) manufacture and sale of caustic soda, chorine, hydrochloric acid; and (b) manufacture and sale of by-products such as table salt, ferric chloride, zinc chloride etc. (Gazette No. 11632). From the very beginning of its career the corporation had several mishaps and was forced to abandon many of the projects planned for operation under its management (*CHRD* 10 April 1968 col. 3230-58). Having thus begun with such production units as caustic soda, chlorine, sulphuric acid, DDT and lauryl alcohol, it sold its DDT plant in 1959 to an overseas buyer in pursuance of a decision made by the Minister of Finance in consultation with the Minister of Industries, and contrary to the wish of the

chairman of the corporation (*PAC* 1963: 73). In 1960 it also abandoned the lauryl alcohol project. The main products of the corporation today are caustic soda, chlorine and table salt. Even in the production of these items the corporation is forced to work below capacity: whereas it has a steady demand for caustic soda, it has problems in disposing of its by-product chlorine. Since it is uneconomical to increase production of caustic soda without finding a market for chlorine, the corporation finds it prudent to work below capacity. About half the chlorine is consumed by the Valaichenai paper mills and the balance is used for water purification (Naylor 1966: 145). With the expansion of the paper industry and the development of provincial water supply schemes the demand for chlorine is expected to rise. As the corporation manufactures only a third of the country's demand for caustic soda, it imports the balance on world wide tenders.

In the sphere of finished metals production Ceylon's first enterprise was a project for the manufacture of various items of hardware (*CT* May 1967). In 1961 Cekop of Poland, on the request of the government of Ceylon, prepared and presented a project report for the setting up of a Hardware Corporation. The Corporation was established on 23 August 1963 under SICA with an initial capital of Rs. 16 million and had the following major functions: (a) the manufacture of hardware, small tools, agricultural implements and cutlery; (b) the manufacture of finished products of hardware, small tools; (c) the manufacture, assembly and repair of tools, implements, machinery etc.; and (d) the importation, sale and distribution of hardware (Gazette No. 13737). The State

Hardware Corporation is a good example of bad planning and project promotion. For the project was conceived, plans were drawn, site selected, loans obtained, contracts awarded long before the Board was constituted. When constituted the Board had the responsibility of continuing the project as planned and constructed the factory accordingly (Naylor 1966: 55). This resulted in several difficulties. Firstly some of the articles planned for production were not ideally suited to the local conditions. For instance the kind of mammoty (hoe) planned for production was quite unsuitable for the needs of the Ceylon farmer and consequently the corporation had to redesign the production process to perfect a mammoty to suit local conditions. The same problem was faced in the case of some other equipment which was not geared to produce the articles most in demand. Thanks to the effort of the corporate technical personnel a good part of the factory has now been put in use to produce such items as cutlery, water fittings, hinges, tower bolts, engineering tools, anvils and bench vices of high quality. The foundry constructed at Enderamulla also produces cast iron water pipes, pressure pipes, pipe fittings etc. In 1971 the corporation produced Rs. 12 millions worth of the above goods, incurring a loss of Rs. 7 million (*CBR* 1972: 58).

The Ceylon Steel Corporation was established on 30 September 1961 under SICA with an initial capital of Rs. 80 million (*CT* July 1961). The objectives of the corporation as stated in its incorporation order were (a) the manufacture of iron and steel and their alloys; (b) the manufacture of finished products from iron and steel; (c) the manufacture

assembly and repair of tools, implements and machinery; and (d) the mining, refining and processing of raw materials required for iron and steel (Gazette No. 12684). Steel is one of the industries that was started with the Soviet Government's technical and economic aid. The plan was to develop the industry in three stages (*CD* 14 January 1970). The first phase included a rolling mill and wire mill for the manufacture of merchant sections. The second stage involved steel manufacture utilising local scrap and imported pig iron, while the final stage envisaged pig iron manufacture from locally mined iron ore. The corporation, when formed in 1961, had the immediate objective of implementing stage one of the project, which it successfully completed in Janaury 1967, producing rolled bars, barbed wire, wire mesh and a variety of other products made out of steel billets. The second stage of the project is expected to be operational in 1976-77. Action was continued in the meantime to establish a machine tool plant (*CDN* 21 January 1971) with technical assistance from Hindustan Steel Machine Tools Ltd. of Bangalore, and to manufacture twisted ribbed steel in collaboration with Tor-isteg Steel Corporation of Luxembourg. At present the corporation markets steel products to the value of Rs. 70 million, saving thereby a considerable sum in foreign exchange. Its full impact however will not be felt until it starts production with locally mined ore and carries through other programmes of expansion which it envisages for the future.

Along with the steel factory, the USSR also helped to establish a factory for producing tyres and tubes for motor cars and trucks. The Ceylon Tyre Corporation, incorporated on 1 January 1960, had the

objective of establishing this industry with Soviet aid. Construction work commenced in 1962 and commercial production in 1967 (*CT* June 1967). The following were some of the main functions entrusted to the Tyre Corporation: (a) the manufacture, sale and export of rubber tyres, tubes, and allied products; (b) the importation and sale of materials used in manufacture of tyres and tubes and allied products; and (c) the technical training of Ceylonese personnel for the rubber industry (Gazette No. 12842). The current production of the corporation is valued at Rs. 50 million and it makes an annual profit of Rs. 7 million (*CBR* 1972).

The State Flour Milling Corporation was the third project set up with Soviet technical and economic aid, in this case to establish and operate a flour mill. Construction work started immediately after the Soviet experts furnished feasibility studies recommending a plant at a capital cost of Rs. 16 million to mill 70,000 tons of wheat annually. The five-member board appointed on 12 March 1964 was given the following functions: (a) the milling of whole wheat and other cereals; (b) the importation of whole wheat and other cereals for the purpose of milling; and (c) the conversion and marketing of by-products and residue resulting from the milling of whole wheat (Gazette No. 13982). The mill was commissioned early in 1969 and in the very first year of its operation the corporation was able to make a profit. In the following year, after making a few modifications to the plant, the corporation was able to increase its capacity to 100,000 tons. Currently a scheme to expand the present capacity to 130,000 tons is being considered. The

island's demand for flour is estimated to be well over 400,000 tons per annum. The output of the mill consists of 72 per cent flour, 23 per cent bran and 3 per cent feed meal. Much of the wheat is imported under the Australian Commodity Aid Programme.

The National Textile Corporation (NTC) was established on 10 January 1958 with the purpose of developing textile industries in Ceylon. When the corporation was formed (a) to plant and cultivate cotton and other plants producing substitutes of cotton; and (b) to undertake ginning, spinning, doubling, dyeing, weaving and sale of all types of fibrous substances used in the textile industry (Gazette No. 11237), Ceylon was devoid of any textile industry of substance. Aside from the 12 million yards of cotton supplied by the Wellawatte Weaving and Spinning Mills established in 1883, and a few thousand yards of cloth obtained through handlooms and powerlooms, Ceylon was virtually dependent on imports to meet her local requirements for textiles. In 1958 her import bill stood at Rs. 300 million. Initially NTC had the responsibility of operating the spinning mill established at Veyangoda, and in 1968 to increase substantially its production of cotton an integrated textile complex was set up at Thulhiriya. Both these mills handle 18 million lbs of spinning, 28 million yards of weaving and 77 million yards of finishing. A third mill at Pugoda was commissioned in 1973. Ceylon's demand for textiles is estimated to be 300 million yards and at present the Corporation meets four-tenths of this demand. With the full commissioning of Pugoda and Thulhiriya textile mills local production of textiles is expected to rise substantially. At present the Corporation has an authorised capital of Rs. 400 million and employs over 7,000 persons.

The State Engineering Corporation was formed on 1 January 1962 to carry out activities in the field of building and construction. The incorporation order No. 12841 which brought the corporation into existence defined its functions as follows: (a) the planning, designing, and construction of industrial and engineering projects; (b) the training of engineering and other technical personnel required for the above; and (c) functioning as consultant to state sponsored corporations and government institutions. In the thirteen years of its existence the corporation has undertaken large scale projects in the construction of factories and housing schemes. Construction work for the steel factory, cast iron foundry, textile mill and state flour mill, to mention only a few, was carried out by this corporation. It has also acted as a consultant to all government departments on building and construction matters and has constructed hospitals, flats, warehouses, dams and roads for them. At present this corporation has become a major construction and building enterprise in Ceylon whose capital contracts run into millions of rupees. After ten years of successful operation under the Ministry of Industries, the corporation has now been working under the Ministry of Housing for four years (see *SP* 2 1973 for a recent proposal for reorganisation).

The National Small Industries Corporation (NSIC) - successor to the Ceylon Carpentry Corporation - was set up in 1959 with a view to managing and integrating a series of small industries (Gazette No. 11840), and over the fifteen years of its existence it pioneered a number of manufacturing industries such as boat building, beedi production,

ayurvedic drugs, bricks and tiles and several relating to carpentry and furniture production (*CT* March 1962). Partly because of the diversity of activities it attempted to pioneer and partly because of the high cost of their operation NSIC was a doubtful proposition from the start, losing at a rate of one million rupees a year. The government as a result decided to dissolve the corporation and to transfer its activities to other corporations. Thus in 1969 it handed over the drug making complex to a new corporation (Ayurvedic Drug) and the boat building yards to the Ceylon Fisheries Corporation. When it went into full liquidation in 1972 (*CBR* 1973: 93) it transferred the remaining carpentry workshops, bricks, tiles and beedi manufacturing sections to the Ceylon Plywoods, Ceylon Ceramics and Ceylon Tobacco Industries Corporations respectively. NSIC is the first corporation to have been liquidated on account of financial loss.

The Ceylon Hardboard Board was established on 18 November 1959 under the SICA with a capital contribution of Rs. 450,000. Among others it had as its major objectives to process, manufacture and sell products derived from agricultural produce, particularly hardboard, insulating board, wall board, mill board etc.(Gazette No. 11958). Between 1962 and 1964 the activities of the corporation were suspended while the Ministry of Industries on its behalf undertook the task of investigating the feasibility of using hardboard for the manufacture of tea chests, and called world wide tenders for the supply (*ADR* 1963), erection and commissioning of complete plant and machinery for the manufacture of hardboard and also acquired a fresh site at Horana. The board recommenced its activity on 24 September 1964 only to be wound up in the latter part of 1969.

The Industrial Estates Corporation was set up on 1 January 1960 under the SICA for the purpose of establishing and developing industrial estates and to offer promotional benefits to small and medium scale industrialists in need of industrial space. In particular it was to provide buildings, roadways, communications, electric power, steam, gas, water, storage, warehouses, repairworkshops and other facilities required for the establishment of any industry or industries by any person or body of persons (Gazette No. 12028). The first venture of this corporation started at Ekala, Jaela with a variety of the above-mentioned facilities to enable a collection of small scale industrialists to produce such wide ranging goods as leather goods, canned fruits, printed fabrics, electrical fittings and other small equipment (*CT*. May 1962). The corporation had an initial capital of Rs. 2.5 million and in 1968 earned a gross income of Rs. 69,000. With the experience gained through this venture, the corporation has plans to establish similar estates on a regional basis in such areas as Jaffna, Kandy and Galle. The corporation now operates under the statutory framework of the Industrial Development Board having functioned for nine years under the control and supervision of the Ministry of Industries.

The Ceylon Fertilizer Corporation was established on 30 January 1964 under the SICA for the purpose of importation, processing, sale, supply and distribution of fertilizer (Gazette No. 13936). It has an initial capital of Rs. 8,000 and a provision for a loan of Rs. 4½ million as working capital. The corporation purchases its requirements of fertilizers at competitive prices from major suppliers all over the world, and supplies the entire fertilizer need of the Agrarian Services

Department. In addition it makes its supply available to government fertilizer subsidy schemes such as those for tea, coconut and rubber cultivation. The import of raw materials and the mixing and distribution of fertilizer by this corporation have shown a steady increase during the last five years owing to the government's agricultural development programme.

The State Graphite Corporation (SGC) was constituted on 2 July 1971 under the SICA (a) to mine, refine and process graphite and other allied minerals; and (b) to manufacture, sell and export products from graphite or other related minerals (Gazette No. 14964). In the short period of its existence the corporation has been vested with three graphite mines: at Kolongaha, Kahatagaha and Bogala. The corporation has also been vested with the responsibility for the management of a prospecting mine at Langalla. The SGC up till now has been preoccupied with the modernisation of these mines, providing adequate ventilation and other facilities to permit the workforce to work long hours in the mine. For the future it has plans to expand the present mines laterally, to establish industries using graphite as a major raw material and to enter new areas of mining such as mica which is mainly for export. With the passage of the Mines and Minerals Act in 1973, vesting the absolute ownership of mineral rights in the state, the corporation is in a better position to achieve these objectives.

The State Pharmaceuticals Corporation was formed on 22 October 1971 under the SICA with the following functions: (a) to import,

export, purchase, sell and distribute drugs; (b) to coordinate, promote, develop and rationalise the manufacture of drugs; (c) to manufacture, process and stock drugs; (d) to undertake pharmacological and pharmaceutical research and standardisation of drugs; and (e) to exercise quality control of drugs (Gazette No. 14976). In the four years of its existence the corporation has been operating mainly as an import agency for the drug and pharmaceutical needs of the country. At present 70 per cent of drug importing is directly in the hands of the corporation, and in the case of the remainder it exercises regulatory and supervisory control over the quality and variety of drugs imported. It is also reported that with the corporation handling the importation of drugs, the country has been able to save millions of rupees in foreign exchange, as a result of its capacity to obtain competitive prices through bulk buying. The corporation plans to set up manufacturing plants in the near future mainly to fill the gaps that exist in the production pattern.

The Sri Lanka Tobacco Industries Corporation was established on 13 July 1972 and started its operation with the assets of the beedi section of the Small Industries Corporation, valued at Rs. 2.8 million. At its inception the state fixed a capital contribution of Rs. 1 million with the following functions: (a) the import, distribution, and sale of beedi wrapper leaf; (b) the manufacture, packing, distribution, sale and export of beedies; (c) the cultivation and the promotion of the cultivation of kudumberiya, and the processing of this leaf for use in the manufacture of beedies; and (d) the cultivation of tobacco and the

processing and manufacture of tobacco and tobacco products other than cigarettes (Gazette No. 15/9). The corporation's activities have so far been confined to the first two functions i.e. import and manufacture of beedies. Prior to 1956 no beedies were made in Ceylon and like most other things at that time they were imported. After 1958, instead of manufactured beedies, the wrapping leaves and tobacco were imported. Importing the finished beedi was prohibited in 1961. This paved the way for beedi wrapping to become a cottage industry. In the short period of its existence the corporation had made profits totalling Rs. 14 million and has extensive plans to broaden the scope of its activities.

The State Fertilizer Manufacturing Corporation was established on 10 May 1966 under the SICA for the purpose of manufacturing, processing and selling all types of fertilizer (Gazette No. 14694). The initial capital specified in the incorporation was Rs. 190 million. During 1968 it acquired land for the factory and established a training centre for its technical personnel. The project on a later decision was capitalised to the value of Rs. 270 million to manufacture 500 tons of ammonia a day, and convert this to 850 tons of urea. When fully established fertilizer manufacturing will be the largest industrial undertaking in Sri Lanka.

The Ceylon Fisheries Corporation was set up on 1 October 1964 under the SICA with the express objective of developing and promoting fishing industries in Sri Lanka. Its major functions as stated in

incorporation order were: (a) fishing operations - deep sea trawler fishing etc.; (b) fish processing - canning, curing, drying, etc.; (c) construction and maintenance of fishing harbours; (d) marketing and distribution of fish; and (e) import and export of fish and import of fishing gear, tackle and other equipment (Gazette No. 14186). Having started with a token vote of Rs. 10 million, the corporation received a Rs. 36 million capital contribution in 1965. It started business in August the same year with the purchase and sale of wet fish supplied by beach consigners and fisherman organised into purchasing schemes, and the corporation's own staff. In 1969 the corporation was able to supply 11 million pounds of fish, of which 8 million pounds came from its own trawlers. It had its capital further increased in 1968 to enable it to establish fishing harbours, shore facilities, a gear factory, purchase of boats and transport vehicles and construction of markets and cold storage facilities. A Royal Commission appointed in 1970 to investigate its affairs and evaluate its performance criticised the lack of purpose in most of its activities (*SP* 9 1972).

The state industrial corporations are no doubt today important elements in the efforts towards economic development. Their success is thus crucial for the future prosperity and development of the country, not merely because they utilise Rs. 2,000 million worth of scarce investment capital in their undertakings and provide employment for half a lakh (50,000), but far more because their success or failure would determine the future role of the state as no other factor would do. For if they succeed in achieving the objectives set, realising profit

for further investment as envisaged, there would be renewed hope in the ability of the state to pioneer development: but should they fail, the whole programme of development would be slowed, incentive killed and state entrepreneurship discredited.

Thus it is important that they succeed in whatever they undertake, particularly at this point in development. But what could ensure their success and make their performance healthy? It is important that they have the right objectives, that is that they undertake only projects that are feasible. It is also important that such projects are carefully planned and evaluated and sited at places most suited to their development. These are essential and important preconditions; but by themselves they cannot ensure the success of these enterprises. The state enterprises must be allowed to operate according to the norms of business rather than politics. And they should be free of corruption, malpractices and nepotism. These in turn depend on the type of men placed at the top, and the nature of supervision and control exercised from the centre.

IV GOVERNMENT CONTROL OF CORPORATIONS

How and in what way has Sri Lanka attempted to control corporations? What governmental instruments and organs of control perform what supervisory and coordinating functions? Can the pattern and procedures that exist to ensure efficiency and overall performance be justified? These are vital and important questions to answer because the view seems common in Sri Lanka that, in spite of the intentions of early legislators to give corporate boards the necessary autonomy, they have no more freedom today than they might have enjoyed as a specialised section of the Ministry of Industries (Naylor 1966: 17; *ILO Report* 1966: 3).

This chapter seeks to examine the system of control exercised over State Industrial Corporations. For this purpose the first question asked is why and where are public controls over state undertakings in fact necessary? With the understanding thus gained of the nature and type of control necessary to make corporations account or perform efficiently, the actual control exercised by the Ministry and other central organs of control are examined.

The Purposes of Control

Among the arguments advanced in favour of the use of public corporations in Sri Lanka none was more forceful than that which urged that the state enterprises would require a degree of freedom that could not normally be ensured under the departmental form of administration

This aspect or virtue of corporate form in fact dominated the whole discussion when the state industrial corporations bill was brought before the House. No member disagreed, and indeed everyone favoured the view that corporate autonomy was essential for the efficient and economical conduct of state enterprises. Such freedom, however, can by no means be absolute (Manitios 1968: 513); for corporations are an important segment of the state machinery, and particularly in a developing country such as Sri Lanka they are a vital instrument of social and economic development (Balog 1965: 40; Glentworth 1973: 193). It is essential that the organisation and operation should be closely watched and where necessary brought in line with the overall development programme. It is equally important, as they employ a great deal more of public funds than an ordinary government department or other public institution, that their overall performance and progress is studied and evaluated. In short, the case for corporate control is as strong as the need for corporate freedom.

The major objective of any system of governmental control over public corporations should primarily be to oversee or ensure the purposes for which the corporation is set up are fulfilled. It is hard to generalise, however, about what aspects of the corporate activities should come within the purview of the central authorities to serve this end; for different corporations have different requirements and controls that are necessary for one type of corporation may not be proper for another (Webb 1955: 162). Besides, controls to be effective, must also be discriminatory to differentiate well

established and ongoing enterprises from those not so well established and at the initial stage of their operation. The pattern of control moreover should be in accord with the objects and purposes of government. Inparticular, it should vary with the needs of the planning adopted. Thus the control, and when and how it is exercised over a corporation, should vary with the nature of the corporation to which the control is directed and with the type of policies and programme pursued in the country.

Nonetheless there are some broad areas in corporate activities or operations that should be the subject of a control system. These relate to (a) attainment of stated targets or objects; (b) evaluation of overall performance; (c) co-ordination of individual targets to overall national objects and programme; and (d) ensuring public accountability (see *Select Committee* 1968: 17).

The attainment of state targets and evaluation of overall performance are aspects that no public control system can afford to ignore (Hanson 1962: 23). Public corporations are set up with public funds to provide goods and services. What should be produced, how much and at what cost are matters of public importance. The government as the guardian of public interest and the provider of capital funds and subsidies for the corporation should ensure to itself and to the public and parliament that their organisations are efficient and enterprising also that the goods that they produce and the services that they render are as economical as could be produced under the public auspices (Pylee 1961: 355). It must also

ensure that the public funds are committed in the best possible manner and no corruption and malpractices prevail to disadvantage the efficiency of the corporation (Ranganathan 1969: 70). Such concern over corporate performance is important as the corporate management under public auspices would have no direct financial gain of the kind associated with private ownership and the organisation itself being public would lack the profit motive or other incentives to optimise capital use, reduce production costs or to attain targets with minimum efforts and funds. In pursuing its stated objects, a corporate board could get on in a sloppy sort of way; or become involved in activities and trade practices, contracts and purchases not so well calculated to enhance the overall performance or interest of the business; or worse it could expand its organisation and activities contrary to the intentions of the parliament. The Fisheries Corporation, a body created to promote and develop the fishing industry, for example, had at one stage more men and materials committed to building and construction than were devoted to the production and sale of fish thus reversing the priorities and aims for which the corporation was established. 'Had the time, energy and money spent on the building operations' said the commission of enquiry into its affairs 'been devoted to the fishing the result would have been quite different' (*SP* 9 1972: 173). The fact that corporate personnel have no stake in the capital fund employed in the corporation could make some corporations operate in a 'reckless' and 'thoughtless' manner and invest public funds in activities without properly studying or evaluating their overall purpose. The first five years of the Salt Corporation operations,

as the Salt Commission of inquiry established, is a good example of how careless a corporate management could become in handling developmental projects and committing public funds (TC 31 August 1963).

Public control over production targets and supervision over corporate performance are thus essential; the government at all times must have access to and greater say over the plans and projects of the corporation long before capital is committed to its programme and projects. None would deny the need for such controls; nor would such controls be considered to constitute any infringement upon corporate autonomy.

Apart from overseeing and evaluating corporate production and performance, governmental attention and control must also be directed to some of the important business decisions of corporations. Public business enterprises differ only a little from private business in so far as management decisions are concerned (Patterson 1970: 94). The state corporations must decide like private businesses how much to invest, when to invest and in what form to make that investment. Besides, they determine the rate of pay and number of persons to employ in their undertakings. Also of importance to them is the profit margin and the end uses to be made of profit. The corporate device, some argue, can only be justified to the extent that state enterprises themselves have the power to make these decisions. This may be the ideal of a corporate system; but whether or not corporations in fact have full freedom to make these decisions depends on several factors, ranging from the government's economic policy and the capacity

of the management to make these decisions to the position the corporations themselves occupy in the economy (Coombes 1971: 41). The fact that some of these decisions - investments, wage structure and profit - have implications far beyond the bounds of the individual corporation and the fact that state corporations themselves are emerging as instruments of economic policy should make many of these decisions of critical importance to the government. No government - not even one committed to *laissez faire* - could free itself totally from expressing views on these matters and reserving powers to assert its will. To what degree a government assertsitself and the areas in which it does so is another matter, but most of these decisions must undoubtedly be subject to the public control system.

Arising from these considerations, and equally important for public control is the need to co-ordinate the corporate activities and organisations with the overall plan and programme of the government (Hunt 1965). In essence what one corporation does should be in harmony with what is envisaged or planned for in the other sectors as well; otherwise its production and operations would tend to be out of tune with the rest of the economy; worse by tying up scarce capital in unrelated production, it could starve programmes and projects urgently in need of implementation. For instance, a government that sees 'building and construction' as a major segment of its development programme may prefer to commit more capital funds and foreign exchange to the enterprises closely related to that programme than to others, while another government with a different emphasis may reverse such allocations to serve its ends.

Whatever the priority the government may choose - and this can change from time to time as from government to government - the organisation and operation of the corporations should be brought in line with those programmes; control for this purpose is therefore essential and inevitable. One may well argue that an enterprise, with the proper study of the announced plan, could organise its operations and programme accordingly and that outside control on these matters is unnecessary. Even such plans, though they may not be in conflict with the announced plans, should come under scrutiny to make them satisfy other requirements. For only the government can make a proper assessment of the competing demands elsewhere in the economy and therefore of the suitability or otherwise of a given project conceived by the corporation. Public control over corporations thus becomes essential to review and determine their goals within the national needs and priorities.

The need to account for the actions and omissions of corporate management at least in the sphere in which governments are made responsible is yet another reason for the exercise of control over corporations. On this view, although corporate boards derive their powers and objects directly from the parliament they should not be left wholly responsible for the exercise or non-exercise of their powers. It is the minister and his government who should have to answer through the powers and responsibilities conferred in relation to supervision and control over corporate affairs. Though the Minister may and can deny responsibility for the day to day conduct of business, he cannot, nevertheless, escape resposibility for the manner in which a corporation

has discharged its objects and obligations and the way in which it has progressed and performed. These are matters that should come directly under the authority of the government and its representative the minister responsible for its affairs.

It is appropriate at this stage to ask whether there are any forms of control that government in all circumstances must avoid or any freedom indispensable for productive efficiency. One can see four such areas where political control, if kept to the minimum, would enhance the overall efficiency of the corporation. The freedom to allocate its own resources within the limits of its capital endowment is undoubtedly one. Unless this freedom is guaranteed, corporate status can have no meaningful purpose and in fact it is to ensure this freedom, obviating thereby the need to refer to governmental rules and regulations framed for public expenditure, that corporate status is often conferred on business activities. Besides, the corporation must also have a large measure of freedom, if not complete freedom, to frame its own personnel policies and programme within the broad criteria set by the government. The government may, if it desires, reserve to itself the power of sanction for certain key appointments but at no time should it restrict the enterprise's freedom by tying it down to set procedures and practices. Thirdly, the corporation must have the freedom to devise its own internal organisation and procedures to carry out its activities without too much control imposed from above. It should be free to employ any work methods, procedures, or organisation depending on the nature of the tasks in hand. 'Competence in organisational matters

is a hall mark of a good manager, and one of the reasons for giving the undertaking some degree of autonomy is to enable the management to exercise its creativity in this field' (Hanson 1967: 47). Finally there is the freedom to conduct its day to day activities without external interference. For if corporations are to wait for decisions on their day to day transactions the purpose of corporate status would be in question.

These are, in short, the areas where control should be or should not be exercised over state corporations. More precisely these are the objects government should seek through control and areas which it must avoid in pursuing these objects. Whether or not government controls over corporations in Sri Lanka subserve these ends or penetrate further down to curtail managerial freedom is the fundamental question one must attempt to answer.

The Legal Control

Central to this is the corporate statute that regulates the operations of the corporations. 'The single most critical control point', says the Rangoon report, 'is the law, decree or other basic authority providing for the creation of a public enterprise', and 'this is likely to determine in large measure all other organisational relationships' (*UN* 1954: 18). The State Industrial Corporations Act that regulates the operations of the industrial enterprises in Sri Lanka is a relatively weak document in this respect, in that while it defines the powers of the government clearly, it fails to enunciate

the organisational and operational principles that should govern the corporate activities. By comparison the statute governing, for example, the Ceylon Transport Board and the Port Cargo Corporation is clear in stating what a corporation must do and must not do, the actions it should take on its own initiative, and the actions for which it should seek the prior consent and sanction of the government. The State Trading Corporations Act, 1970, an enabling act similar to the State Industrial Corporations Act, thus sets out in Section 5 that a corporation under the Act discharges its functions and carries out its objects in such a way that its incoming revenue is sufficient to cover its costs. By section 24 it defines how it shall defray its revenue, and by section 22 where it may borrow and for what purpose borrowed money shall be applied. By section 5 it empowers the corporations to enter into contracts or other agreements with private establishments to carry out their objects and to formulate developmental plans and train personnel.

These provisions clearly show a corporation where it is free to operate and where it must seek governmental approval, thereby it minimises the area of *ad hoc* control. The greater the number of statutory provisions that regulate the corporate activities in the public interest - and very clear and specific they are - the less would be the need for central control on these matters. For corporations in obeying such regulations as have been imposed upon them, would be fulfilling some of the purposes for which public controls are essential. Statutory provisions which specify what a corporation must do or must not do, or define the limits within which a certain

decision may range, are the most satisfactory instrument of public control.. The board has the advantage of operating under defined terms; and the government is relieved of the frequent need to issue directions on particular questions' (Ramanadham 1964: 49).

Except for the few provisions relating to the form of accounts, borrowing and profit, which are vague and imprecise, the State Industrial Corporations Act does not contain any detailed instructions as to how a corporation should raise its funds, or apply its surplus, where it may borrow and for what purpose it shall apply funds. Only recently - that is with the passage of the Finance Act No. 38 of 1971 - have these corporations been brought under a clear set of obligations and conditions (Siriwardena 1972: 55). This act now makes it obligatory that corporations conduct their businesses so that the ultimate surpluses on revenue account shall at least be sufficient to cover the ultimate deficits on such accounts over a period of five years. The act also now enjoins the preparation of an annual budget projecting its revenue and expenditure which must be forwarded to the appropriate Minister, the Minister of Planning and the Minister of Finance. Thirdly, the act sets out how a corporation shall determine its revenue, surplusses and deficits for accounting purposes, and prohibits a corporation from incurring capital expenditure above Rs. 500,000 without ministerial sanction.

As opposed to the limited provisions regulating corporation activities, the act nonetheless reserves sufficient powers for the Minister to secure control over corporations. These can be grouped under two headings: (a) Administrative powers; and (b) Financial powers. Administrative powers are those relating to the appointment and dismissal of corporate boards, issuance of ministerial directions and the like, and financial powers are generally those which require ministerial acquiescence or consent to financial decisions (Paul 1957: 158).

By section 12 the act provides that the Minister shall appoint the directors from among persons who appear to the Minister to have had experience of and shown capacity in industrial, commercial and financial matters. By section 14 (1) (2) and (3) he is granted the power to appoint the managing director, and to determine the terms and conditions of his employment. Section 3 (2) empowers him to alter the objects of the corporation by amending the incorporation order.

Important among ministerial powers is the power to issue directions to the board. According to section 31 (1), 'the Minister may from time to time give the board of directors general directions, and after consultation with such boards special directions as to the exercise of the powers and the discharge of the duties, and such directions shall be carried out by the board'. The presence of this clause emphasises that the ultimate responsibility for policy is that of the Minister. Also, it is in the overall power of the Minister to ask

for and be furnished with any information concerning the affairs of the corporation, and to direct any person to hold an inquiry into the work and financial position of the corporation. The powers to frame rules, and prescribe various activities to be undertaken and the general procedures to be adopted as to budgets, annual accounts and financial statements are also assigned to the Minister.

These are direct and definite powers through the exercise of which the government can regulate, co-ordinate and supervise corporate activities. The then Minister of Industries himself explained, when he introduced these provisions in October 1957, that 'these are powers to transmit government policy to the board of directors and to prevent them from going counter to the government policy' (*CHRD* 18 October 1957: 950). He justified powers by saying that such powers exist whenever the corporate form is present. 'I have not taken upon myself any dictatorial powers that are not obtaining in all nationalised enterprises in Great Britain. They have all these powers in U.K.; the Minister has special powers, general powers, powers of direction, powers of approval and powers of framing regulations. These are more or less powers that the Minsiter should have from one point of view namely to have the required amount of public control' (*CHRD* 18 October 1957: 950).

Sufficient powers thus exist for the Minister to control corporations. But the question still remains as to how they have been exercised? For the existence of such powers, though necessary for the exercise of controls, does not tell us their extent or the manner in

which they have been exercised. Nor does the presence of such powers - even if defined and limited - guarantee that the controls are limited to those areas or aspects which the corporate statute specifies. In reality the degree of control or influence wielded by the government is a function less of legal provisions than of conventions. Hence for fruitful insight into corporate control in practice, appeal must be made not only to the extent and character of formal powers assigned to the Minister but also to the actual record of the manner in which they have been exercised.

In the rest of the chapter, therefore, attention is focussed on the actual control functions performed by three ministries: the Administrative Ministry, the Treasury and the Ministry of Planning and Economic Affairs. For it is through them that the governmental intentions are made known to the corporations, and therefore control by these bodies would reflect the extent of actual freedom that government chooses to confer on corporate bodies.

Controls in Practice

In commenting on the government's control over corporations, a UN expert Naylor George remarked that 'corporations in Ceylon stand on their own bottoms in theory only'. He went on to say that 'whatever the reasons, the result is that the chairman of each corporation retains the responsibility while all of the authority rests in a division of the Ministry of Industry' (Naylor 1966: 17). If this is a harsh judgment, it is, nonetheless, true. For an analysis of control exercised by the Ministry over corporations reveals that there is little that a corporation

can do without the Ministry's consent and approval. Whether this is an imposition on the part of the Ministry or the result of a lack of confidence or competence on the part of the board is hard to say. In certain cases, the Ministry has laid down the pattern and procedures for the conduct of the corporation's activities in such detail that no board can take any initiative on its own. There are, besides, actions and policies concerning the affairs of the corporations which only the administrative Ministry can undertake. The rigidity of some of these controls can be illustrated.

For instance, no corporate board can conduct its major transactions without reporting them to the Ministry; and indeed it is not unusual for corporations to seek ministerial approval and suggestions even before they are finalised. Besides, where corporations are not specifically exempted from Treasury and Financial regulations that regulate governmental activities, they are normally expected to observe them. 'Unless the Financial Regulations exclude them', stated the Auditor General before the Public Accounts Committee, 'we see to it that the Financial Regulations are observed' (*PAC* 1963: 83). Thus it becomes the responsibility of the administrative Ministry to see that the conduct of corporate transactions is in conformity with these regulations (Interview with a former officer of the Department of Industries, who was also a former chairman of a corporation, June 1975). However, the extent to which the observance of such regulations is necessary can be seen in the comment made by the Salt Commission

of inquiry. 'The Chairman has conducted his activities', the Commissioner said, 'as if he were unaware of administrative and financial regulations' (*SP* 9 1963, 104).

In the matter of purchase of raw materials and other supplies, the corporations are again compelled to observe Tender procedures in the same way as departments. A Treasury circular, for instance, charges that a corporation should give reasons if at any time it accepts quotations which are not the lowest tendered (*TCL* 29 May 1966). Further the ministry reserves the right to fix the upper limits of every such tender, and no contract exceeding Rs. 50,000 can be concluded without prior consultation and approval (interview June 1975). The restrictive nature of these conditions is obvious and in fact corporate chairmen are unanimous in complaining about their rigidity and unsuitability. They say that in the case of purchase of equipment and machinery, for instance, the adherence to these procedures tends to leave them with goods that are not ideal for local conditions. For the lowest quotations and the quality of the goods needed sometimes do not tally.

In the case of appointment and dismissal of corporate personnel, ministerial control is further restrictive. For no appointment to staff posts, such as Engineers, Accountants or Chemists can be made without the Ministry's approval and they can only be made at a salary fixed by the Ministry. In a circular letter sent to the corporations, the Ministry further prescribes the scales at which the corporations should pay their other categories of employees (Ministry Directive

No. EB 2300, 16 December 1957; also see Chapter 9, Report Salt Commission Inquiry, *SP* 9, 1963). No clerk is thus to be employed other than at a salary of Rs. 75 and no stenographer other than at Rs. 87 per mensem initially. These conditions extend to peons, book-keepers, typists, storekeepers, messengers, watchers and time-keepers etc. (*SP* 9 1961: 75). Circular letters 312, 313, 314 (*A.G.Report* 1972: 292), further determines the loans and advances a corporation can pay its employees. In the payment of allowances and allocation of overtime for corporate personnel constant reference to the Ministry is needed.

Apart from contract, purchase and personnel, 'price' is another important element in the operation of the corporations. Whether a corporation is successful or not as a business concern depends on its income and therefore in part on the price it can charge for its product. 'A corporation that constantly shows a book loss', maintained the chairman of the Eastern Paper Mills Corporation in the memorandum he submitted to the government requesting an increase in the price for his product, 'would have wide ramifications not only on the political aspect of its operations, but also on the morale of those who work for it' (*Memorandum* 1965: 2; See also Kanesalingham, 1970). However no corporation is allowed to determine the price of its products, and the authority in full is assigned to the Ministry. According to the Treasury Circular Letter of 31 August 1969, the Ministry is required to frame the price policy for all corporations and in doing so it is required to take into consideration the following guidelines:

(a) the unit cost of production and the level of operational efficiency;

(b) the comparative level of markets and the C.I.F. prices of the imported equivalent;

(c) the return on capital invested by the government which the corporation is expected to provide;

(d) the level of profitability which the corporations should aim at.

Although these guidelines are comprehensive and well thought out, not all prices fixed by the Ministry conform to them: of the selling price fixed for flour, for instance, the Auditor General said that 'it does not include any proportion of the expenses relating to milling, establishment and administration', and that the corporation would continue to incur losses unless realistic prices based on actual costs were fixed (*A.G. Report* 1972: 300). On occasions corporations are also forced to sell at a lower price to the public sector, sometimes much below production costs (Naylor 1966: 52). The complaint of the Paper Mills chairman brings out clearly the restrictive nature of this practice:

> Since 1959, several attempts have been made to upgrade prices for the public sector in conformity with costs, but the Treasury has blocked. In fact the formula adopted for pricing local products has not been applied in the case of this corporation. While it is appreciated that the primary responsibility of the Treasury is to keep down the cost of purchase for government departments, it is obviously undesirable to achieve this at the expense of beggaring a corporation. It is essential therefore that the Ministry should authorise purchase for public sector on the same terms and conditions as sales made to the private sector (*Memorandum* 1965: 3)

On the production side, important and detailed controls are also exercised through the Ministry's right to receive and approve budgets. Three months before the commencement of the financial year every corporation under the charge of the administrative Ministry submits for the perusal and approval of the Ministry a comprehensive budget containing the corporation's production targets, profit targets expected rate of return on government investments. Included in this budget are also the corporation's capital development programme and a list of other new services it expects to provide in the forthcoming financial year (Finance Act No. 38, 1971, section 8.3). Apart from the annual budgets, corporations also submit periodical reports stating the progress made, difficulty experienced, any shortcoming in performance and anything else to do with cost and stock position, to enable the Ministry to evaluate the performance of the corporation as against the budgeted targets (*TCL* 31 July 1969). The extent to which the Ministry could control corporations through these means need not be gone through here. It is sufficient to say that unless the above budgets and periodical reports are approved, the corporations have little or no authority to commit any funds to their schemes either current or capital.

The other matters that come within the purview of the Ministry in this connection are:

(a) Review of the draft Annual Accounts submitted within four months of the close of the financial year;

(b) Consideration of proposals for the appropriation of profits to Reserves and the shares to be paid to the Consolidated Fund.

Equally rigorous and detailed are the controls exercised by the Treasury over corporations. In some instances its controls are necessitated by the unique position it occupies in the administrative system and in other cases they are the result of its influence within the government. Though it is not empowered to deal with the state undertakings directly but is expected to act through the Ministry of Industries, its impact on corporate affairs is nonetheless real. This is clear in the number and variety of controls it has come to exert over the years. Among other things, it today (a) examines the annual budgets in association with the Ministry of Industries; (b) reviews the draft annual accounts and balance sheets which must be made available to it three months before the end of each financial year; (c) examines in association with the Ministry any proposals relating to appropriation of profits to reserves and the amount to be made available to the Consolidated Fund; (d) supervises procedures, rules and regulations formulated for the conduct of the financial business of the corporations; (e) initiates and promotes measures to improve financial administration - sound budgeting, accounting and reporting systems; and (f) appoints representatives to serve on the boards of various corporations (*TCL* 31 August 1969).

Where changes in the organisation and operation of a corporation are necessary, Treasury is further empowered to issue circulars to regulate them. In fact it was through these circulars that in 1969 the Treasury brought about changes in the budget format of the corporations (*TCL* 30 August 1969); introduced uniform accounting and administrative procedures (*TCL* 1 June 1970) and prescribed the limits of remuneration and travelling expenses to be paid to the board of

directors (*TCL* 2 July 1961). Where it thinks there is corruption, malpractice or nepotism it initiates action to investigate them (*TCL* 30 September 1968). Elimination of fraud and irregularities has been the object of many of its circulars. For instance, in the circular it issued in 1967, Treasury instructs as follows:

> You are therefore requested to ensure that the officers responsible for supervision in your department are vigilant in enforcing all internal control measures. In any case where the existing internal systems are considered in any respect inadequate, the advice of the Treasury financial division should be sought (*TCL* 2 February 1967).

However, the most important control functions of the Treasury are those relating to the investment and borrowing of the corporations. Since most corporations are dependent on Treasury loans and advances for part of their capital expenditure, every new investment for expansion and diversification must have the prior approval and consent of the Treasury; and until such approval is granted, no capital expenditure however big or small can be committed. Mr. Amerasinghe, the Permanent Secretary, explained why such control was necessary:

> The question has been raised by [every other] Ministries who put up projects. They say, "we have our own men who advise us.. Is there any necessity for a second examination by the Treasury? I think there is a very great necessity for another examination by Treasury. So far as the ministry is concerned, it is only concerned with its own sphere of responsibility. It does not generally consider how anything it does would conflict with something that somebody else wants to do (*PAC* 1963: 101).

With a view to enabling the Treasury to play a more active role in the affairs of the corporations, the government in 1964 decided to create a separate division within the Treasury with a primary responsibility to coordinate and regulate the financial, management and establishment aspects of all corporations (*CDN* 10 August 1964; also *ADR* 1971: 30). When he proposed this the Minister explained why such a 'division' was necessary, thus revealing the enormous authority wielded by Treasury over corporate affairs today:

> The experience of the past several years provides ample indications that the corporate autonomy has had many undesirable consequences.. I have decided to create within the Treasury a 'unit' which will keep the finances of the corporations under constant surveillance. All corporations will be required in future to submit annual budgets of revenue and expenditure for the Treasury approval and no major departure from these budgets will be permitted except with the sanction of the Treasury (*CHRD* 30 July 1964: 1634).

That is precisely what the Corporations Division within the Treasury does today.

Apart from the Treasury, and the administrative Ministry, the industrial corporations are also subject to overall review and supervision by the Ministry of Planning and Economic Affairs. For instance all new proposals, such as those for increasing productive capacity or for the employment of additional men in the undertakings, should have the approval of the Planning Ministry. Its approval also must be sought for any increase in the corporation's authorised capital, or for additional loans and grants or for investment of its own funds above five lakhs of rupees (*TCL* 31 August 1969).

It also provides guidelines to the sponsoring Ministry for economic and financial evaluation of the corporation's activities and advises it on the measurement of efficiency in the enterprises. The other functions performed by the Ministry *vis-a-vis* industrial corporations may be stated as follows:

(a) examination of estimates of demand for the corporation products, growth forecasts, etc;

(b) reviewing the quarterly reports for the purpose of preparing an annual evaluation report on the activities of each corporation;

(c) advising corporations on the format of their Annual Reports and the details they should contain.

Much of the Ministry's control is of a general character exercised a step or two removed from the corporations. Nonetheless its overall impact on the corporations operations is substantial, for unless the Ministry is in favour of corporations' proposals on development schemes, prices, cost structure, estimation of demand forecast etc., it can largely stifle the operations.

There is no denying that wide powers of control exist in the Ministries and other organs of central control. Perhaps wider than they need be. Almost every aspect where corporate freedom is eagerly sought and conferred in countries elsewhere has been brought under the control of the above authorities. The board of directors are not completely free in the usual sense as they are made to observe directions on many matters which are purely internal to the corporate management.

'Judging by modern management practices', observed an ILO expert, 'there is insufficient delegation of powers to the board of directors .. the interpretation of the State Industrial Corporations Act by Ministry officials has led to this large degree of control over day to day management of the corporation..'(*ILO* Report 1966: 3). The same observation was made by the UN expert who made a study of these corporations when he said that the Ministry of Industries is exercising more intimate control than was apparently intended when the State Industrial Corporations Act of 1957 was passed' (Naylor 1966: 39).

Why have such controls become necessary? Having created the board with the legal status to enable it to operate as an independent entity, what made government exercise such a wide variety of controls? Are there any specific reasons peculiar to the Sri Lankan situation which make these controls imperative?

It would be pretentious to argue that all such controls are necessary or inevitable in the Sri Lankan situation; but some of them most certainly are. In the light of the statutory provisions most controls by the Ministry could be seen as unlawful. For instance, in the case of appointment and dismissal of corporate personnel, the Act clearly empowers the boards of corporations to appoint and dismiss their own staffs, and the exercise of controls by the Ministry in this instance appears to be a gross violation of the statute. The Permanent Secretary to the Ministry of Industries himself admitted the lack of legal validity

for most of the Ministry's authority over corporate administration (Samarasinghe 1964: 10). Nonetheless, it would be difficult to sustain the view that, in the context of Sri Lanka, an administrative Ministry or other organs of control should or could confine itself to matters that are specifically laid down in the statute. For most corporations that start their career under public auspices are raw organisations requiring a great deal of help particularly at the initial stage of their operations when construction of a factory, recruitment of new personnel and the institution of new methods and procedures are involved. The Ministry cannot avoid responsibility by saying that it would not act beyond what is stated in the Act, as it certainly has to play and in fact is called upon to play an active role (*PAC* 1972: 149), even to the extent of day-to-day supervision and control, to get the corporation and the enterprise off the ground.

Even after the corporations are well established, the introduction of detailed procedures - if not in all aspects of their administration, at least in some areas such as recruitment of personnel, purchases and contracts - may also be necessary in the Sri Lankan context. When two corporations maintain different pay scales for the same job, for instance, this tends to create a situation politically embarrassing to the government (for the Minister's view *CDN* 24 August 1963; for the Parliamentarians' view, *CDN* 26 August 1967; *CO* 17 February 1970). Unions organised on an occupational basis - clerks, stenographers, metal workers etc -tend to exert pressure on the government to get uniform pay and better living conditions for their members (for the role of Trade Unions, *CDN* 13 May 1963, 23 September 1963; *CO* 5 January 1970). Loans

advances and allocation of overtime have also been matters for union strikes (*CDN* 23 January 1965; *CO* 28 August 1963, 16 October 1970). Aware of such situations, or as a result of previous experience in these matters, the government through the Ministries tends to regulate most such procedures on wages, salary and overtime etc. (*TC* 14 August 1963). As regards its intervention in the case of tender procedures, contracts and other financial matters, the known and proven abuses and corruption of the boards and others in responsible positions have been the major reason for much of the centralised direction and control. The two commissions of inquiry recently appointed to investigate alleged corruption and other malpractices did conclude by positively charging management with a wide variety of corruption and abuse of authority (*SP* 9 1963, chapters IV and IX; *SP* 9 1972: 79-120).

Aside from the existence of corruption and malpractices, the absence of clear administrative and financial procedures and other control measures within the corporate system itself has contributed to the introduction of a great deal of control to rectify these matters. The reports of the Public Accounts Committee (PAC) contain convincing evidence of the extent to which the corporate managements have been lax. Even after repeated instruction by the PAC to do so, the corporations have failed to adopt practices and procedures necessary for sound financial management. As far back as 1963, for instance, PAC observed:

> Your committee next desire to refer to the financial and administrative regulations.. Your committee have little doubt that had suitable regulations existed to govern the conduct of business.. many of the losses might have been avoided.. The absence of suitable regulations

> militates against the satisfactory setting up and proper functioning of internal controls which are essential for the avoidance of fraud, wastage and inefficiency (PAC 1963: 33).

Even as recently as 1973, the same observations run through most of the Accounts Committee reports. It is difficult, in the light of these shortcomings on the part of the corporate administration itself, to see how the government could remain an idle spectator.

Perhaps a far more important factor here is the 'system' within which corporations and government have to operate. Parliament without a doubt expects the government to play a more positive and active role and holds it responsible for every omission and commission of the corporations to an extent that would belie the separate charter or legal status of the corporations. The Public Accounts Committee also demand a more close and intimate supervision of corporate affairs even to the point of interference in their daily transactions. Typical of the role expected and attitude maintained by these bodies is the following recommendation which the PAC made to the Parliament:

> Your Committee wish to refer to the question of the supervision exercised by the Ministries over the corporations and Boards functioning under their control. From past experience and from . . previous reports of the Auditor-General and the recommendations of the PAC, the areas where corporations are likely to make mistakes are known, However, it is a matter for regret that when a new corporation is set up for some purpose, every single mistake made in the past is repeated. In the view of your Committee the Ministries are partly to blame for this situation. When a new corporation is

> formed it is the duty of the Ministry to call up the management of the corporation and brief them of the errors that had taken place in the past and warn them against their repetition. There should also be established, at the highest possible level, a close liaison between the Ministry and the corporation to see that these errors are not repeated. Your Committee trust that some arrangements would be made on the lines suggested to enable the Ministry supervision to be effective and a continuing process (*PAC* 1972: 59).

Even stronger than this was the demand made upon the Permanent Secretary to the Ministry of the Industries by the chairman of the Public Accounts Committee, when he admonished him as follows:

> The other matter is this. Every time a new corporation is started all the possible dangers are known from the previous audit reports and the previous reports of this Committee. But every single mistake has to be repeated.. What is the point in a continuing ministerial supervision of this whole area unless when you start a new corporation you call these people and tell them, 'Look here, these are the mistakes that happened in the past, do not repeat them', and unless somebody in the Ministry, the Chief Accountant or the Permanent Secretary, keeps a liaison with the actual accountant of the corporation to see that these mistakes are avoided? .. There is a certain angle of Ministerial supervision that is necessary; otherwise *there is no point in saying that the Permanent Secretary is the Chief Accounting Officer*. That supervision is not there. (*PAC* 1972: 148-9). (Emphasis added by author).

It would thus be hard to criticise the government for the close and detailed control it exercises over industrial corporations. The only valid criticism would be of their adequacy or effectiveness.

The (in)effectiveness of Government Control

How effective is the government control on matters which are traditionally recognised as policy matters, which belong to the government's domain of responsibility, as distinguished from day to day operations? To be effective in this regard, said the Indian Reform Commission in admonishing the Indian Government, control 'should be confined to basic things and key points. By reducing the spread of government control', it went on to say, 'it will be able to focus attention on vital and strategic matters and therefore ensure effective compliance with the government policy. A well regulated control system should therefore not be diffused and dispersed' (Indian Reform Commission 1967: 30). When we look at the Sri Lankan situation, we find numerous controls are being exercised over all and sundry matters, and the obvious question that arises is whether the control system is not self-defeating by missing the wood for the trees.

The Rajapakse Committee in 1971, after a year-and-a half's study of the system, concluded that many of the controls are wasteful, overlapping and at times obnoxious because unrelated to the real needs of the corporate administration. The committee said: 'Various agencies such as the Ministry in charge, Ministry of Planning and the Treasury call for different types of information from public corporations to review and examine their operations. This uncoordinated attempt to review only results in a heavy burden of clerical work on the corporations. The figures submitted cannot be considered reliable. Therefore, while

there has been the intention of the government to oversee and review the work of the corporations, in practice the operation has been a failure (Rajapakse Committee 1971: 214). The attitude of the Salt Commission of inquiry was the same: 'The present supervisory control of state corporations is not adequate ... we therefore consider the state corporations should be subject to greater supervision than at present' (*SP* 9, 1963: 106). The difficulty with ineffective control is that while it inhibits operational initiative by imposing an external apparatus, it fails in its objective of regulating matters in those areas where control is essential. Several factors have combined to render governmental control ineffective.

Firstly, as we said before, and the Rajapakse Committee itself emphasised, the Ministry is so preoccupied with organisation and procedural details that it would be difficult for the Ministry to deal with them all and to effectively formulate an overall policy framework for the operations of the corporations. When one adds the total number and variety of corporations that exist and need supervision in this manner the conclusion is inevitable. Furthermore, the Minister and his Ministry cannot devote themselves entirely to corporate administration as they are entrusted with other responsibilities as well. For example, the Minister responsible for Industries in 1961 had several other portfolios to administer including Home, Cultural Affairs and Fisheries in addition to his onerous parliamentary responsibility as the leader of the House and Deputy Premier. In fact, even at this

stage there were questions as to how effective a Minister's supervision could be when he had such an odd collection of Departments and subjects to administer:

> Twenty-one departments are too many for even the ablest and most energetic Minister.. He has to attend to Buddha Sasana problems on one side, with cultural problems on the other and he has to look after the Kachcheri affairs. He cannot give his personal attention to directing policy.. The Honourable Minister *can look after Industries only if he is concerned with this subject alone, only then can he seriously study the various implications of our industrial problems* (*CHRD* 4 September 1961: 1732). [Emphasis added by author]

Despite these initial criticisms the situation did not alter over the years: the present Minister also has several other departments and subjects under his care.

Secondly, the Ministry of Industries itself is not well equipped or manned to deal with all the problems of industrial corporations. Nor is it suitably organised to control and direct corporations from the centre in the way it has attempted. Of the five sections that operate within the Development Division of the Ministry of Industries, the Public Sector Management section composed of no more than half-a-dozen officers is vested with the overall responsibility of supervising and controlling all the corporations. When all the problems of all the corporations are poured into this 'organisational bottleneck' control and supervision become unmanageable. The Development Division itself in fact failed to change over the years in accord with the needs and requirements of the corporate system. The Permanent Secretary to the

Ministry of Industries, after comparing the Sri Lankan system of control and supervision with that prevailing in India, alluded to this:

> It is clear from the picture drawn that much of the industrial development [India] is to a large extent dependent on the efficiency and competence, the speed of work and the availability of information and the expertise of the Development Wing.. Obviously in Ceylon, it is not necessary to have so extensive an organisation as the Development Wing in India. But we feel that the question is not so much of size as one of form and quality.. One cannot say that the Development Division in Ceylon is adequately or competently staffed technically to perform the functions that it has as its objective (Samarasinghe 1964: 15).

Thirdly, an even more serious and limiting factor for effective control is the appointment of public officers as chairman, directors and members of the corporate boards to undertake full responsibility for managing state enterprises. So common has been this practice that there was not a single year in the seventeen years when departmental officers had not been on the boards of corporations. Thus at present, the Permanent Secretary, Additional Permanent Secretary, Assistant Secretaries and Directors of the Ministry of Industries are serving on the boards of several corporations, some of them as chairmen, others as directors (see chapter V for details). In addition, every other board includes some of the most senior officers of the Treasury. The damaging aspect of this practice is that when senior officers such as these serve as chairmen or directors of an enterprise they as controlling officers of the government cannot objectively or dispassionately study

and evaluate the corporation's performance. In their departmental capacity they are merely reviewing or analysing their own decisions and actions taken as chairmen and directors of an enterprise, to the detriment of effective government control (PAC 1960: 32). Yet another consequence of this practice is that when mistakes are made and inefficiency or corruption sets in, officers can cover them up effectively from the public view. An embittered parliamentarian, after an unsuccessful attempt to elicit information on alleged mismanagement by a state official, told the house: 'Even among highway robbers there is some kind of loyalty one to another. In the Civil Service too they have built up a tradition on those lines. This has had its own unfortunate effects in the matter of development of our industries' (*CHRD* 4 September 1961: 1740). The Indian Estimate Committee saw the phenomenon in another light and context when it said:

> The climax is reached when an officer on the Board of Directors who is generally the Secretary of the Ministry concerned does not agree with a proposed scheme and has the final right to get the whole thing shelved or vetoed when it comes to the Ministry for a decision... In practice, therefore, an officer of government, be he senior or junior controls an undertaking either in his capacity as Member of the Board or Managing Director or as Administrative Head of the Department, where he has the power to give advice to a Minister, in which case he takes a decision in the name of a Ministry. Parliament and government are asked not to take notice of these things because it may interfere with the autonomy of the undertaking (Indian Estimates Committee 1954: 17-18).

The appointment of senior officers, responsible for corporate affairs, to the boards of corporations thus makes a mockery of the whole system of control that exists today.

Fourthly, frequent changes in the composition of the boards and the use of directorate posts as political patronage (*TC* 22 October 1961; *CHRD* 2 November 1970) have also contributed to the weakening of the present system of government control. By making more and continuous control over corporations necessary these practices have frustrated the government's attempt at pursuing a coordinated policy essential to the healthy development and progress of the corporations. Had appointments been fair and careful, and had the right talent, experience, skill and business acumen been selected, many of the government controls over corporations would have been unnecessary, and the government itself could have concentrated more effectively on policy matters (Rajapakse Committee 1971: 231). In fact the whole vicious circle of corruption and control, more corruption and more controls, seems to start from a single source, viz. the lack of faith in those whom the Minister appoints, itself the result of appointing only those who please the constituency or the party apparatus. Properly speaking, the system of corporate administration for the most part rests on trust, trust in those who run the affairs and trust in their ability. When that fails the whole system fails and no system of control and regulation however meticulously or carefully planned can work. Thus once the problem of appointment is solved many of the other problems associated with corporate controls can be solved.

In fact, it was these weaknesses in the present system of control that prompted some of the commissions of inquiry and study teams to recommend the institution of an independent organisation to perform the functions of ministerial control. Thus the Rajapakse Committee, in its report submitted to the cabinet in 1971, proposed a *Central Corporations Secretariat,* while the Salt Commission of inquiry in 1963, suggested a *Permanent State Corporations Commission*.

Since both of these suggestions are a response to or a reaction against unsystematic and ineffective control, the supporting recommendations show certain common features. Thus as a reaction against corruption and nepotism and also to eliminate the political interference inherent in the present method of corporate appointments, both organisations would be vested with wide powers over corporate appointments. The Permanent State Corporations Commission would exercise full authority 'on all matters relating to all corporate appointments, discipline and dismissal' (*SP* 9 1963: 107). In the case of appointments with higher salaries the Commission would appoint a 'selection board' and would subject all transfers between corporations to its review and approval in order to ensure fair play and justice. The Central Corporations Secretariat on the other hand, in addition to the above mentioned powers would be entrusted with the responsibility to streamline procedures for recruitment and appointment to all corporate positions and to supervise the salary and wage administration.

Similar are the proposed powers relating to overall study and evaluation of corporate performance in respect of investment, financing

and production. The new bodies would receive and approve, for the fulfilment of the above purposes, all corporate budgets and trial balances would have to be prepared and submitted three months before the end of the financial year and monthly statements of receipts and expenditure submitted (*SP* 9 1963: 105). Also they would receive all annual accounts and reports on behalf of the government to be forwarded to the parliament through the respective Ministries. 'It would be the responsibility of the Commission , remarked the Salt Commission, 'to ensure that all necessary returns are received in time from the corporations and to satisfy themselves that there are no irregularities, unnecessary expenditure of funds in the purchase of equipment or in the selection of tenders for the various purposes (*SP* 9 1963: 107). It was emphasised at the same time that the Commission should not interfere in the day-to-day administration of a corporation and that 'each corporation should be at liberty to work out its own programme of work' (*SP* 9 1963: 108).

The Corporations Secretariat, furthermore, would conduct special studies and investigations at the request of the government, and submit reviews and reports on the activities of the corporations to the Ministry in Charge, Ministry of Finance and the Ministry of Planning and Economic Affairs, so as to enable them to issue necessary policy decisions to the public corporations. It would also coordinate and prepare long-range development plans for each corporation and provide advisory and centralised services for all corporations. The other functions proposed for the Secretariat would be as follows:

(a) review and examine pricing policies;
(b) review and examine purchasing, costing policies;
(c) prepare standards on personnel, finance, accounting and administrative procedures;
(d) review structure and working of corporations including their accounts, budgets procedure and systems;
(e) initiate and sponsor training schemes for the corporations' personnel.

If instituted, the Central Corporations Secretariat, in particular, may well introduce order into some of the chaos that exists in the present system of control. In particular, it would reduce some of the present overlapping and wasteful control and to that extent help co-ordinate or systematise the control over corporations. Corporations themselves would find it advantageous to deal with a single body, and therefore easier to transact their businesses. Introducing stability and standard procedures for the appointments, would also help to do away with corruption and political interference.

These are some of the advantages that the corporate system of administration stands to gain by the institution of a body of this kind, but it is uncertain whether such a body will be instituted as it would remove some of the political powers from the Minister.

What is significant to note, however, are the repeated suggestions for a separate and independent body to undertake the responsibility of supervision and control - in itself a sufficient indictment of the controls at present exercised over corporations. What is equally

significant is the suggestion that such bodies should wield power over corporate appointments as if one is tied up with the other. It is to this question of personnel that we turn our attention now.

V CORPORATE BOARDS

There is a great deal of truth in the statement that the working of an organisation cannot rise above the level of the persons who constitute it, and in particular of those who form its top stratum - Board of Directors. The worst mistakes are liable to be made at the top, and unless the persons at this level are enterprising, efficient and capable of working as a team, no industry can be successful. The structure of top level management thus affects the administration of an industrial enterprise at the most vital points and therefore deserves careful consideration and analysis. This chapter aims at discussing in a general way the organisational structure of top level management adopted to run the industrial enterprises, in particular the type of boards appointed, the character and quality of persons who compose them and their operating methods.

Irrespective of size, nature or stage of operation every state industrial corporation without exception is headed by a board of directors. Even as small an undertaking as the Industrial Estates Corporation with less than fifty employees is under the direction and management of a seven-member governing board. This follows from the practice in other parts of the public sector where concerns such as public transport, port cargo operation or commercial banking are committed to the care and control of a group constituted as the governing body. The alternative practice of appointing one man as 'corporation sole' to operate the entire business is usually rejected not only in the industrial sector but also in the other parts of the public sector.

Despite the preference shown for multi-member boards, some hold the view that industrial enterprises can be better managed under single directorship. 'My own feeling', observed a veteran parliamentarian in the course of his review of the activities of the boards, 'is that it is better to entrust the work of this type to a man in whose competence, efficiency and capacity [the Minister] can have trust and confidence (*CHRD* 29 August 1963 Col. 626). Hand over the work to him and say 'this work is entrusted to you. Use your discretion and carry out your work subject to any control of policy that I lay down'. Some of the small sized enterprises such as the State Pharmaceutical or Tobacco Industries in fact might well have been quite efficiently managed likewise. What is most striking here therefore is the ready acceptance of the multi-member boards as the best medium for all enterprises. But what ends have boards served in the affairs of the corporation or what kinds of boards have governments preferred so far? To deal with these questions effectively the tenure, the size of the boards appointed and the position of the appointing authority should be considered.

The Tenure, Size and Appointing Authority

The strength of the governing boards, to a large extent, depends on the period for which they are appointed. The theory of the autonomous corporation suggests (Robson 1960: 240) that the governing boards should be appointed for reasonably long periods. For if boards are to be replaced merely to suit the views and opinions of the Minister or the government, the object of creating a corporation as a separate and independent institution to pursue a continuous policy

and administration independent of the political fortunes of government would soon be lost. The greater the number of dismissals and appointments to the boards and the more frequent the changes to their character and composition (tending to disrupt the board's working as a team), the less independent and more parochial the board would become both in its attitude and actions. Instead of evolving into a viable unit to accomplish the corporation's purpose it would soon turn out to be yet another public service organisation with its eyes and ears fixed more on the political executive than on the enterprise.

Thus the tenure of the corporate board is a crucial element in the corporate system. It is not suggested, however, that the Minister or the government should not have the right to dismiss or remove members if the government or the Minister consider that a member is incapable or unsuited to the task or that his actions are not in the best interests of the organisation. Far from it. It is implicit in the right of appointment that if the governing board fails to comply with a direction or with the government's declared policy, the Minister must be able to remove some or all of its members (Robson 1960: 241). Nor is it suggested that the board of directors should be appointed for a longer period than is necessary, for if security of tenure is too well established the opposite danger arises - that the board would tend to fall into a rut and fail to adjust itself to new conditions and circumstances. What is suggested, however, is that boards be appointed for a sufficiently long period to take an interest in their work and to try to achieve real improvements in their organisations.

The State Industrial Corporations Act provides a tenure of three years for all directors other than the managing director whose term of appointment is left to the discretion of the Minister. What is important is that a director who vacates office by efflux of time is eligible for reappointment. The act is also careful in defining the conditions under which the Minister may remove a director from office. These conditions vary from ill health and inability to discharge the duties to unauthorised excessive absence from the country. The Minister is not expected to give reasons: he may remove any director other than the managing director 'where he thinks it expedient' to do so.

These provisions do not tell us much of the way the boards in practice have been appointed and dismissed. Nor is the prescribed period any guarantee that a member will be allowed to continue in office for the full period and no longer. Some, like the Chairman of the Eastern Paper Mills Corporation, have held their position for fifteen years, while others have served only for a few months. Much thus depends on the way the Minister and the government choose to act in this matter. But the question is whether they have acted correctly as the theory of the corporate system demands.

Tenure 1958-1970

Ceylon Cement	10 boards 5 chairmen 22 members	Eastern Paper	7 boards 2 chairmen 18 members
Mineral Sands	8 boards 4 chairmen 20 members	Leather Products	8 boards 3 chairmen 25 members
Ceylon Sugar	10 boards 6 chairmen 28 members	Plywoods	8 boards 3 chairmen 25 members

Ceylon Ceramics	8 boards 3 chairmen 25 members	Oils and Fats	9 boards 7 chairmen 30 members
National Textiles	5 boards 4 chairmen 20 members	National Salt	7 boards 5 chairmen 23 members

In the seventeen years this Act has been in operation, for instance, more than two hundred persons have filled the positions of directors in the top ten of the twenty-six corporations - a good measure of the extent of shifts that occur in the corporate directorate. Only three of the above-mentioned corporations had the advantage of being under the direction of two or three chairmen; others have had as many as six or seven chairmen in the short period of twelve years. Even those corporations which had the services of a single chairman had the disadvantage of working under seven different boards composed of different personalities. These statistics relate to some of the large-scale undertakings such as ceramics, oils and fats, cement etc. The position is considerably worse in the case of the smaller undertakings where the chances of a director surviving for his full tenure are markedly thin; the position of the chairman is even worse.

Another noticeable feature of the turnover of boards, directors and chairmen in the industrial corporations is the coincidence of those changes with changes in governments - a feature in direct contrast to the theory that corporations should be insulated from politics. A good example of this was the 'mass exodus' that took place in 1970

coinciding with a government change-over. With the exception of the Eastern Paper Mills corporation and two others, the chairman of every industrial corporation was either forced to resign or dismissed (*CO* 27 June 1970). Every corporation without exception received a new board composed entirely of new persons and personalities. The position was similar after the change in government in 1965.

The making of the corporate directorate a reflection of party politics - unless used sensibly to introduce new ideas and talent - injures the system of corporate administration more than is realised, firstly because those who come to the board look upon their positions as a sinecure to be retained and enjoyed only for a limited period. Further the knowledge that they may soon be replaced by yet another person, even under the same government, significantly alters their attitude towards the position and its duties. When Dr N.M. Perera, a senior parliamentarian, complained about the lack of interest and enthusiasm on the part of some board members towards their work and responsibilities he was in fact identifying one of the results of uncertain tenure:

> I am given to understand on very good authority that when the chairman, who is also a sort of managing director, submits very useful memoranda not one of the members on the board cares to read or show any concern about them. But, if there is an item on the agenda for the appointment of a clerk or labourer, everybody is alive about the appointment which has nothing to do with the prospects of the whole industry. That has been the experience not merely in respect of one board but of a number of boards (*CHRD* 29 August 1963, col. 625).

Secondly, the practice also has the disadvantage of discouraging the best talent from being attracted to directors' positions. Security of tenure is thus an important facet of the corporate system; politics should not be allowed to injure it and thereby the whole system.

Closely linked to tenure of the corporate board is its size. For if care is taken to appoint only the necessary number of persons some of the problems associated with the instability of board membership can be easily avoided. Further when the number of members is right it is easier for the board to act as a team. The alternative is mutual obstruction or even conflict, as the Fisheries Corporation Commission of Inquiry clearly shows. But what is the right number? It is difficult to lay down any hard and fast rule: the optimum size must vary with the nature of the enterprise. Generally, 'a board should not have so many directors as to make free discussions impossible; nor so few that the necessary breadth of viewpoint is not obtainable'. (Conference Board Reports 1953: 4). In practice the boards of industrial corporations have shown little or no variation in size. Almost every one from the smallest to the biggest has had the same-sized board. There seems to have been no definite principle governing the number of appointments. In recent times all boards have had their membership increased to seven, the maximum allowed by the statute (*CDN* 20 June 1970). But this seems to have been more for the purpose of political patronage than for anything else; as is illustrated by the seventh member added to the board of the Mineral Sands Corporation (1970) who had neither the appropriate qualifications and experience (having been chauffeur to

an influential M.P.) nor enough fluency in the languages of other appointed members to converse (Interview June 1975). A recent commission of inquiry in fact recommends that board membership should not exceed five.

> It is hardly necessary to put into the form of a recommendation that any future board of the corporation should consist of a board of directors not exceeding, say, five in number and made up of really top grade members chosen for their proven integrity and ability in lines of activity beneficial to the corporation. The calibre of the person chosen is all-important, because the presence of even one single person on the board whose standing leaves something to be desired, could be fatal to the success of a board of directors (*SP* 9 1972: 243; the Rajapakse Committee also recommended the same number for appointment, *Rajapakse Committee* 1971: 228).

The choice of the right persons for the boards is a task of immense significance.

The functioning of the appointing authority is thus exceedingly important and difficult. It is important because it is more on the choice of the right persons than on anything else that the success of an enterprise depends; and it is difficult because the selection involves many variables and an evaluation of personal qualifications with the possibility of public comment and criticism of the appointments made. Unlike the Industrial Development Board (1969), the State Printing Corporation (1968) or the National Library Services Board (1970) where more than one Minister share the power of appointment and dismissal, the state industrial corporations are fortunate in that

the Act vests the power of appointment in a single Minister. Though it does not designate which Minister explicitly, the Minister responsible for Industries usually makes the appointments. His appointments also are not subject to review and comment by any other public organ nor by parliament as is often the case in India. The Minister is virtually free to choose anyone he thinks suitable. This is in line with the practice that obtains in countries such as the United Kingdom where the Minister's right to appoint and dismiss is considered essential as a means to secure public control. To critics who opposed this practice, Robson replied: 'If Ministers are not fit to make such appointments for what task are they likely to be fitted?' (Robson 1960: 220). That in fact seems to be the underlying thinking in so far as appointments to industrial corporations are concerned. (Significantly, a proposal to have an electoral college under the Prime Minister to make all appointments to boards, recently made at the Amparai Sri Lanka Freedom Party Sessions, was rejected.)

Linked to the question of the appointing authority is the question of appointing procedure - that is whether the Minister should consult outside bodies of opinion or the existing boards for that matter before he makes his appointments to the boards. In Britain the Fleck Committee, for instance, considered it useful for the Minister to consult the part-time members on full-time appointments to the board; and the opinion of the panel for part time appointments. Such a practice is also not uncommon in private business where the existing members of the board may exert pressure and influence on new appoint-

ments to restore a balance in the composition of the directors. Nothing can be said of the procedures that govern the corporate appointments in Ceylon, for practically nothing is known of the way the Minister exercises his discretion, or in what manner he reaches his decision. Sometimes he apparently seeks the views of chairmen, but in most cases he makes his own decisions. It is not an established practice, however, for the Minister to consult the board or other members before he makes his appointment. As a result too often appointments are limited to those near the seats of power or personally known to those in authority, as is indicated by the following analysis of board members.

The Board Members

It is obvious that the selection of members of the boards of corporations is a matter of great importance. Unless able men constitute the board, men with insight, drive, imagination and a capacity to grasp large questions of policy without being immersed in details, industrial enterprises will not be run as efficiently as they should (Robson 1960: 216). As one parliamentarian put it: Boards should be composed not of men of the "pilot type", nor of the "jockey type" but of men of understanding who could get on with the job with team spirit like a captain and his crew who can take a ship without being damaged by the storm or meeting with disaster (*CHRD* 4 April 1955: Col. 3711). The State Industrial Corporations Act in fact lays down 'that the Minister shall choose the members from among persons who have had experience of or shown capacity in industrial, administrative, commercial, financial or legal matters'.

Notwithstanding this, the most noticeable thing is the selection of a very high proportion of 'career officials' to serve on the boards of corporations. Thus on the twelve boards constituted in 1958 for cement, ceramics, oils and fats, leather, salt, sugar, mineral sands, textiles, paper, plywood, small industries and fisheries, nearly sixty per cent of the members were public servants - or to put it differently only twenty-four of the sixty-five appointments made at this time were from outsiders. S.N.B. Wijeyakoon, E.A.G. de Silva, C. Coomarasamy, E.O.E. Perera, P.B.G.L. Siriwardena, C.A. Harischandra, S.A. Selvanayagam, and R.L. Rutnam were the only prominent people among the non-officials on the boards at this time. This might have been excused at the time by the newness of the enterprises and the difficulty of finding outside talent to man the corporations, but that excuse could hardly apply to later periods. Yet in 1962 the pattern of appointment remained more or less the same with 53 of the 90 appointees coming from the public service. This trend continued until the end of 1970 as the following table illustrates:

The Composition of Corporate Boards

Year	Officials	Non-Officials	No. of Boards
1958	41	24	12
1962	53	39	17
1968	63	57	22
1970	40	112	26

In 1970 the pattern shows a noticeable change with fewer than thirty per cent of the appointments being made from the public service. Even then one cannot conclude that the enterprise has changed hands, for the career officials still dominate the scene of top management in

the corporate system. With the few exceptions such as paper, leather and salt most other corporations are headed by a career official either as part time chairman or as full time managing director.

The extent to which reliance was placed on civil servants can also be seen in the type of appointments made from outside the civil service. The assumption here is that had outside appointments been fair and objective, thus securing men of the right calibre for the enterprise in question, then the role expected of the civil servants might well have been minimal, but if appointments were made only for the purpose of political patronage, a more prominent role might have been posited for the civil servants on baords. The type of appointments made from outside over the years in fact support the latter thesis. For instance in 1962 of the thirty-nine appointees chosen from outside no more than twelve had some professional qualifications or other background experience associated with business enterprise. In 1969 only twenty of the outside members were either engineers, lawyers, accountants or businessmen. What qualities or experience other members possessed is hard to ascertain; the fact that a good number of them were ex-parliamentarians or persons closely associated with party politics might perhaps provide part of the explanation for their selection. It must also be observed that when qualified outside people such as accountants, architects or engineers were chosen, the choice seems to have been rather on account of their loyalty and sympathy to the party in office than for their professed skill and experience - a fact openly admitted by T.B. Illangaratne (*CDN* 11 September 1961; *TC* 22 October 1961) the present

Minister for Commerce and Trade, and often criticised by parliamentarians. Mr Gamini Dissanayake M.P. had this to say on the appointments made in 1970:

> Have we utilised in the public sector the talent, the managerial talent available in the private sector? Realistically speaking we have not. On the contrary - this government has also embarked on the task of packing various offices in the public corporations with its own stooges.. Thus in the Ceylon Leather Products, we have a proctor Kodikara Obeyasekara ... in the Insurance Corporation there is another lawyer Mr Walpita ... As chairman of Air Ceylon we have Sam Silva ... In the Ceramics we have an advocate Anura Weerartne ... In the Tourist Board we have Dharmasiri Senanayake who contested Dudley ... As a director of Milk Board you have put the person whom I have defeated. Now I wish to say, when you establish a *funerals corporation,* for goodness sake have a *good undertaker* as head, not an advocate from Hulftsdrop (*CHRD* 2 November 1970: Col. 1333

The significant point here is that the selection of inadequately qualified persons from outside or the use of directors' positions for political patronage has tended to make the position of civil servants on the board more important, and their role crucial to the success of the enterprise. Acting as a team, the public servants in the board thus tend to identify and associate themselves more with the enterprise than those who come from outside. This contention is also supported by the tendency of the civil service officials to outlive and at times outnumber the outside members on the board. Thus career officials not only dominate the board on account of their office

but are also forced into the position of virtually running the enterprise by themselves.

Two other aspects of corporate appointments also point up the importance of the position assigned to career officials. First is the placement of one career official on more than one board (multiple directorship) (*CDN* 2 September 1970), second, the allocation of a good many of the directorial positions to senior civil servants of the sponsoring ministry (Ministry of Industries). Each of these aspects appeared in its extreme form in 1961, when nearly all senior officials of the department found multiple positions in the fourteen boards set up at this time. Thus E.C.S. Paul, then Director of Industries, served on four different boards, in addition to being the chairman of the National Textiles Corporation. Charles Abeyasekara, the Assistant Secretary, took directorships in three boards while being head of two other corporations. The various positions held by senior officials in that year may be summarised as follows:

E.C.S. Paul	Chairman, National Textiles Corporation; Director, Ceylon Cement Corporation; Director, Ceylon Ceramics Corporation; Director, Ceylon Sugar Corporation
C. Abeyasekara	Chairman, National Small Industries Corporation; Chairman, Ceylon Steel Corporation; Director, National Salt Corporation; Director, Mineral Sands Corporation; Cirector, Industrial Estates Corporation.
J.E.R. Hensman	Chairman, Ceylon Hardboard; Director, Industrial Estates Corporation; Director, National Small Industries Corporation.

Dr R.C. de Silva	Director, Ceylon Oils and Fats Corporation; Director, Paranthan Chemicals Corporation
R. Bhuvenandram	Director, Ceylon Plywoods Corporation
E.B. Tisseveeransinge	Chairman, National Salt Corporation Director, Eastern Paper Mills Corporation; Director, Paranthan Chemicals Corporation
L.J.D. Fernando	Chairman, Ceylon Mineral Sands Corporation; Director, Ceylon Cement Corporation

Though the present trend is towards having members from outside the Ministry and department, yet the practice of placing senior Ministry officials on the boards of corporations has by no means been discontinued. Thus the present Additional Permanent Secretary, Senior Assistant Secretaries, Assistant Secretaries and Directors of the Ministry of Industries in 1972 held important positions in the boards of the corporations as the following table shows:

Permanent Secretary Sivananthan	Chairman, National Salt Corporation Chairman, State Graphite Corporation
Add. Permanent Secretary L.N. de Bandaranaike	Chairman, Ceylon Steel Corporation
Add. Assistant Secretary M.B. Senanayake	Chairman, Ceylon Ceramics Corporation
Director C. Abeyasekara	Director, State Graphite Corporation Director, Ceylon Steel Corporation
Director I.O.K.G. Fernando	Director, State Pharmaceuticals Corporation Director, Ceylon Oils and Fats Corporation
Deputy Director M.Z. Mohideen	Chairman, Ceylon Oils and Fats Corporation Director, National Small Industries Corporatic
Add. Secretary A.R. Weeraratne	Chairman, Ceylon Ceramics Corporation Director, National Small Industries Corporatic

Without a doubt the selection of career officials for the boards of corporations has been the most criticised aspect of corporate appointments. Parliamentary debates, Public Accounts Committee inquiries and newspaper editorials have repeatedly questioned the wisdom and propriety of having so many career officials on the boards of corporations. In one of its many editorial comments the *Ceylon Daily News* on 6 November 1963 asked whether the country could afford to gamble with the appointment of 'amateur or gentleman' to the boards of corporations. 'In fact', it said, 'the people whom we have selected are language specialists, who control the destinies of eight out of the sixteen industrial corporations.. One would throw up one's arm if a foot ball team is chosen this haphazard manner, but apparently our corporations need only amateur and gentleman' (*CDN* 6 November 1963). Similar in attitude was the observation of the Reconnaissance Mission when it said: 'While it is logical and justifiable for the principal shareholder to be adequately represented.. it would be advantageous to have at least half the board members from discipline other than the government services.. so that (outside) experience could be brought to bear on the corporation problems' (Naylor 1966: 18).

These are undoubtedly widespread criticisms, but are they fair to all appointments made from the public service? Here, for the sake of clarity and understanding, one must distinguish three categories of public officials who find a place in the corporate boards: (a) those who come from the sponsoring department directly linked to the enterprise;

(b) those who come from departments and agencies other than the sponsoring department on account of their specialised knowledge and experience; and (c) those who come from the Treasury. There is, in general, no major criticism levelled against the placement of Treasury officials on the boards of corporations even though the practice is largely discontinued today. As against the few remarks made by Dr N.M. Perera in parliament questioning the effectiveness of this group, board chairmen in general have favoured their presence. 'In spite of the dual loyalties.. we support the idea of having a Treasury representative on the board as it brings the board closer to the government's point of - view and policies' was the reply of a chairman to a question by the Public Accounts Committee whether he would prefer treasury representation on his board (*PAC* 1961a: 112). Objection is also not shown against the appointment of professionally qualified and technically experienced members of the public service to the boards of corporations. No one to my knowledge, for instance, has seriously criticised the placement of persons like A.N.S. Kulasinghe (Engineer, Port Commission), or S.W. Rasiah (Water Works Engineer, Department of Public Works) on the boards of Ceylon Tyre and Steel corporations in 1962, or the placement of N.S. Perera (Surveyor-General) or D.M. Ratnatunga (Department of Agriculture) on the board of the Sugar Corporation in 1960. When criticisms are made against career officials, they are mostly directed against the appointment of senior officials of the Ministry of Industries.

Even in the case of these appointments criticisms are strong against only one class of appointment. No one seriously objects, for

instance, to Ministry officials being part-time directors on boards otherwise fully composed of qualified and experienced personnel from outside; or to a part-time chairmanship in an enterprise that has not started operation commercially. Such placements are viewed with favour and even considered necessary in order to incorporate the departmental or governmental viewpoint into the corporation's decision making process. It is only when departmental officers are appointed to managerial positions such as full-time chairmanship with executive functions or full-time directorship with managerial responsibilities that attacks over career appointments become pointed and severe (*CDN* 16 July 1963, 29 November 1963, 7 September 1970). For it is these appointments which are considered to be in conflict with the managerial requirements of an enterprise.

When the Public Accounts Committee decided in 1961 to investigate the question of public officers serving on the boards of corporations, much of its thought was directed towards this class of appointment. One of the four principal witnesses summoned on this occasion, E.C.S. Paul, was a serving public servant whose position and placements we have referred to earlier. What concerned this committee most about career appointments, however, was their propriety, that is, as it asked E.C.S. Paul, whether it would be possible for a normal government officer to maintain efficiency in his work as well as carry on the work of the corporations, and whether it would be possible for him to advise the government with regard to the control of his own corporations:

> There is a more important principle involved here, that is that of the public officer who is playing a dual role. An Assistant Secretary of a Ministry or Head of Department also functions as Chairman. In certain circumstances, he will be called upon to advise on that particular corporation. Then it becomes difficult (*PAC* 1961a: 61).

None of the answers given to these questions was clear cut: often they were evasive. Most of the officials took the occasion, for instance, to point out as a justification for the existing situation the difficulty of obtaining outside talent and the lack of enthusiasm to serve on the board shown by even those members chosen from outside.

> The difficulty has been to get people of the right calibre to function as chairman of these corporations from outside. We have no option but to fall back upon public officers. This matter is now being further examined. We are trying to group corporations with allied activities as far as possible with a view to putting one chairman in charge of more than one corporation. He will be a full time chairman and he will be on his substantive salary. In any case the present position is unsatisfactory because one's attitude and approach when in charge of a commercial undertaking is totally different from that of a public officer (*PAC* 1961a: 58).

To the question whether a senior civil servant could, in fact, reconcile managerial or directorial duties on the board with his normal departmental functions, some of the answers were in the affirmative. For instance, E.C.S. Paul, then Director of Industries, saw no conflict in the dual role he played both as an administrative head of Department and as executive head of the Textiles Corporation. 'Fortunately, I am

in a position where I can take a detached view of my positions as the Head of the Department and as the Chairman of the Corporation. I have not found any occasion so far for a conflict of interest'. Further, when he was asked directly whether he could be efficient serving in both offices full time, he said:

> It all depends on who is selected for appointments and whether he will take on his responsibility conscientiously.. I have been twenty five years in the Department of Industries and I have very large experience which I think gives me sufficient knowledge to be able to discharge the duties of chairman satisfactorily.. To keep pace with my work, I start early in the day and carry on after office hours. (*PAC* 1961a: 62).

The Committee however was apparently unconvinced and recommended the discontinuance of the practice of appointing senior heads to managerial positions on the following grounds: (a) 'that it would not be possible for a public officer to devote his full time as an executive officer in a corporation in addition to his duties in his sbustantive posts as a public officer'; and (b) that 'such an officer's action as an executive of a corporation may have to be considered by himself as the Head of the Government Department, and his final decision may be biased on that account' (*PAC* 1961a: 32).

It must be emphasised however that the Committee was not altogether unsympathetic to the idea of having senior departmental officers on the boards of corporations. 'Where there is a permanent chief executive officer in a corporation', it said, 'public officer may function

as chairman, as his duties in such a case would only be in the capacity of a presiding officer at board meetings'. Though it did not spell out what prompted it to this recommendation, it may have been influenced by some of the advantages that can flow from this practice; the facility to incorporate departmental views into the corporate system during board discussions with the on-the-spot information about ministerial policies and plans and the opportunity it therefore provides to coordinate the work of the corporation with governmental policies and programmes. Certainly nothing is lost by having senior officers as permanent advisers, as opposed to managerial directors. The important point to note, however, is that despite the Committee's recommendations the position of senior departmental officers in corporate boards continued unchanged and they held the same number of posts as before.

This brings us to the more important question of the role envisaged for boards in the affairs of the corporation - a question made more crucial by the dominant position accorded to career officials. Given the character and composition of the boards as described above, what ends have boards served in the affairs of the corporation or what type of boards have they been?

Types of Boards

From an organisational standpoint two types of boards are possible: those which merely decide policy and those which in addition administer policy. For convenience we can call these 'Policy Board' and 'Management Board'. In the case of the former, members of the

board would have no executive responsibility for the running of the enterprise, while in the case of the latter the directors themselves would usually head a section or branch - such as production, finance or staff - of an undertaking and personally direct and control the whole organisation and operation of the enterprise. The State Industrial Corporations Act in a sense seems to favour a board of the latter type. By section 14 it clearly provides for the appointment of a board member to the position of the Managing Director and in addition offers no objection to the chairman of the undertaking being the managing director. Even more emphatic is the sub-section which states 'The Managing Director of the Corporation shall be eligible for appointment as the chairman of the Board of Directors'. When this is taken along with the statement in the early part of the Act that the Minister may appoint only persons with administrative, technical and managerial experience the tenor of the Act may well be in favour of a board with functional directors, to link policy with administration as in the case of the 'management board'. But nowhere does the Act specify precisely what type of board a Minister may constitute and the choice is thus left entirely to the discretion of the Minister.

None of the boards so far set up is a management board in the strict sense of being composed entirely of full-time members carrying out line functions. At the same time to call all boards only policy boards would be to misstate the position. For some boards like that of the Cement corporation or Eastern Paper Mills corporation in 1964, or Sri Lanka Sugar corporation in 1969 have in fact operated more or less as functional-cum-policy boards, with some of their members having full

time executive responsibility in addition to their chairmen being chief executive officer. When the Fisheries Corporation was formed in 1964, for instance, most members of the board had some responsibility associated with the development of that industry. Thus Sam Silva, chairman of the corporation, with the assistance of the director-*economic* became responsible for day-to-day decisions relating to marketing; while Godvin Withana - director-*technical* became responsible for the engineering services and procurement of supplies and the director-marine operations Commander Kadirgamar became responsible for all marine operations (*SP* 9 1972: 235). Noteworthy in this connection are the boards constituted for the Cement corporation which often had many insiders in its composition and thus consistently tended to operate as a management board. When an outside appointee C.H.Z. Fernando resigned his position on the board in 1964, he in fact gave the management character of the Cement board as his reason for the resignation.

However the overwhelming majority of the boards constituted for industrial corporations are of the opposite kind, dominated by part-time outsiders. The boards of Oils and Fats, Ceylon Leather Products, National Sale, Ceylon Textiles, Ceylon Plywoods, State Engineering, Ceylon Steel, Ceylon Tyre, Ceylon Mineral Sands, National Small Industries, Ceylon Hardware, State Flour Milling and State Fertilizer as constituted in 1969, for instance, had a majority of part-timers among their members, the only exception being the chief executive officer or managing director appointed to serve on the board. In the case of others such as Ceramics, Paranthan Chemicals, Hardboard, and Industrial Estates all board members

were part-timers including their chairmen. Eastern Paper, Sugar, Cement, Fisheries were the only exceptions which had more than one full-time member in their boards at this time. The recently constituted boards (1975) also show a similar pattern: nearly fifteen of the twenty-eight corporations have a part-time board with a full-time chairman or managing director, and the rest operate wholly with part-time members.

Thus the policy of the government seems to be in general to have part-time boards for all corporations: wholly part-time for small undertakings, mainly part-time (that is with the exception of the chairman and managing director) for medium-sized undertakings and a mixed composition for large-scale undertakings (*TCL* 24 September 1970). Judging by the experience of other countries such as India or Canada where the pattern of boards' composition is not far different from what we described, one would have little to say against this practice. Even though the Fisheries Commission of Inquiry made it a part of its recommendations (*SP* 9 1972: 244, 247) not to appoint anyone including the chairman in a managerial and/or administrative capacity, this practice is not without precedent or advantage. For instance, in Canada the combination of chairmanship with the chief executive of the enterprise evolved after years of unsatisfactory experience with the purely part-time board as explained by Professor Hodgetts:

> When the Canadian Broadcasting Corporation was set up in 1936 a large part time Board of Governors was presumably put in charge of policy matters, while execution of policy was vested in a General Manager who was not a member of the Board. This separation broke down in practice, for

> policy issues arose from day to day and had to be determined by the General Manager...His decisions were then ratified *ex post facto* by the Board. In 1944-45 the chairman of the Board was made a full time, permanent official so that he could offset the *de facto* power which the General Manager had come to exercise over policy matters... The Boards of more recent corporations provide stronger evidences of this tendency to bring the chief operating official to the policy level. In some instances, indeed, the chief operating (executive) officer is not only put on the Board but is made chairman of the Board (Hodgetts 1950: 288).

But the critics of corporate boards in Ceylon express dissatisfaction with the present manner of operation of most boards of industrial corporations, and in fact some see in the present boards' composition and operation the weakest part of the corporate administration. For efficient performance and operation (they point out) the board should consist of full-time men in addition to their being well-qualified for their job. 'To make a success of corporation', wrote the Political Correspondent observing the role of the boards in the industrial corporations 'their Directors must be full time men. There is no justification for any man to serve on more than one corporation or be a part time director. It is not a question of money. It is a question of time and attitude and part timers are never likely to be devoted and determined men and success can come only if all corporations directors are of such people' (*CDN* 15 February 1964).
Even more apposite are the observations of the Rajapakse Committee, which had no doubt about the need for a full-time board for the success

of industrial corporations. 'We find that Boards have not been in a position to make sufficient contribution to the affairs of the corporations because members are part timers. [Being part timers] they approve the proposals coming from the executives or delay the implementation of such proposals. In either case they are superfluous.. The board should consist of full time functional directors selected on the grounds of competence to handle main management functions' (Rajapakse Committee 1971: 231). Similar are the comments and suggestions of others who have taken a critical view of the corporate boards. Sam Silva the ex-chairman of the Fisheries Corporation in his evidence to the Commission of Inquiry also clearly specified that boards of corporations in Ceylon should be composed of full time top career officials of the unit concerned if they are to operate efficiently (*SP* 9 1972: 247).

Should the boards as the critics claim necessarily be full-time and should they be functional to perform efficiently? This of course would depend on the assumptions one makes about the role of the board or the type of functions one expects it to perform in the undertakings. There is nothing inherent in the corporate form of organisation to suggest that boards should be either policy or functional for them to be efficient. Some boards certainly could be of mixed type (like those of the Cement and Paper corporations) with some of their members carrying out full-time executive responsibility while others as part-timers contribute their knowledge and understanding to the policy making of the undertaking. What is required after all is a body of men talented and experienced to study and evaluate the overall needs

and requirements of the enterprise and carefully plan and formulate policies for its efficient operation, i n addition to supervising and checking on the management for results.

> There is an important area of sub-policy and decision making midway between the overall action of the Congress and the point where the administrators take over. It is this area that a representative and resourceful board of directors should occupy if government corporations are to operate with efficiency and accountability (Dimock 1949: 916).

This in fact is the role expected of a board in public undertakings. Whether the board for the performance of this function should be full-time or whether it should consist only of managerial personnel should certainly depend on the extent of work involved in the undertaking and the nature of problems and needs of the enterprise. The type of board or the nature of men placed at the top of management should in other words reflect the needs and requirements of the enterprise.

But what makes the critics so persistent in their argument that the board should be full-time and functional? Why do they fail to see the sub-policy-making role that a part-time board could effectively perform? Though one cannot conclusively say why they maintain this position, two reasons continually appear in their public criticism: one is that the members who constitute the boards as part-timers in their opinion are not paying sufficient attention to their work, and secondly coming with limited experience they are unable to perform the functions expected of them. This seems, as already indicated, to be the thinking of the Rajapakse committee underlying their recommendations

for a full-time functional board. The critics may also be seeing in the full-time management board a solution to the problem of political patronage as it would then be necessary to appoint someone who is really qualified and experienced.

Potentially more serious however is the proposal often made for the abolition of boards (*TC* 31 August 1963) and the institution of a general manager at the top of the management.

> In a private company, so runs the argument, directors play a logical role as the representative of the shareholders and are generally responsible for the formulation of the policy... in a government corporation where there are no private shareholders the role of the directors appears to be rather nebulous since the formulation of policy in relation to corporations is principally a matter for government (*CHRD* 30 July 1964 col. 1635).

This argument is also strengthened by the presence of a large number of government servants on the corporate boards, who in discussion with the ministers are said to arrive at major policy decisions without consulting the boards. This can often reduce the board to a mere advisory role and make the board room only a place for approving decisions already reached outside it.

In spite of these criticisms it would be difficult to argue that a board is altogether unnecessary in corporations, or that the institution of a general manager would improve the situation. For to 'scrap' the board as the critics demand is to leave the management readily exposed to political pressures and to make the organisation and operation too well tied with the central administrative process. Already one can see

a noticeable trend towards centralised control and supervision over corporate management, and to scrap the board in this instance would be to accelerate this trend. This to say the least could very easily defeat the very purpose of instituting an independent administration to run industrial enterprises.

Further the complex nature of industrial enterprises and the pioneering role of most of them also call for a constitution of more than one man at the top of the management. For no general manager however competent can be expected to be a universal expert on all things that are of concern and importance to the best running of the enterprise. The need is therefore for collective leadership; the pooling of experience and talent, wherever possible to guide and direct the enterprises. It would be difficult for anyone to deny that in the case of these industrial enterprises to bring in more men of experience and talent is far better than to rely on one single individual and his capacity and efficiency.

Much of the criticism calling for the abolition of boards has been made on the grounds of inexperience and the lack of quality. There seems little doubt that the boards as presently constituted have not performed well. But the fact that they are less than satisfactory at present should not be used as an argument against the institution of the corporate board. The argument should clearly be for reform of the boards rather than for their abolition.

To conclude: no act of government in respect of public corporations can be more important than that which decides who should constitute the

board of directors. For the character and quality of the men so chosen and their capacity to make crucial decisions will eventually make the difference between the success or failure of a state enterprise. The partisan character of board appointments or the use of directorial positions for political advantages, and the selection and placement of career officials in important places in boards seem to beset the present method of constituting boards. For more often than not one sees the phenomenon of men with no background experience or professionalised qualifications finding themselves in responsible positions on corporate boards merely because of their loyalty and sympathy to the party in office. Further one also sees the phenomenon of officials responsible for policy and overall supervision and control of corporations also taking an active role as members of the board. The trend at present seems to favour the appointment of officials as chairman, managing directors or chief executives and the appointment of part time members to other positions; which often makes the board a superfluous body and its role ineffective. This was the complaint of the Rajapakse committee.

If industrial corporations are to operate as autonomous institutions and to realise their aims and objects effectively, there is a clear need for improvements in the present method of constituting boards. Any reform in this area should certainly contribute substantially to making the industrial corporations more effective and responsible institutions for national development. The boards as presently constituted however remain a weak spot in corporate administration today.

VI PARLIAMENTARY CONTROL

Broadly the purpose of this chapter is to study the nature and extent of parliamentary control over industrial corporations. Public corporations are the creatures - the creations - of Parliament It is by statute that their aims and means, the main directives, and often the rules for their organisations are fixed. Parliament which makes these laws can also unmake them at will. In a sense therefore Parliament has an unlimited potential power of control over corporations (Vickers 1952: 80). It can also control corporations by controlling the general framework within which they operate. In practice, however, Parliament has conferred comparatively few detailed specific powers of control upon itself and upon the Ministers responsible for corporations (Potter 1959: 321). Nonetheless as the ultimate guardian of the public interest Parliament must hold corporations accountable for their activities. It must satisfy itself that the corporations are operating efficiently and economically and ensure that their operations and policies are consistent with and in furtherance of the aims and objectives for which they have been set up. It is imperative that it keeps itself informed of the progress that corporations are making in order to fulfil its role of ultimate guardian of public interest and public funds.

A period of five years between 1965 and 1970 has been selected for examination. Questions asked, debates conducted, and reports received by the parliament in this period, particularly in relation to the twenty-eight state industrial corporations, have been studied with a

view to evaluating the manner in which these techniques of control have been used to accomplish the purposes of Parliament.

Briefly the role of the Public Accounts Committee is also examined for its efficacy and limitations. Since this is the only Parliamentary Committee in existence with some power over corporations, its role is of considerable importance from the point of view of parliamentary control.

The Position of Parliament

Unlike those in the west, industrial corporations in a developing nation like Sri Lanka are engaged in pioneering task using techniques and methods of production somewhat unfamiliar to the nation. When Sri Lanka undertook industrialisation there was a lack of technical and managerial skills. Industrialisation depended on the mere transfer of western technology and machinery. Besides there were numerous difficulties in regard to actual planning of the enterprises which the corporations undertook to manage. Thus there was always the tendency to be fearful and anxious that all was not well with corporations. To add to these fears there were failures, breakdowns, and wastage; worse the alleged corruption, abuse, and nepotism that surrounded the whole operation of public corporation activities. The causes for concern were many and proved the need for stronger parliamentary control.

To all intents and purposes Parliament in Sri Lanka is the very replica of the British Parliament (Kearney 1973: 39; Wilson 1974: 189).

For it has inherited many of the practices and procedures that obtain in the United Kingdom. Under the Sri Lanka constitution Cabinet is responsible collectively to the House of Representatives for all its actions, programmes and policies. All laws and estimates of expenditure must be approved by Parliament (Perera 1959: 24-28). But for the conduct of the day-to-day administration, it is the individual minister who is held responsible for actions he or his department has taken or not taken. Parliamentary control over the ministerial department is absolute in that Ministers must account for every single detail of the activity of the ministerial departments.

In the case of the public corporations the position is somewhat different. Since it is to the Board that Parliament grants the power and authority for the conduct of activities organised under corporations, it is the Board that becomes directly responsible for the affairs of the corporation. However in order to ensure its control over corporations Parliament usually confers certain powers on a minister and retains certain powers of its own. The extent of control that Parliament desires over corporations can thus be seen in the nature and extent of the powers and responsibilities it has conferred upon the Minister.

In the case of the State Industrial Corporations, these responsibilities are very wide indeed, including of course creation and determination of the objects of the corporation.

By section 2 (1) of the State Industrial Corporations Act Parliament empowers the Minister, with approval of the government, to:

(a) establish any corporation for purposes of setting up and carrying on any industrial undertaking;

(b) assign a name to the corporation; state its principal place of business; fix the number of members of the Board within the limits of 3-6; and appoint one of them as the chairman of the Board.

More importantly it is to the Minister that the determination of the objects of the corporation is given and also the necessary powers to amend the objects of the corporation when it becomes necessary. Section 3(1)(2) is very explicit on this point.

To enable the government to control the activities of the corporation once it is established, Parliament grants several other powers to the Minister. They may be enumerated as follows:

(a) giving special and general directions as to the exercise of the powers and discharge of the duties of the Board;

(b) conducting inquiries into the financial position of the corporation;

(c) approving the amount of funds that should be set aside for reserves; and

(d) appointing auditors, managing directors etc.

Besides, a variety of other provisions require government's or Minister's approval for specified kinds of Board actions.

Because substantial powers have thus been given to ministers in relation to state industrial corporations the extent and area of

parliamentary control is wide. By making ministers exercise these powers, parliament is in a position to perform very effectively its functions of supervision and control over corporations. By applying pressure on ministers and holding them responsible for the exercise or non-exercise of these powers, Parliament can make corporations and ministers take proper steps and put matters right if it is dissatisfied with their performance.

It is necessary at this point to stress another equally important aspect of public control over business undertakings, namely that it should not be too extensive or too detailed. If it is, Parliament runs the risk of undermining the very purpose for which corporations have been set up, namely to introduce flexibility, initiative and drive into the management of these enterprises. Theorists of corporations have frequently emphasised the need for this self-denying ordinance on the part of Parliament in regard to corporate activities. No less a person than Herbert Morrison maintained:

> I am certain that if we are to run these public corporations - highly commercial, highly industrial, highly economic - on the basis of meticuluous accountability to political channels, we are going to ruin the commercial enterprises and the adventurous spirit of the public corporations in their work (Morrison 1933:

The concern of Parliament as trustee should be for major policy. Detailed interference will lead to delays, overcaution and lack of confidence and it is to avoid them that the corporate system was evolved.

Kenneth Galbraith, in the context of Sri Lanka, pointed out yet another reason why Parliament should not attempt too close a control. He maintained that if any Parliament did so, the interest groups representing workers and consumers would take advantage of the legal power of the Parliament to make short work of the autonomy of corporations by bringing pressure to bear upon corporate activities.

> Since the principal test of performance is earnings the public enterprise must be in a position to resist the undue demands of its employees or customers. This is another reason why individual actions should not be subject to ministerial or parliamentary review. If they are, workers and customers will soon learn to go to the ultimate source of power which is the Minister or Parliament. Good politicians are sensitive to such demands. It is their business to be. But the price of intervention in response to individual pressures will again be overall failure of the enterprise (Galbraith 1959: 100).

Thus on the one hand Parliament must organise itself to exert its control over corporations in order to fulfil its role and its responsibility to the public, but at the same time its control should not be so extensive as to make the enterprise yet another addition to the Ministries. To balance the two is no easy task and the extent to which the right system of checks and balances exists depends to a large extent on the social and political context of the country.

The Question Period

Among means available to Parliament for controlling corporations, the parliamentary question is one of the most effective and important.

As a technique of control it is widely used and commonly known (Johnson 1961: 80). As in other parts of the world where the parliamentary system obtains, question time occupies an important place in the order of business of the House. A period of half an hour is allotted to Questions every day on which parliament meets (*CHRSO* 35). Every member has the right to ask any number of questions requiring written answers, but he is not entitled to ask more than three questions for an oral answer on any one day. Besides, any member may put a supplementary question for purposes of further elucidating any matter of fact regarding which an oral answer has been given.

Thus as a parliamentary device to hold ministers and corporations responsible Questions provide a potentially valuable opportunity. If questions are intelligently put and properly directed they can elicit valuable information regarding the activities of the corporation. Members can also seize upon this opportunity to air their grievances about the shortcomings of public enterprises and may therefore force government and ministers to consider action on any matter they may raise on the floor of the House. Government can also take the opportunity of question hour to clear any misconception, fear and doubt that members and public may have about the working of public enterprises. Parliamentary questions may also have the effect of making enterprises more responsible for their decisions because of the fear that they might become the subject of parliamentary questions.

In so far as the admissibility of questions is concerned, no restriction has yet been placed, as in the case of India or the United

Kingdom, on the type of question that may be asked on corporations (Hanson 1951: 55; Mallya 1971: 131; Bhambri 1967: 72). The normal procedure regarding admissibility of questions, (a) that it must be related to the subjects with which the member questioned is concerned; (b) that the proper object of a question should be to obtain information on a matter of fact within the special cognisance of the member to whom it is addressed (*CHRSO*: 31-34), also applies to questions on corporate activities

In spite of the wide open opportunity thus available to members of parliament, full use has not been made of the Question Time as a technique of control. Questions on corporations are sporadic. In the period between 1965 and 1970, for instance, not more than sixty questions have been asked on the activities of the twenty-six state industrial corporations which is 12 per year and two per corporation. In fact not all of the corporations in the industrial category have been the subject of parliamentary questions. Corporations like Eastern Papermills, Leather Products, Cement and Sugar seem to have attracted most attention and account for a large proportion of the questions asked in Parliament on corporations. Moreover a single aspect of a given corporation has constituted at times the main subject of questions. A good example of this is the questions on the dismissal of employees in the Ceramics Corporation. Even though state industrial corporations constitute only one-fifth of the total number of corporations existing in Sri Lanka, they are typical of all corporations in this respect. Only two corporations, the Cooperative Wholesale Establishment and the Ceylon Transport Board, have been the subject of a large number of questions; even that is on a comparative basis; the majority of the corporations are normally ignored.

Questions on corporations seem to depend on two factors: (a) the social and political climate at the time; and (b) the knowledge and experience of members of Parliament in relation to the activities of the corporations. In fact most of the questions have come from the members of senior rank, like Dr N.M. Perera and Dr Wickremasinghe, whose knowledge of the activities of corporations is fairly thorough because of their long standing membership of the House. Nonetheless as a means of control parliamentary questions lack the comprehensiveness and necessary coverage to be of any effect.

If questions are sparse and unsystematic, an analysis of the questions asked brings out further the nature and scope of the type of control that Parliament has tended to exercise.

Roughly one-third of the questions asked on corporations, particularly on state industrial corporations, centre around staff matters such as recruitment, dismissal and promotion on the one hand, and salary and wages of the corporate personnel on the other. The following are some of the questions asked. The Minister of Industries and Fisheries was asked on 27 July 1965 why casual employees working at the Ceramics Corporation were dismissed and when they would be reinstated; on 19 October 1965 why a senior employee at the Eastern Paper Mills was not doing any more responsible work than to open mail and despatch it to the Ministry; when he was appointed and at what salary; on 27 July 1965 when the sales officer was appointed, with what qualifications and whether the post was advertised; on 9 August 1965 how many accountants worked at the head office and at the factories; on 7 June 1966 why an

employee dismissed for misappropriation was reinstated; on 29 July 1966 why the secretary/accountant was removed; on 19 August 1966 how many temporary supervisors were employed by the State Engineering Corporation and what were their salaries; on 19 November 1965 how many were recruited from the Kalutara District for work at the Hardboard Corporation; on 8 September 1965 why a good proportion of workers at the National Textile Corporation came from the constituency of the Minister. The following were the only questions on the general policy of recruitment: Minister was asked 27 July 1965 whether it was the policy of government to recruit personnel through the Employment Exchange and if so, whether the policy would be followed uniformly; on 24 August 1965 whether corporation employees would be given concessions on railways and holiday warrants normally granted to public servants; on 21 June 1966 whether all those trained in personnel management by the Bureau of Personnel Services would be given employment.

The next largest category of questions concerned the contract, purchase and other tendering procedures adopted by corporations. The following will illustrate the type of questions asked on these matters. The Minister was asked on 23 August 1965 why the National Textile Corporation purchased 7½ million rupees' worth of cotton without adopting the normal tender board procedures and issuing proper advertisements; on 31 August 1965 whether tenders were called for construction of a laboratory at Kankesan Cement Factory and who were the contractors; on 9 August 1965 when and by whom and at what cost a machine for making exercise books was purchased; on 21 June 1965 what procedures were adopted in selecting firms and other business houses for the purpose of

supplying papers and what were the names and addresses of those firms and establishments to whom Eastern Paper Mills Corporation supplied paper; on 27 July 1965 why a car was purchased by the Eastern Paper Mills Corporation for the use of the consultants; on 25 August 1966 why a vehicle from a private source was purchased in spite of the Board's decision to the contrary; on 24 April 1968 what procedures and contracts obtained in retailing ceramics and was he aware of the corruption and malpractices in the trade; on 4 September 1968 why aerolite glue was purchased from a British firm and whether any other tenders were called. On the matter of purchase of land and buildings and construction for the use of corporations, several questions were asked: on 9 August 1968 who was the owner of the land on which the Eastern Paper Mills was constructing buildings; who was the contractor; was it proper for him to be paid Rs. 20,000 in advance; on 22 July 1968 why land in Salaawa Estate was purchased for the second plywood factory.

The third type of questions were those intended to specify and publicise the malpractices, corruption and nepotism allegedly prevalent in corporations. For instance, on 4 June 1966 the Minister was asked about the procedures governing the use of official cars by full-time and part-time directors. On 21 May 1961 the question was why the chairman and other members of the Sugar Corporation used official cars to attend a private wedding. In addition almost every question asked on tender board procedure, recruitment and purchasing inevitably referred also to alleged abuse and corruption. For instance in the question about the Ceramics Corporation's agreement with private traders, mention was

made of the discretion granted to the sales manager to discriminate against local citizens and favour Indians and distinguished citizens. Questions described the failure to recruit personnel through the Employment Exchange as an abuse of the powers and responsibility granted to the Boards. A question on 8 September 1965 on the employment of personnel from the Minister's constituency, for instance, had the following parts: (a) why was the rule that all recruitment to a government agency should be through the Employment Exchange dispensed with in this particular case? (b) why were no qualifications called for and why was there no advertisement of such intention to recruit?

The majority of the questions asked on corporations can be subsumed under one or other of the foregoing headings. Some of the questions tend to be quite trivial and most of them concern matters purely internal to the corporations. A large part of the questions search for details on a particular appointment or dismissal; the tender procedure adopted for a given purchase or sale by an individual corporation as opposed to overall efficiency, the capital programme, and the personnel policy and training programme which in fact should be the main concerns of the Parliament. In the last analysis it is these matters that determine the success or failure of an enterprise under the corporate system of administration. Searching queries about the performance of the corporations should have been the subject of many a question, but they were rare. Members seemed to forget that inquisitorial, detailed questions could kill initiative and make managers measure their success in terms of not being the subject of such questions.

Writing on Indian enterprises, Professor V.V. Ramanadham observed:

> The efficacy of the parliamentary question as a means of control over the public sector is best seen if members of Parliament scrupulously avoid emphasis on local details, trivial incidents and purely operating matters which are either within the normal routine of internal administration of enterprises or can be settled more effectively by a direct negotiation between the enterprise on the one side and the interest concerned or affected on the other for example, consumers and workers (Ramanadham 1964: 114).

But the practice in Sri Lanka seems to be the very reverse of what he has observed to be the sound principle.

However, members of Parliament may have believed in different principles from those enunciated by Professor Ramanadham judging by the nature of the questions they asked. Parliament may have held the view that question period is best used to highlight the specific abuses and corruption that are brought to the notice of members of Parliament. In fact Dr N.M. Perera, a senior parliamentarian of the House of Representatives and the author of a large number of questions, gave expression to this view when he rose to justify his inquisitiveness for details on the ground of the unbelievable amount of corruption that was going on in a particular corporation. He said: 'I have got authentic information on the kind of corruption that is going on at the corporation under the Hon. Minister. Otherwise I would not have put these questions' *CHRD* 5 June 1966, Col. 1446).

In 'a country where people are not distinguished for their financial realiability, where respect for public property is not highly developed, and where there is not an accepted tradition of meticulous expenditure controls, the absence of which would be regarded as a charter not of liberty, but of licence' (Hanson 1959: 381) justification may well be found for the attitude of Parliament towards Question Time.

But Parliament must always be aware that to adopt that attitude to the extent it has done in Sri Lanka would bring about results harmful to the very system of administration it has created for operating the enterprises. For the greater the amount of questioning on details, the less will be the initiative that the corporate official will show and the more numerous will be the bureaucratic procedures that will result within the corporation in order to be able to account for details of their operations. It is to avoid these weaknesses that the corporate system was evolved. If parliamentary questions were given freer play over the whole field of activity, half the advantage of having public corporations rather than government departments would be lost (Robson 1960: 176).

Secondly, to ask ministers for details of the kind that members have called for blurs responsibility between boards and ministers. If ministers were to continue to answer questions on the daily activities of the corporations and on matters wholly within the purview of the Board of Directors, they would be accepting responsibility on matters over which they have no specified powers of direction or control.

For these reasons it is important that Parliamentarians should exercise their power to ask questions with more discrimination. Not to do so will create a situation where the Minister may assume the position of Managing Director of the corporation.

The main purpose of questions is to gain information. It offers members of Parliament an opportunity to draw immediate public attention to any phase of administrative activity or policy. In Sri Lanka the limited use of questions has been in the main to make known to the public details of alleged abuses and corruption that obtain in the corporations.

Debates

Apart from question time, debates provide an important opportunity for members to review, examine and discuss the affairs of the corporations. Occasion to debate the issues of public corporations on the floor of the House arise in two general ways:

(a) when the subject matter for debate is wide open under the rules of the House;

(b) when some aspect of the affairs of the corporation is on the order of business of the House.

In the first class may be placed the debates that take place annually on such occasions as the speech from the throne; and the presentation of budgetary proposals by the Minister of Finance. These two are the most important parliamentary events of the year and often in Sri Lanka they follow close upon one another, the speech from the throne being read at the beginning of July, and voting on the Budget taking place in the middle of August every year.

The purpose of the speech from the throne is to provide an outline of the policy of the government for the ensuing year and to review its activity and achievement in the year that has elapsed; this may include the performance and achievement of some corporations and proposals to set up new ones. It may also include proposals to augment the sphere of activity of some. An example of such an announcement may be given. In the year 1967 the speech from the throne, while declaring government's intention to set up such authorities as the Coconut Fibre Board and the Ceylon Broadcasting Corporation (*CHRD* 8 July 1967 Col.31-3), also took note of the progress so far made in the activities organised under the State Industrial Corporation Act. It said:

> Much progress has been achieved in the field of Industry; the Steel Rollong Factory, the Tyre and Tube Factory, the Hardware Factory, the Cement Plant at Galle, and Ceramics Factory at Piliyandala were brought into commercial production during the year. Production at Kankesanturai Cement Factory was largely increased. Work in connection with the setting up of an integrated textile mill at Thulhiriya - one of the largest in the East - started during the year (*CHRD* 8 July 1967 Col. 35).

Besides, the speech from the throne went on to make reference to a number of projects that would be brought under the control of state industrial corporations (*CHRD* 8 July 1967 Col. 36).

The importance of the budget speech as an occasion to discuss the affairs of the public corporation arises from the fact that it usually embodies the demands of corporations for capital funds as part of its proposals for capital expenditure. Because of the reliance of most corporations on government for capital funds, the activities of corporations constitute an important part of the budget speech. Also

it is customary for the budget speech to review the 'state of the economy' and references to state corporations are inevitable as the following part of a budget speech indicates:

> The growth achieved in the sphere of industry has been significant. All industrial corporations in the public sector have registered significant increases in production. Several major industrial projects which were in various stages of gestation were speedily completed and brought into commercial production during the period. Between 1965 and 1968, the total value of production of industrial corporations increased from Rs. 70 million to 262 million. With the exception of two all industrial corporations are viable institutions making profits. Work on several new industrial projects was commenced during this period. In addition expansion programmes were undertaken by many corporations particularly by the Paper Leather and the Mineral Sands corporations (*CHRD* 2 August 1969 Col. 26).

The pattern is much the same every year, the speech from the throne touching on several corporations' performance while the budget speech as a statement of income and expenditure takes stock of the financial position of the corporations in order to get the approval of the House for whatever increase in expenditure it proposes to meet the capital demands of the corporations.

Nevertheless, despite the place given to the corporations in these speeches they have rarely become the subject of the debates that ensue. In the year 1967,for instance, in the debate on the speech from

the throne 42 members discussed the proposed programme of the government, of whom only four made any direct reference to these enterprises, while there were few indirect references. None of the speeches was thorough in its assessment of the activity of corporations. One speech - that of the Minister of Industries and Fisheries - not surprisingly included the following:

> It took us two years to put into working order the corporations started by the last government; the Iron and Steel Factory at Oruwela, the Tyre and Tube Factory at Kelaniya, the Hardware Factory at Yakkala ... The government is going ahead with the development of the Puttalam cement industry which will produce 220,000 tons of cement. Work is progressing ... and we expect to complete the plant at the end of 1968 (*CHRD* 18 July 1967 Col.796).

He went further to illustrate the progress made and expected by other corporations under his charge. For instance, he said: 'The Oils and Fats Corporation was a corporation that lost continuously till last year. It was only last year that we made a profit in spite of the fact that machinery was old and outdated...'. Referring to the salt corporation the Minister said 'During Mrs Bandaranaike's regime, the salt industry was in a bad way. We had to import salt from Pakistan. But during the last two years we have been able to increase our production...' (*CHRD* 18 July 1967 Col. 794). These references to state enterprises were part of the speech he made on the address of thanks.

The member who followed the Minister in reply said:

> I wonder sometimes what the purpose of Throne Speech and Throne Speech debates ... I think the last speech of the Minister will probably hit a new low as far as the House is concerned ... He talked about the mess made of

> industries by the S.L.F.P. just what exactly he has done to set right the mess over the past two years... In the first instance he appointed incompetent persons who did not know their job as chairmen of corporations, people without educational qualifications.. Look at the Fisheries Corporation he appointed a gentleman who had never had any contact with the sea or fisheries.. All I can say is that if there was a mess before in industries he has made that mess a hundred times worse (*CHRD* 18 July 1967 Col. 810-11).

The position is much the same as regards the budget speech debate.

The above are typical examples of the few references to state corporations that do occur in these speeches, government members predictably rising to congratulate the government on the achievement of the corporations, and the members opposite decrying the inefficiency, nepotism and corruption occurring in state corporations. There is no objective discussion of corporate affairs nor any proper evaluation of the roles and policies of the corporations.

However as occasions to debate the problems of corporations, the budget and speech from the throne debates are the least important and effective. In the first place the time available to debate the issues arising out of these speeches is at a premium, for not more than 15 days in all are allocated to them. In the second place, members are not bound to confine the debate to matters set out in the speeches. They may debate any aspect of governmental activity or policy which they think important and consequently it is not unusual for members to be carried away by parochial considerations, and become involved in a 'labyrinthine maze of irregularities' (*CDN* Editorial 16 July 1962).

With the conclusion of the second reading of the Appropriation Bill, the House resolves itself into Committee of the Whole to debate the departmental estimates. This is yet another opportunity for members to discuss the working of corporations on the floor of the House. By proposing a cut in the vote of a given ministry members can subject any activity under the ministry or its policy to the closest scrutiny. Since most of the votes of some ministries are for purposes of financing corporations' activities, and also since a large part of their work is concerned with supervising and controlling the activities of these corporations, the public corporations become a necessary part of the debate on the vote of the ministry.

This is clearly the case with the vote of the Ministry of Industries under which more than twenty state industrial corporations operate. For instance in the year 1968 when the votes of this Ministry came up for discussion about twenty members had the opportunity to debate the vote of the Ministry, and nearly all of them took the occasion to express their views on corporations functioning under the Ministry. The member who opened the discussion on this occasion in a long-winded speech mentioned Ceramics, Cement and the Fisheries Corporation specifically (*CHRD* 4 September 1968 Cols. 1656-77). He was concerned by (a) allegedly political factors in the selection of sites for the corporations; (b) a drop in the sales and distribution of goods of some corporations; and (c) the contradictions between the figures of production and sales as shown in the Central Bank Report and in a ministerial statement. But for the member who followed him the attainment of solvency by two industrial corporations which had long been in the red was enough to justify congratulating the Minister on his efforts

and concern for industrial development (*CHRD* 4 September 1968 Col. 1678-83). The industrial policy of the government, however, said the member, had not reached far enough and certain industries that could have been developed in his locality were simply ignored by the Minister and the Corporations. The tone and style was thus set for the rest of the debate.

> This government [one member said] was trying to take credit for these ventures. It had been the socialist countries which had set up these industries. In the newly established industrial corporations such as Steel and Tyre, production had exceeded the original expectation but these were industries financed by the socialist countries whereas the Cement Factory which had been set up with the western aid by the previous government produced only 50% of the total capacity. Similarly the Paper factory was running at a loss in its early stages; but it was doing good work now because of the efforts of the previous government.
>
> In regard to the State Hardware Corporation, he had been informed that Mr Somaratne, M.E.P. candidate for Wettegama, had been appointed to be in sole charge of smelting and foundry which was to be established near Hardware factory. This person had no qualification at all, for this post; it was not surprising that Hardware Corporation had come to be called as Rampala Workshop (*CDN* 5 September 1968).

'That was not all' said another ' that was happening at the corporation'. He was here talking about the Leather Products Corporation. 'The secretary of the corporation had been given the position of sales manager for which he was paid Rs. 300 extra per month. Then there was the peon who was made a salesman. Mr Linus de Silva (chairman) was not efficient or capable of improving the place (*CDN* 5 September 1968: 11) The same was the substance of a speech by yet another member. Having heard these criticisms, a government M.P. rose to say that the

> brunt of [members'] attacks were directed against the chairman of Leather Products Corporation. He did not see why they had developed that animosity. In so far as the government side was concerned they were satisfied with the work of the Ministry (*CDN* 5 September 1968: 8).

These were not considered opinions based on a proper evaluation of facts and figures relating to corporations, but were those dictated by the views of the party to which the member belonged, government M.Ps. using most of the occasion to defend the government policy and that of the corporations and the opposition mainly trying to discredit them wherever possible.

Thus even though members take the opportunity of the vote of the ministry to debate corporation activities the discussion can by no means be said to be an objective assessment of corporations. Members naturally approach the occasion with a political bias and their criticisms are directed more to embarrassing the government of the day than to considering the enterprises critically. One cannot blame the private member for this. He is given no more than fifteen minutes to speak on the day of the vote and it is impossible for him to enlarge and elaborate on any topic or any aspect of the working of corporations. In his eagerness to cover them all he tends to generalise and criticise in a fashion that makes his speech shapeless and at times pointless from the point of view of parliamentary control. It might be possible for members of a political group to come to an understanding for a division of labour, with each one taking up on enterprise or group of enterprises; it is not possible for any one

member to deal with all of them, as he is in the habit of doing now, or even to do full justice to one of them.

However, it is worth noting points that recur in these debates, in order to specify the kind of concern members express about corporations. They are:

(a) Political bias in appointing board members;
(b) Corruption and nepotism in staff appointments made by corporations;
(c) The need to standardise wages and salaries between corporations;
(d) Political factors in the siting of enterprises.

Apart from the failure of parliamentary debate to examine the enterprises objectively, there is the failure of members and ministers to treat enterprises as a category and activity quite separate and removed from the normal system and process of central administration. Members tend to identify ministers too often and too closely with the enterprise itself; as though running of it is his full and personal responsibility. The ministers for their part accept full responsibility for sins of omission or commission by the enterprise as if it was in fact managed by themselves. These attitudes are not wholly unsatisfactory. It is valuable that ministers should recount the activities of corporations giving whatever details possible and reviewing their policies. But if they become too much identified with the enterprise and defend it blindly, as most ministers do in Sri Lanka, they lose objectivity and encroach upon areas where they are supposed to have no authority.

The pressure by members for detailed information and accusing ministers of the corporations' failures forces ministers, in the last analysis, to control corporations more than necessary in order to be accountable to the Parliament. This pressure is harmful for the working of the corporations, but it seems to have become the norm in Sri Lanka.

The budget debate, the speech from the throne, the debate on ministry vot4s are however opportunities for a general review, analysis and criticism of the government's activities. It is as part of this general attack on government and its policies that corporations become the object of these debates.

Even though they provide important opportunities for members to bring up the problems of corporations, by their very nature occasions such as these do not allow members to sustain them for long in a coherent and coordinated manner so as to impress effectively on the authorities what they see as important in the organisation and administration of public enterprises and what they would like to see being done in them.

More objective and better coordinated discussion on corporations is likely on occasions when some aspect of the corporations is the order of the day. These arise when:

(a) the House adjourns to debate the subject of corporations on a 'motion for adjournment';

(b) the annual reports and accounts of corporations are tabled before the House;

(c) a motion is brought before the House for the approval of a corporation's initial capital and for any increase in the capital funds already provided.

Parliament may also discuss corporations when the minister presents for its approval the rules and regulations made in regard to corporations, or proposes to amend and modify the existing framework of the corporate legislation. Since these two opportunities are somewhat rare they are not considered here. Debate on public corporations on the motion of adjournment is also fairly rare; for instance between 1965 and 1970 only twice did the Parliament take this opportunity to discuss the corporations and then merely to clarify certain misunderstandings about Board appointments and the selection of sites.

Thus the debates on annual reports and accounts and capital requirements of corporations are the two important occasions when Parliament gets the opportunity to review, scrutinise and examine the affairs of the corporations more closely than in the debates on the budget speech and throne speech.

Annual Reports

The annual reports and accounts are vital documents from the point of view of parliamentary control, for it is through them that Parliament expects to get first-hand information on the details of the working of corporations to ensure that public funds are put to proper use, and that policies and actions pursued by corporations are in the best interests of the nation. Thus debate on annual accounts and reports

may well be regarded as an event of immense importance.

By statute every minister in charge of a public corporation should lay or cause to be laid before the House (a) a copy of the statement of accounts and Auditor-General's comment thereon; (b) a copy of the profit and loss account; (c) a copy of the balance sheet; and (d) a report by the Board of Directors on the working of the corporation for the period for which the profit and loss account and the balance sheet have been drawn up.

In the case of the State Industrial Corporations the act not merely stipulates that these documents must be tabled but specifies that they must be approved by the Parliament. 'The Minister shall cause copies of all the documents specified to be laid before the House of Representatives for approval' (Sec 30(2)). Mr William de Silva, the Minister responsible for this act, took pride in stating that he was glad that the State Industrial Corporation Act, unlike the act which it superseded, had this provision for the House to approve because it afforded opportunity for the House to review the work of the corporations whenever such reports were presented for approval (*CHRD* 2 December 1958 Col. 2051).

In spite of this important and mandatory legal provision regarding submission of accounts and reports, public corporations in Sri Lanka have been quite slack in complying with the requirement. The reports are usually in arrears (See Appendix 6), sometimes by as much as

six years or more. For example in the year 1970 the National Textiles, Leather Products, and Eastern Paper Mills corporations were able to submit accounts and reports only for the year 1964-65; and Ceylon Tyre, State Flour milling and Ceylon Plywood corporations only for the year 1966-67. The other corporations were no better.

Not only do corporations delay their reports for up to six years, but when they do take time to submit their accounts and reports they tend to submit several years' accounts in one single year. A good example of this was the reports and accounts of the Paranthan Chemicals Corporation which had seven years' accounts (1959-60; 1960-61; 1961-62; 1962-63; 1963-64; 1964-65; 1965-66) before the House in one single day (10 April 1968). Several other corporations could match this record.

The time-lag in presenting annual reports and accounts results in fewer being debated and a desultory debate when it does occur. For instance, if all corporations had submitted their accounts and reports in time Parliament would have had far more than one hundred in the period from 1965 to 1970; in practice it had less than a quarter of that number. Of course when debate does take place it is upon an outdated document. Parliament naturally finds itself in a rather hopeless situation when trying to analyse long past events and activities. Thus instead of the debate taking up points raised in the annual reports and the achievements and performance recorded therein, it tends to revolve around general statements and other points of interest which the member

might have come upon in reading newspaper articles and parliamentary papers such as the reports of the Public Accounts Committee and Auditor-General. It is not uncommon for some members to ignore altogether the particular corporation under review and take up some other corporation and its activities which he thinks important for the purpose. Some may not discuss any corporations at all, but concentrate on general problems such as wastage, corruption, financial procedure and the like in relation to corporations. 'There were many important things raised in the report ', said an M.P. 'but I do not think it worthwhile referring to them because six years later the position could have changed completely' (*CDN* 14 September 1970).

Some examples from the debates may bring out the validity of the points made here. In the year 1970 when the 1964-65 Leather Products Corporation report was brought before the House for its approval, all eight members who took part in the discussion, while emphasising the need for the corporation to submit its report in time, made most of the occasion to drive home the necessity of all corporations, including Leather Products, to make profits; the need to streamline procedure regarding recruitment and finance; and the desirability of maintaining good working relationships with corporation employees. As regards the activities of the corporation under review, except to compliment the corporation on its achievements so far, particularly under the chairmanship of Mr Robin Ratnam - appointee of the present government when it was previously in office - and to ask whether it would be possible for the corporation to perform its sales function mainly through the present distributory centres, no member took any interest in the

statistics presented or matters narrated in the Board's reports as to the performance and achievements of the corporation.

To give yet another example: in the debate on the accounts and report of 1965-66 of the National Textile Corporation, which took place on 5 August 1970, most attention centred on the question of cotton cultivation which the members said the corporation had ignored for quite a long time; and on the importance of promoting the handloom industry. Both of these were important subjects from the point of view of members' constituents, but this meant that the accounts and reports of the Corporation were ignored.

Apart from the belatedness of the reports, their quality provides another reason for the lack of pointed and probing discussion on the achievements of the industry. As Professor A.H. Hanson says, the effectiveness of parliamentary supervision whether through questions, debates or committee investigation will depend on the quality of annual reports which parliament receives from the enterprise (Hanson ed. 1963: 306). Ideally the accounts and reports should provide Parliament and the general public with a clear picture of the activities and the financial position of the corporations. They could for instance start with the details of physical operations, the amount produced, and the cost incurred. They could also give adequate comparisons with past years so as to reveal the long term trends. They could also set out the future plans, programmes and policies that corporations are hopeful of pursuing since the Parliament would want to know the

nature and extent of future commitments. This kind of reporting would help the overburdened Parliament to get a clear and comprehensive idea of the working of the corporations in a short time and help members understand the salient features that concern the Boards themselves in running the industries.

In practice most of the annual reports published since the beginning both in form and content are far from objective and lack relevant and vital details regarding corporation performance, problems and future plans. Things that have gone wrong are not reported or are ascribed to outside forces over which the enterprise has no control. 'So far all the corporations having Government assistance have issued annual reports',said a member of the PAC, 'but these reports are not informative in regard to the actual working of the particular corporations.. As things are members of Parliament have to proceed on all kinds of odd statements and draw all kinds of inferences.. We do not have sufficient information on various corporations for the purpose of fair criticism in the House' (*PAC* 1959: 22, 43-52).

That in fact is the predicament of members of Parliament, for they have nothing but fragmentary information to base their criticism upon. If Parliament is to perform its function adequately and properly it requires not merely the rate of dividends declared, which most reports in Sri Lanka seem vitally interested in emphasising, but also information about productivity, cost of production, employment trends, labour relations, organisational changes etc., in order to get a comprehensive picture of the corporation.

That seems, however, not to be the intention of corporation Boards in Sri Lanka. In fact the reverse seems to be the case: the fewer the details given on corporations, the smaller the amount of criticism that Parliament can make of the affairs of the corporation. This is borne out by the observation made by the Commission of Inquiry on the Salt Corporation when it said:

> It appears to us to be probable that the failure to submit the annual reports and statement of accounts was due to the fact that these documents would have been tabled in the House of Representatives by the Minister for approval.. the reports were not sent because the Board of Directors anticipated criticism in Parliament if the reports were laid before[it](*SP* 9 1963: 80; see also *SP* 1 1973: 25).

One may also point out a weakness in the statute as another probable reason for the failure of corporations to submit accounts and reports in time (see Naylor 1966: 20). For this act does not lay down as the other statutes do a specific date for the submission of accounts and reports.

Whatever may have been the reason for the failure of corporations to submit reports in time, and to produce informative reports on the affairs of the corporations, the quality of supervision that Parliament can exercise over corporations suffers on this account.

To sum up: debates can be an important means for members to exercise control over corporations. They afford a broader coverage of the activities of the corporation than is possible through questions. There are several such occasions for members in Sri Lanka to debate

the issues of corporations. While the budget speech, throne speech and vote of the Ministry afford opportunities for general debate, annual reports and votes on capital fund give members the chance for a deeper assessment of the affairs of the corporation.

However, the effect of parliamentary debates on corporations depends to a large extent on the quality of the debates. The foregoing examination of the debates conducted reveals that they lack the character and form that are necessary to bring about the desired effect on the public corporations. More often than not they are coloured by party bias and personal idiosyncracies and rivalries to the point where Kelf-Cohen's observation becomes true:

> For government members of parliament the corporations can do no wrong and any criticism of them is an attack; while in the eyes of members opposite it is doubtful whether they can do anything right; most probably anything they do is wrong (Kelf-Cohen 1958: 157).

Divided as they are by party politics, seldom do members subject corporations to the impartial, careful and thoughtful review they require.

Public Accounts Committee

Investigation through committees is another method by which Parliament can bring public corporations under scutiny and control. Instead of the whole House sitting to discuss the affairs of the corporations, the committee technique can allow selected members approved by the House to examine the corporations more thoroughly and systematically and to keep the Parliament and the public informed of their progress and

achievements. The Parliaments of the U.K. and India have successfully adopted this device for purposes of review and control. The Parliamentary Committee on Public Undertakings in India (1963), for instance, conducts a wide range of studies on corporation activities and has so far made about 40 reports to the Parliament for its consideration and action (Gupta 1968: 583; Mascarrenhas 1968: 247).

No such select committee has yet been adopted by the Parliament of Sri Lanka in spite of repeated recommendations to do so (*PAC* 1959: 3; *PAC* 1963: 4). Parliament instead has relied on the traditional instrumentality of the Public Accounts Committee for the fulfilment of its role of supervision over the corporations' finance and administration. Parliamentary control through committee has thus come to rest on the abilities of this one committee to examine corporate activities.

Composed of seven members and entitled to sit notwithstanding any adjournment of the House, the Committee of Public Accounts has been active for well over 20 years and has been responsible for a wide variety of inquiries and for the investigation of numerous activities of corporations as well as of the departments. It has an influence far more than its size would suggest; and commands a wider respect than its actual use of powers. Basically the Public Accounts Committee, as its name implies, is a committee to examine all public accounts to report to the House on the legality, propriety and regularity of public expenditure by the executive. The Committee must satisfy itself:

(a) that the funds were spent for the purpose for which they were allocated;

(b) that funds were spent in accordance with the rules and regulations;

(c) that the actual expenditure did not exceed the budget allocations (Chanda 1960: 112).

Guided by the Auditor-General, whose duty it is to examine and certify the accounts of the administration, the PAC generally inquires into any excesses, irregularities, mismanagement and negligence in the use of public funds that the Auditor-General may bring to the notice of the Parliament (*CHRD* 10 April 1968 Col. 3251).

So far as the activity of the public corporation is concerned, PAC derives its authority to scrutinise its affairs from two sources. Firstly, PAC has the power to examine any reports and accounts laid on the table of the House. Secondly, the Auditor-General, on whose knowledge and guidance the PAC depends, has the power and authority to examine and report to the House on the accounts of the corporations. In terms of the Standing Orders relating to PAC the committee should examine:

> the accounts showing the appropriation of the sums granted by Parliament to meet the Public Expenditure and of such other accounts laid before Parliament as the Committee may think fit, together with the Auditor-General's reports thereon (*CHRSO:* 125).

Since any state corporation is obliged by law to submit annual reports and accounts to the Parliament and also because nearly all

corporations' accounts are either audited by the A/G or brought under his scrutiny, PAC's position and power in regard to the financial side of corporate activities is nearly absolute. It can investigate and report on any corporation's activities on which the A/G may report from time to time.

From the very beginning PAC has been very conscious of its position in relation to corporations and also of the problems posed by the growth of a large number of corporations. More importantly the committee became aware of the inadequacy of the existing methods of control over corporations; for instance, as early as 1958 it observed:

> Your committee's inquiries have made it apparent to them that the degree to which Parliament is at present able to keep itself informed in regard to the working of State Corporations is wholly inadequate. It may broadly be stated that the only means at present available to Parliament of obtaining information in regard to these Corporations are through Answers to Questions asked by Private Members from the Ministers concerned, and the examination of the Annual Reports and Audited Accounts of the respective Boards of Management (*PAC* 1959: 3).

Both these means in the committee's view were insufficient and ineffective. The management reports, it observed, can hardly be expected to be critical of the working of corporations to which they relate, while the accounts are only of limited value in forming an assessment of the working of the corporations. It made the same observation in 1963 (*PAC* 1963: 34), with the vain hope, however, of making Parliament adopt a select committee for investigation and

information. Concerned, then, by the ineffectiveness of other methods of control, convinced of the special position that it had come to occupy in the absence of any other specialised standing committee to study corporations, and noting the unwillingness of Parliament to institute one, the Public Accounts Committee's interest in corporations became thorough and consistent. Year after year the committee tended to bring more and more of the existing corporations into its fold - from 15 in 1959 to 60 in 1971 - and subject some of them to special investigation and study, e.g. the Paranthan Chemical Corporation in 1963 and the Tea Propaganda Board in 1968.

No corporation has thus far escaped its attention in this process and there is no problem relating to corporations that it has not ventured to offer its comments upon. The committee in a way began to see itself in the role of the select committee it recommended (*PAC* 1963: 34) for adoption, for much of its inquisitions and the scope of its inquiries gradually tended to follow the pattern it suggested for adoption by that select committee: (a) proper use of capital; (b) operational efficiency; (c) evaluation of performance; (d) staffing; (e) remuneration; (f) labour problems and (g) lines of future development.

The keenness of this committee's interest and the conception of its role relating to corporations are evident in the number and nature of reports it has issued on the activity of corporations. Even though the committee's purpose is primarily to investigate the accounts of the departments of the general administration, which is in itself a task of considerable proportions, the amount of time and attention the

committee has been able to give to the accounts and problems of corporations is significant. Of the 130 meetings the committee has held over a period of twenty years to consider the accounts of the government, more than a third have been devoted to corporate matters. Moreover of the 45 reports it has submitted to the House on the accounts of the government up to the end of 1971, nearly 15 have concerned the affairs of corporations. For instance one out of the two reports in 1961, one of the two reports in 1963, two of three reports it submitted in 1965 have been entirely devoted to corporations. With the changes it brought into being in 1966, as a result of its recommendations to issue the A/G's reports in instalments, the Committee of Public Accounts has been submitting on the average two reports annually on the activity of the corporations alone. Thus none would deny the active involvement of this committee in the affairs of corporations for not only has the committee attempted to give wide coverage to corporations in its deliberations and reporting, but it has now made it a practice to give corporations an important place in its annual reporting.

Apart from the number of comments and criticisms that the committee offers on the details of accounting matters reported by the A/G, it has been responsible for a large number of suggestions and recommendations relating to the general improvement of corporate administration. They have covered financial arrangements, accounting methods, capital outlay, personnel and management practices. The fifteen reports of the committee are laden with these suggestions and recommendations and many of them have now become accepted parts of the administration of corporations.

For instance in the 1966 report the committee, having examined twenty corporations, noted the following as their shortcomings: (a) absence of properly drawn up budgets; (b) the lack of proper accounting systems; (c) the lack of clear procedures for administrative and financial transactions; (d) the absence of satisfactory costing systems; (e) inadequate internal controls; (f) failure to maintain proper accounting records (*PAC* 1966: 125).

In the report it made in the following year the committee made suggestions and comments on the problems of capital outlay and the verification of fixed assets. On the first head the committee referred to a number of instances where machinery purchased at considerable cost (a) had not been put into use; (b) had been working below capacity. As regards the first the committee suggested that the Ministry of Planning along with the responsible administrative Ministry 'should evolve a system that would obviate the purchase of equipment which bears no relationship to the needs of the enterprise'. On the question of under-capacity caused by the inadequate supply of raw materials the committee said: 'the Ministries concerned should take steps to ensure the procurement of supply of materials to enable the plant to work economically'. On the verification of fixed assets, the committee admonished the authority concerned to take steps to put matters right. 'Unless this matter is rectified it would not be possible for auditors to satisfy themselves that the amounts given in the balance sheet correctly represent the value of the fixed assets which were in existence on that date' (*PAC* 1967b: 97-99).

Of special importance here are the three recommendations that the committee made in regard to (a) audit provisions; (b) accounts and reports; (c) implementation of the recommendations of PAC. For these three touch on the basic position of the PAC in relation to corporations and the extent of its concern to improve the accountability of the corporations.

Audit Provisions

When the A/G pointed in1956 to the weakness in the audit provisions in some acts of corporations and the adverse effect on parliamentary control as a result of the audit of the accounts being carried out by private professional auditors, the committee lost no time in investigating the matter and making the following recommendations:

> Your committee are of the opinion that the activities of the corporations should be subject to a thorough and searching audit.. Your committee were informed however that in the case of all corporations set up, private auditors have been appointed and not the Auditor-General. Your committee consider the formal audit certificate submitted by the private auditors quite inadequate for purposes of Parliamentary control and an endeavour should be made to secure reports containing such information as may be of use to PAC and of interest to Parliament (*PAC* 1957: 5).

The committee pointed out further:

> Your committee desire to state that it is necessary that they should have the assistance of the A/G for their examination of such accounts and reports of the corporations as they may decide to examine. Manifestly the A/G will be unable to be of assistance to your committee in such

> examination unless that audit were either carried out by him or, if it were carried out by private auditor, unless he had been afforded facilities for discussions with the private auditor and had been granted access to the books and records of corporations (*PAC* 1957: 5).

The latter part of these observations became the substance of its recommendations:

> that private auditor could be appointed, but he should be directed to carry out his audit in consultation with the A/G; when the audit has been completed, the private auditor should discuss his draft report with the A/G who should have right of access to the books and records of the corporations (*PAC* 1957: 6).

This recommendation in fact became the accepted practice as from the day the House approved the committee's report, and corporations created after these recommendations had this part of the committee's recommendations carried into their enabling act. The committee however did not stop with this arrangement. It went on to point out, in its later reports, the desirability of making the A/G responsible for all corporate audits. Consequently the Finance Act of 1971 now empowers the A/G to audit the accounts of all the corporations. The position that the A/G has now reached, as the only authority to audit accounts of corporations, is mainly the work of the committee of Public Accounts.

A prompt rendering of accounts is needed as well as an audit, it the committee's role is to be effective. Any loss of time will make

the work of the committee almost useless and control over them ineffective. Realising the importance of this need and the negligence of corporations in failing to submit them promptly, the committee solicited Parliament's attention in these words:

> Your committee observe from the A/G's report there has been considerable delay on the part of large number of corporations in rendering their annual accounts for audit. In view of the important role played by corporations in the economy of the country, your committee consider that the timely rendering of accounts is of paramount importance.. Your committee trust that the Ministries concerned will take necessary steps to ensure that the final accounts for any year are prepared and rendered for audit in an acceptable form within a reasonable period after the close of the financial year of the corporation concerned (*PAC* 1966: 124).

The committee repeated the same observation the following year and emphasized:

> If the accounts should fall into arrear by even a few years, the *raison d'etre* of the system of annual accounts is lost in so far as the Parliament and the public are not kept informed of the working results of the activity in due time, while at the same time, the opportunity for putting to right promptly any remedial matters is lost (*PAC* 1967b: 97).

Almost every other report of the committee up to 1971 took note of delays whenever they occurred and insisted on the necessity of making corporations render their accounts in time. Because of the committee's attention and pressure the Finance Act of 1971, which the Parliament passed without a division, now makes such negligence a legal offence. By section 13 (6);

> Any such corporation which contravenes or fails to comply [render accounts in time] shall be guilty of an offence under this Act and shall on conviction after the summary trial before a magistrate be liable to a fine not exceeding one thousand rupees.

The committee saw its position further strengthened and its role recognised with the success it achieved in influencing Parliament to make its recommendations a legal imperative through the Finance Act of 1971. For the act by sec (15) lays down:

> The appropriate Minister may direct the governing body of a corporation to give effect to such recommendations made by the Public Accounts Committee in its reports to the House of Representatives relating to corporations as may be determined by the Minister.

Even though the act is of recent origin, the basic idea of this provision started with the recommendations it made in 1967. It said:

> Your committee feel ... attention of government [should be drawn to] making statutory provisions to ensure follow up action in respect of recommendations made by the Public Accounts Committee, in regard to various activities of the Boards and Corporations (*PAC* 1967a: 74).

In the year that followed the committee went on to give the reasons behind this suggestion, to convince Parliament of the necessity to make its recommendations legally binding.

> Your committee appreciate the fact that the purpose of creating corporations was for the decentralisation of governmental activity and to secure certain amount of flexibility in the

> conducting of such activity.. It is therefore not the intention of your committee to suggest anything that might give the impression that they want these corporations converted to the status of government departments.. Consideration of public accountability and plan implementation would appear to require that affairs of corporations and boards should not only come up before the PAC for periodical review but follow up action too should be ensured on observations made by the PAC. Public accountability would imply amongst other things a statutory obligation on the part of corporations and boards to furnish to officers of Parliament and its agents the necessary information to enable an independent and impartial appraisal to be made for the better financial administration of the public bodies (*PAC* 1969: 139).

From whatever angle - reporting, recommendations, deliberations on corporate matters - it is difficult not to recognise the extent of the work and attention the Committee of Public Accounts has given to the consideration of corporate activities. Unlike committees of its kind elsewhere, the Committee of Public Accounts in Sri Lanka has been consistent and thorough in investigating and reporting to the House on the activities of the corporations. It is the only body, so to speak, which has sought to maintain a continuous watch over the corporations and keep alive the concern and interest of Parliament.

To conclude:

Except for the role played by the Public Accounts Committee, Parliament seems not entirely to have succeeded in controlling corporations. The question period, an important opportunity to raise the subject of

corporate affairs seems to suffer on account of a lack of comprehensiveness of questions, which often tend to require information only of a few corporations and this in the form of harassing details rather than a wide view of their efficiency and performance. The debates in most cases seem to take no more than a cursory look at corporate administration though on occasion detailed aspects of their activities are raised. The paucity of objective information about corporations and the obsession of members with sectional and party interest rather than with corporate efficiency seem to weaken the present method of parliamentary control. There is therefore a real need for a select committee of the kind repeatedly suggested by the PAC to improve the present system of control. For although the Accounts Committee of the Parliament has so far been active and keen in its investigation of the affairs of corporations on parliament's behalf, it is nonetheless limited by the accounting view and its inability to apply to corporations criteria other than those applicable to ordinary departments. A select committee set up on the lines proposed by the PAC specifically for purposes of study and supervision could prove effective in this respect. Apart from taking a broader view of the corporations affairs such as their overall efficiency and effectiveness, such a committee could be able to provide parliament with an independent source of information. Parliamentary control as at present operates seems more theoretical than real.

VII NEW STRUCTURES

A basic difference between public corporations in a developing country like Sri Lanka and those in a developed country like Britain seems to lie in the kind of enterprise they manage. Whereas the corporate form in a developed country is often an institutional arrangement to socialise and control already established enterprises, in a developing country it is increasingly used as an instrument to initiate and develop new enterprises (Baldwin 1957; Milne 1961b; Rao 1964). 'Nationalisation in Great Britain can be conceived as the final stage in the long historical development of industrial organization, whereas in South East Asia it is the first step towards creating an industrial society' (Chester 1955:52). Understanding of this difference in the roles of public corporations is important as it underlies much of the problem concerning organisation and assignment of corporate functions.

Since nearly all state industrial enterprises in a developing country, unlike those in the west, are of a pioneering nature and as they are often conceived as necessary and important elements in its plan for industrialisation, they demand proper evaluation and careful planning and study even before they are set up as operating industries (Bryce 1960;1962). Partly because of this need for initial study and research, and partly because most enterprises in such countries are small-scale concerns, limited in size and scope, with similar problems and needs at least in their initial stages, the question is often raised as to the appropriateness of a single development corporation to undertake the entire functions of creating and managing

all state industrial enterprises (Prakash 1957:46; Hanson 1961:625). The idea behind this thinking is that such a combination of entrepreneurial and managerial functions (Bryce 1962:240) should enable a single administrative body to specialise in and coordinate every activity relating to the development of state enterprises thus preventing the enterprises being entangled in central administrative bureaucracies and procedures.

As recently as 1970, in presenting the first budget of the United Left Front government, the Minister of Finance Dr. N.M. Perera advocated a similar arrangement for Sri Lanka to coordinate functions of development and management of state industrial enterprises (Karuntilake 1971:356). The announced plan of the Minister was to form sector development corporations both to initiate and develop new state enterprises and organise and administer others that existed in the industrial sector. 'The sectoral development corporation will be the instrument through which the state will direct the course and regulate the activities of that industrial sector...All existing public sector corporations will vest in the appropriate sectoral corporations which will then manage each factory unit through a board of directors appointed by it at factory level' (*CHRD* 25 Oct 1970:Col. 510). The Cabinet Sub-Committee on terms and conditions of employment in the following year also supported the idea of grouping functionally related enterprises under sectoral corporations (Rajapakse Committee 1971:227).

Long before in the early fifties when the management of state enterprises was at its formative stage, the Commission on Organisation

and Operative Methods of Government Departments (*SP* 5 1948), the IBRD Mission on economic development (*IBRD* 1952) and the Commission on Commercial Undertakings (*SP* 19 1953) did consider the suitability of development corporations for organising and operating state industrial enterprises in Sri Lanka. The development corporation has thus been a recurrent theme whenever the productive and creative aspects of state enterprises were discussed and today the idea is acquiring new force.

Though every industrial enterprise is now organised under the charge of a separate board, the possibility of their coming under the control and management of a sector development corporation still looms large in view of the above mentioned announcement. And no doubt there are advantages to be gained by such an arrangement as opposed to the independent existence of enterprises as it prevails today.

This chapter therefore analyses the concept of the development corporation particularly in regard to the nature and type of corporations that exist and the nature and type recommended for adoption in Sri Lanka by the Mission and Commission just mentioned.

Unlike the conventional public corporation whose function it is to produce or provide a given good or service, a development corporation is largely characterised by its entrepreneurial or promotional role (Hanson 1959:22, 1966:117). By initiating and pioneering new enterprises and coordinating and managing others it has become today a popular means of organising the state's

entrepreneurial functions. Depending on the character and the need of the economy, a development corporation can be either a comprehensive body to undertake the entire developmental functions of the country (Hanson 1959:210), or in the alternative confine itself to the development of a given sector: agriculture, industry or commerce. Whatever its scope, limited or comprehensive, a development corporation is normally assigned wide powers, and a general authority to operate over a wider area than a conventional public corporation.

A comprehensive body like the Chilean Fomento (Finer 1947), for instance, can undertake the production of coal, metal, chemicals, rubber, textiles and cement to achieve industrial progress, while at the same time initiating schemes such as irrigation, reclamation of wastelands and supply of fertilizer to help organise the agricultural sector. It can besides operate public utility enterprises to facilitate infrastructure services necessary for economic growth. The Chilean Fomento in fact carried out all of these services in an effort to achieve economic development in Chile, and whatever success Chile has achieved in the fields of industry and agriculture is now attributed to the Fomento.

Undoubtedly the Chilean Fomento is a special type of development authority and its advantage is immense for a nation which has to start from scratch without the necessary administrative, political and social organisations. For in such circumstances 'it may provide an impetus which will otherwise be lacking, and may impart into the

early developmental stages a coherence otherwise unobtainable' (Hanson 1959:226). It can besides evolve its own administrative organisation, devise its own operative procedures and remain free from the rigidities and inefficiencies of traditional governmental methods.

Despite these important and distinct advantages to be derived, the IBRD Mission in Sri Lanka considered that a comprehensive development corporation would be unsuitable in Sri Lanka. Though it would help overcome the problem of lack of coordination and planning that had beset the developmental programmes in Sri Lanka and subject many of them to critical and professional review, and prevent the wastage of resources seen in the duplication of developmental functions, the view of the Mission was that to institute it would involve too great an invasion of the well-established responsibilities of the existing departments (*IBRD* 1952:70). The Mission also pointed out other problems that would arise in setting up a body like Fomento. In particular it made reference to the dearth of technical and managerial personnel available in Sri Lanka to staff such an institution. The Mission however advocated (a) a Cabinet Sub-Committee, and (b) an Economic Planning Secretariat as a solution to the problems of coordination and planning of state projects. The Cabinet Sub-Committee was to study all development proposals involving capital expenditure with a view to advising the cabinet on the suitability or otherwise of individual projects, and the Planning Secretariat was to provide this committee with technical and economic information to evaluate economic programmes. Both these bodies have since been instituted and today they exercise a great deal of influence over several projects.

'Ceylon Development Corporation' Proposal

Though the Mission rejected a comprehensive development corporation of the Chilean type, it nonetheless favoured the formation of a general development corporation to carry through the *industrial* programme of the country (*IBRD* 1952:84). This body was to be slightly different from the comprehensive development corporation, with defined powers and responsibilities directed mainly to promotion and development of new enterprises.

Under the title 'Stimulation of new production' the Mission in its report saw (a) lack of knowledge about the real potential of local raw materials, and about the necessary adaptation of modern techniques and (b) lack of enterprise, managerial capacity, and finance as the primary obstacles to industrial growth (*IBRD* 1952:80). To remedy the first the Mission suggested the establishment of an Applied Research Institute independent of government control but enjoying its support to do research on the technical and productive aspects of industrial production. It was to overcome the problems of lack of enterprise, managerial capacity, and finance that the Mission argued a development corporation was necessary.

The Mission found there were certain features in the Ceylonese situation which particularly called for an overall development corporation. Firstly, on the financial side it observed the general reluctance of the commercial banks to invest in long-term industrial projects, having been used to short-term advances in the more profitable trading activities (*IBRD* 1952:82), and the absence of such an organisation as the joint stock company form to raise investment capital.

Secondly, on the production side it noted the lack of experience and enterprise associated with the industrial activities. What was prevalent, said the Mission, was a mercantilist tradition specialising in the art of buying and selling rather than in that of combining factors of production for production purposes. The lack of entrepreneurial quality in Sri Lanka had slowed down the country's progress. Thirdly, on the governmental side the Mission observed the failure of the developmental programmes already undertaken. Although carefully planned and well directed they seemed to have failed because of the administrative machinery selected for their operation: a clear example of this was the effort to operate industrial enterprises through the regular departmental form.

What was wanted, the Mission believed, was (a) a suitable institutional arrangement to translate into action the government's interest in the development of industries; (b) a suitable institutional means to encourage, promote and utilise private enterprise and help its efforts with technical know-how and managerial and capital assistance; and (c) an institutional means to mobilise funds from both the commercial banks and the investing public with a view to increasing investments in industrial ventures. Rather than each of these functions being separately organised and individually administered the Mission saw the possibility of combining them in a single institution. The development corporation was thus to be a catalyst - an institutional arrangement to combine several functions related to industrial development in a single body.

Functions: The Ceylon Development Corporation proposed by the Mission was for all-round industrial development. It was to provide finance necessary to initiate new projects and assist the progress of others with managerial and technical assistance. Like development corporations found elsewhere such as in Pakistan and India, it was to be a pioneering agency 'charged with giving primary impulse to economic expansion in the productive fields where private enterprise was lacking or laggard' (*IBRD* 1952:84).

The *modus operandi* proposed for this body makes this objective even clearer. In common with other development corporations it was in the first instance to investigate and formulate projects suitable for operation in Sri Lanka. These could be entirely new ventures which had not been undertaken before, or others which might call for expansion in existing undertakings. Whatever its nature, once the details of a project became finalised the corporation was to initiate its operation either by vesting it in a subsidiary corporation of its own, or offering it to the public to undertake its operation. In the latter case the corporation was to assist the private entrepreneur in whatever manner possible in launching the enterprise. It might provide finance, technical know-how and in certain cases co-operate with the private entrepreneur in managing the enterprise. The Mission was emphatic that a subsidiary corporation should only be formed if private enterprise failed to come forward to accept a project. Even then no project was to remain permanently under its charge, for the recommendation of the Mission was that as soon as any project became a viable and going concern it should be committed to private capital.

This procedure was considered essential to the operation of the corporation as it would release more funds and personnel to pioneer other enterprises.

Apart from developing new enterprises, the corporation was also to organise support for enterprise started independently by private individuals and others wishing to expand. Such support might also take the form of loans and managerial or technical assistance.

The accent of its operation was thus to be on industrial production whether by public or private enterprise, but the emphasis seems to fall heavily on the side of promotion of private enterprise (Hanson 1959:223). A partial explanation for this is the Mission's belief that (a) no government, however capable and enterprising, would be able to shoulder the entire burden of industrial development without the active participation and co-operation of private enterprise as the Ceylonese government had attempted in the past; and (b) whatever assistance that government wished to offer should be, in the main, to provide initiatives and financial assistance rather than 'actual operating control'.

Organisationally the setting up of a development corporation on the lines proposed by the IBRD Mission would have been advantageous for the reason that it would have succeeded in integrating the functions of planning and management of industries in Sri Lanka.

Part of the reason for the poor performance of the productive enterprises in this nation has been, and still is, the inadequate

planning underlying their initiation (Naylor 1966:21; Srivastava 1969). Sometimes care is not taken in the choice of an industry suited to the needs and potential of the country. Sometimes wrong technology is chosen for adoption in developing a given industry (*CHRD* 4 Sept 1961 Col. 174). When the industry and technology are correctly chosen mistakes are often made in the siting of the factory and scale of its operation (Abeysinghe 1967:63; *CHRD* 4 Sept 1961 Col. 174). The trouble is always the poor appreciation of the need for proper planning and careful study and the failure to understand that such precautions would eventually make the difference between success or failure. Even when such studies are made political considerations may take precedence over purely economic judgment with the result that certain enterprises are established and kept in operation by government subsidy.

This weakness seems an inevitable part of the system of divided responsibility where one agency like the Ministry of Industries in Sri Lanka becomes responsible for planning and promotion of enterprises and another agency such as the individual corporation, takes over the function of management. Because of the gap this produces between planning and management (Chatterjee 1964:40), certain preconditions of efficient industrial management such as the availability of the right type of personnel, the adaptability of technology to local conditions, the suitability of local raw materials for production and the capacity of the local market tend to be minimised in importance at the planning stage of an enterprise (Bryce 1962:237). But in contrast, when the planning and management of industries are integrated

under a body like the development corporation, managerial aspects and the requirements of productive enterprises should become a necessary part of the process of planning.

The proposed development corporation would probably have proved efficient in this respect. As it was to be both a financial agency and a promotional one, it would have been compelled to assess in advance every aspect of managerial requirements as much as technical and commercial feasibility before inaugurating or supporting an enterprise.

Aside from the integration of planning and managerial functions necessary to promote industrial ventures, the development corporation would also have provided an ideal framework for better utilisation and development of the scarce skills and expertise necessary to perform these functions. Besides it would also have afforded better facilities, through training, for developing expertise and skills necessary to perform the above tasks.

A third benefit from the development corporation would have been the facility it would have offered to coordinate activities relating to industrial development. Since this was to have been an overall development authority with full powers to initiate and promote any industrial enterprise and more importantly with the capacity to finance such efforts, every function relating to the development of industries could have been better linked and implemented.

Although the concept of a development corporation presented by the IBRD Mission was not fully accepted, some of its features were adopted in the form of the Development Finance Corporation (*DFC*) and the Industrial Development Board (*IDB*) set up to provide economic and technical support for industrial development. The *DFC* established in 1955 (*IC* 1966:243) undertook the functions of providing industrial credit and mobilising investable funds, while the *IDB*, established fourteen years after the Mission's recommendations, became responsible among other things for encouraging and promoting industrial development in the private sector.

Two reasons suggest themselves for the failure of the Mission's proposal to find acceptance. One was the report of the Commission on Commercial Undertakings which followed close on the heels of the *IBRD*, recommending an alternative arrangement for the initiation and management of state enterprises, the other was the government's uncertainty on the basic question of whether to give up altogether the ownership and management of state enterprises on a scale that would justify setting up a development corporation. Since the above Commission was appointed to make a close study of the organisational aspect of industrial enterprises in Sri Lanka, it was possible for the government to pay more attention to its recommendations than to those of IBRD.

As the development corporation did not become a reality the initiation and management of state enterprises were in fact separately organised and individually administered on the lines proposed by the Commission on Commercial Undertakings.

Commissions' Alternative Proposals

The Commission on Commercial Undertakings, it must be emphasised, did not reject the concept of a development corporation, but what it found objectionable was the principle that government should at no time own and operate industrial enterprises itself. For the IBRD Mission had made it clear that it was opposed to state ownership and the proposed development corporation was a means to avoid this. With that view the above Commission did not agree. 'We are not in favour of complete socialisation of trade and industry, yet there might be some cases where government would want, in the national interest, to retain the administration of an industry within its own authority though not necessarily in its own immediate hands (*SP* 19 1953:67).

Basing itself on this belief that government should be able to own and operate enterprises if ever it desired to do so, the Commission on Commercial Undertakings set out its plans for organising the functions of initiation and management of industrial enterprises. These may be summarised under the two headings: (a) launching of state enterprises and (b) the management of state enterprises.

Like the Mission before, and partly influenced by it, the Commission maintained that project preparation, study and evaluation should receive far greater attention and thought than that was currently given if enterprises were to be successfully launched. More importantly such preparatory study and plan evaluation should not remain closed door affairs, and must be brought into the open for criticism and comment by experts in this field from outside. The Commission thus

found unsatisfactory the prevailing practice of the Ministry of Industries taking overall charge of planning and preparatory studies for launching enterprises. Having conducted the survey investigation the Ministry of Industries now submitted proposals direct to the Cabinet for approval and proceeded to establish the industries thereafter. The deficiency in this procedure was that Cabinet in sanctioning the project for operation might not have had adequate knowledge, particularly on the economic and commercial viability of the proposals, to decide anything on correct grounds. For it was possible for a Ministry overenthused by the choice of its projects to recommend them without adequate testing for their commercial and economic feasibility (*SP* 19 1953:64). The recommendation of the Commission was that an Advisory Committee composed of the secretary to the Department of Industries, two technical officers, representatives of the central bank, two businessmen and two other economists should be instituted outside the Ministry to study projects before they were submitted to the Cabinet for approval. The Ministry of Industries should retain the functions of survey and investigation of industrial possibilities and fostering others in the private sector-matters in which it would work closely with the proposed Institute of Applied Industrial Research.

The Commission also noted the relevance of the concept of the development corporation proposed by the IBRD, which it said could solve most of the problems faced by the government in launching state enterprises. But projects investigated and studied by such an agency should be placed before the government for a decision on their ownership and a corporation should be instituted if government decided in favour of state ownership of any recommended projects.

The Commission's recommendation was a simple one and did not foresee any radical changes in the structural arrangements for launching an enterprise except to add an 'Advisory Committee' to the course taken by an investigated project on its way from Ministry to Cabinet. The Ministry of Industry was to remain as before the investigatory and promotional body for initiating new projects.

In so far as the management of enterprises chosen for state operation was concerned, the commission was strongly in favour of the corporation form of management, but it emphasised, in marked contrast to the IBRD, that state ownership in whatever field should be total and no private capital should be allowed to enter into these undertakings.

However on the basic question of whether there should be a single corporation for the management of all state owned enterprises or an independent corporation for each and every enterprise to be managed, the Commission's view was that each enterprise should be under the management of a separate board, but constituted under the authority of a single enabling statute (*SP* 19 1953:70). This last was its most novel recommendation in so far as the organisational framework of enterprises was concerned.

The act should enable the Minister to set up corporate boards to manage enterprises without the necessity to go before the House with a separate statute every time it decided upon an enterprise. A number of boards under a single statute was the form of management that the Commission favoured for the management of industrial enterprises.

In sum the conception of the Commission on Commercial Undertakings was that the state should establish carefully selected enterprises in the industrial sector, planned and studied first by the Ministry of Industries, then vetted by the Advisory Committee. They should be independently organised under separate boards constituted under an enabling statute. The undertone in this recommendation was the expectation that government would confine itself to the ownership and management of a few enterprises probably in the basic industries.

The Commission on Organisation and Operative Methods of Government Departments appointed in 1948 to study changes in the organisation, staffing, cadre and operative methods of all public departments and government establishments, had however advocated a different arrangement for the initiation and promotion of industrial enterprises. While also recommending a corporate form of management for state owned enterprises, it argued strongly for a single State Industries Corporation for organising and managing enterprises worked under the Ministry of Industries and for planning and establishing others in the industrial field (*SP* 5 1948:173). In every case the task of investigating new industries and evaluating their technical feasibility was to be part of the function of the research section of the Ministry of Industries, but when this task was completed the State Industries Corporation should be responsible for making final recommendations on the practicability of establishing them. In the case of enterprises already set up the State Industries Corporation should have full authority and responsibility to manage them in a manner most suited to their advancement and efficiency. Thus the Commission on Organisation and Operative Methods did not see

any need for a separate and individual corporation for every enterprise nor did it recommend the institution of separate boards to create new enterprises. Functions relating to the management of all industrial enterprises and to the creation of new enterprises were to be entrusted to a single Board of six members, two from the public service and four from the private sector, and its capital should be drawn from the consolidated fund. The State Industries Corporation, however, unlike the *IBRD's* proposed Development Corporation was solely for the purpose of promoting and developing state enterprises.

The State Industrial Corporations Act No. 49 of 1957 which eventually defined the framework for the organisation of industrial enterprises and assignment of corporate functions sought to incorporate the recommendation of the Gunasena Commission on Commercial Undertakings for 'plural boards under a single statute'. By sec.2 (1) it empowered the Minister with the approval of the government to create as many boards as he might think necessary as opposed to a single board to promote industrial development. Where the government considered it necessary that a corporation should be established for the purpose of (a) setting up and carrying on any industrial undertaking or (b) taking over and carrying on any industrial undertaking previously carried on by any corporation, the Minister with the approval of the government could incorporate it by order published in the Gazette (Sec.2, 1 (a)(b)).

The procedure established was thus a simple one; whenever and wherever the Minister considered there should be a corporate board to develop and promote an industry - steel, chemicals, tyre or paper for example - he could do so by publishing an incorporation order in the

Gazette. This order would define the functions and objects of the corporation. In 1958 when the Textile Corporation was so constituted its functions were defined as follows:

(a) purchase of any lands producing cotton or suitable for the planting, cultivation and growth of cotton and of any concessions or rights over such lands;

(b) the leasing of lands of the description referred to in paragraph (1);

(c) the possession and working of lands of the description referred to in paragraph (1);

(d) the planting and cultivation of cotton and other plants producing substitutes of cotton;

(e) ginning, spinning, doubling, dyeing, weaving, printing and sale of all types of fibrous substances, natural or artificial, used in the textile industry;

(f) the manufacture, utilisation and marketing of any by-products resulting from the Corporation's work in connection with textiles; and

(g) the supply of electrical energy to any person (Gazette Notification: 11237, 10 Jan 1958).

The Minister in placing before the House the demand for the initial capital for establishing this body, explained the nature of the objects assigned and the need to give such functions as cotton growing and supply of electrical energy in these words: 'The aims and objects set out in the order are like aims and objects of a private company. Several ancillary objects have been set out along with the main objects and aims,

but the main purpose of that corporation is what is important, and the immediate task that this corporation should undertake is the setting up of a spinning mill at Veyangoda' (*CHRD* 28 Nov 1958; see also *CHRD* 16 Nov 1957:1353).

However, functions assigned in the first instance need not necessarily be the functions of the corporation for ever; depending on the circumstances the Minister could alter the functions by altering its objectives (sec.3,2). In certain cases he could increase the scope of its activities by adding more productive units related to the field of the corporation's operations, as was done in the addition of the Puttalam Cement Factory and Galle Cement Factory to the Ceylon Cement Corporation; or he could remove functions from one corporation and entrust them to another as in the transfer of the bricks and tiles factory from the National Small Industries Corporation to the Ceylon Ceramics Corporation; or he could completely wind up a corporation as in the case of the Ceylon Hardboard Board. The initiation and creation of corporations and the setting of economic objectives for realisation were functions solely entrusted to the Minister.

Parliament was given little or no part in this process; for there was no legal compulsion for the Minister to have prior approval of the Parliament. The only occasion when Parliament would obtain information of the affairs of a corporation was when the Minister went before the House to seek its approval for the initial capital expenditure. Parliament could then call for further information as to cost estimates and benefits to be derived from the enterprise and the Minister might obligingly disclose details to justify the project. But this in no way

prevented a Minister or the government from setting up any number of enterprises, and in any sphere of industrial activity. Dr. N.M. Perera at the committee stage of the state industrial corporation bill proposed that the initial gazette notification, which incorporates details of functions, place and objectives of corporations, should be brought before the House for its approval so as to assure Parliament, and those who undertook the management of a project, that the objectives set were feasible and the project itself was desirable for the country. But that motion was not carried (*CHRD* 21 Oct 1957:967).

The Need for Reform

The kind of enterprise created under this legislation and the field in which it operates is thus dependent upon those at the helm of affairs. Economic plans such as the ten year and five year plans do set broad guidelines and demarcate sectors where enterprises might be initiated and developed (Gunawardena 1960:59). P.H.W. de Silva, the first Minister to use the act, justified the set of corporate bodies he created on the grounds of their strategic importance for any industrial development. The choice is not always so rational. For the Minister who succeeded him, J.C.W. Nunasinghe, had no such answer for the Industrial Hardboard Board he set up invoking the same statute. Neither could he point to any reasons for his choice, nor could he explain the economic rationale behind the institution of the Board. P.H.W. de Silva the ex-minister explained that the choice was a wrong one:

> It is a wrong principle to start projects on a constituency basis. It is a principle that was given up. When I relinquished office as Minister of Industries this was not one of the projects under contemplation by the Ministry or Department. This was not one of the projects that was in the programme of development worked out by the Ministry of Planning. The Minister must have used his power of persuasion to include a scheme without the economics of a project being worked out and approved by the Ministry (*CHRD* 24 Sept 1959:391-2).

It is true that the Ministry of Planning and the Treasury collaborate with the Ministry of Industries in launching enterprises. But their assistance and advice are obtained on projects already decided and planned for development. Even here in the examination of selected projects, their co-operation and collaboration do not go far enough. Short as they are of staff specialised in techniques of discounted cash flow and cost-benefit analysis, their assessment of projects is confined to checking arithmetic and studying other figures given in support of that industry. The need for such appraisal is even discounted on the basis that 'a strong and obstinate Minister may disregard all advice and go ahead with the project' (*PAC* 1963:103).

In the seventeen years this statute has been in force nearly thirty corporations have been constituted. Ten of them produce such consumer items as sugar, fish, oil, flour, textiles, tobacco, leather products, fertilizer, ceramics and tyres. Seven others operate to produce steel, hardware, cement, graphite, fertiliser, mineral sands, chemicals.

Production of plywoods, timber, paper are the responsibility of another three separate boards. While the Industrial Estates Corporation and Small Industries Corporation render assistance and operate services for small scale production, the State Engineering Corporation undertakes the responsibility of building factories for the established corporations. Of the six boards created in the five years the *U.L.F.* government has been in office, three are to produce tobacco, graphite, drugs and pharmaceuticals, while the remaining three have been entrusted with responsibilities of supplying raw materials for the established sector (*New Commonwealth* 1972:20). These are all corporate bodies to operate in a sphere that has come to be termed import substituting industries (*CHRD* 15 September 1960:1638). Tyres, paper, textiles for instance were commodities imported on a large scale spending as much as ten per cent of the foreign exchange earned through exports and the establishment of the corporate bodies in these areas had the immediate objective of conserving foreign exchange and developing industries to supply these commodities at home. Industrialisation for import substitution is a policy pursued by every developing country and the protagonists of this policy emphasise its value for quick industrial development.

Certain features of the way the Ceylon government has set out to organise corporate boards are however worth noticing (*CO* 27 May 1974). Firstly, corporate boards instituted in accordance with this policy of import substitution are only assigned functions to 'manufacture, sell and distribute articles', without the allied function of planning and formulating policies for the overall development of the industry. Thus when the development of the textile industry was mooted the established

corporate board only had the function of operating a spinning mill at Veyangoda; but the functions relating to the development of the textile industry as a whole such as studying capital needs and market conditions of the industry, and developing and promoting the textile industry as a cottage industry, did not constitute a declared part of the functions of the textile corporation. Secondly, where one corporate board would have sufficed, several have been created in the same sector (*CO* 27 May 1974). (This may well be due to the restrictive nature of the functions assigned to corporations). This is further evident in the textile industry. Apart from the National Textile corporation to produce cotton yarn, coarse cloth and cotton cloth, there is the weaving supplies corporation to undertake the distribution of the yarn produced by the mills operated by the corporation, and an Industries Development Board to provide assistance and promote techniques to develop the textile industry in the private sector and also to develop it as a cottage industry, in the same sector.

This phenomenon is even more marked in the case of other corporate boards created under this statute. Thus we have a Plywood corporation to make tea-chests, furniture and other articles made of plywood and a State Timber corporation to supply wood. A State Fertilizer corporation operates to import fertilizer to mix, process and sell; and another State Fertilizer Manufacturing corporation created in 1966 hopes to manufacture fertilizer at home.

The problem here is that government instead of treating an industry as a single sector to be wholly planned and developed by a single corporation has been led into the position of creating a multiplicity

of corporations with duplication of functions to achieve the same objective. Economists have been quick to pinpoint the excessive machine capacity, surplus work force, absence of forward planning as features which have emanated from this policy. A team of experts from the Central Bank illustrated the case by pointing to the 268 million rupees of governmental investments in a textile complex, where in fact hundreds of handlooms could have met the textile demands more effectively generating far more employment (*CDN* 15 September 1971). Others point at the heavy outlays, under-utilisation of installed capacity, and above all at the heavy dependence of most corporations on imported raw-materials to demonstrate the *ad hoc*, arbitrary nature of the corporate creation.

Administrators in particular have been critical of the lack of clear thought or principles underlying the formation of corporations and question the wisdom of not entrusting the function of creating a new enterprise to the existing viable and ongoing enterprise rather than to a raw organisation, a policy which they point out could have halved the number of corporations and have made easier the task of initiating new enterprises. 'Planners should always bear in mind', said Galbraith, 'that the most difficult part of the industrial process is its inception. It is precisely this difficult stage which should be entrusted to established and not to new enterprises. The common tendency is to create a new organisation for each new task but this means that all of the problems of a raw organisation must be gone through each time. If however existing organisations are given new tasks then use is made of going concern value and accumulated experience. Managers

may complain that their organisation is overstrained and their resources are overtaxed. But their resources will be much less taxed than those of a totally new organisation faced with the combine task of creating itself and doing the job (Galbraith 1959:100). Had this advice been followed or served as guiding principle for creating corporations apart from halving the existing number of corporations it could have also brought about a greater variety of enterprises; efficient and viable to serve economic growth.

In fairness to the government it is necessary to mention however, its early efforts to rationalise corporate structure (Karunaratne 1963: 28). In particular the attempt it made in 1961 was a laudable one. Realising the indiscriminate and haphazard growth of corporate bodies, it announced proposals to amalgamate existing corporate bodies in an allied field in a single administration (*CT* April 1962:20). In the same year towards this end (*CO* 5 February 1961) it brought about changes in the organisational structure of the administrative ministry in that it replaced the Department of Industries with a Development Division (*ADR* 1963:67) with a view to better coordination and planning of overall development of the public sector industries. Again in 1965 it proposed to bring tyres, iron and steel and hardware under a single board, and to reorganise paper, cardboard and hardboard similarly (*CDN* 20 April 1965). Despite these attempts state enterprises continued to grow and survive in the same manner with less of an economic or rational and more of a political motive behind their growth and creating. The Sector Development Corporation is the most recent proposal in this direction to reorganise and redefine productive functions (*CHRD* 25 October 1970; 30 November 1970).

Sector Development Corporation

Compared to the proposals so far considered in regard to the initiation and pioneering of state enterprises, the sector development corporation is a concept with a different format and style (Holland 1972; Sahini 1971:63) and holds better prospects of making a success of Sri Lanks's efforts towards industrial progress and economic diversification and of curing many of the diseases seen in the state initiatives in promoting and developing industries. As proposed by the government in 1970 (*CHRD* 25 October 1970:510) the concept itself is very simple; it is to impose over and above the existing corporate boards *in allied fields* super-boards with functions to plan and formulate policies and coordinate and regulate activities. More importantly the super-boards would possess powers to control and participate in the private sector. In broad terms each such super-board or sector board would also have responsibility to (a) allocate resources to various production units in that sector; (b) organise and encourage research devoted towards the utilisation of local raw materials; (c) manage public owned industries in that sector; and (d) invest in and direct private sector units (*CO* 30 November 1970). In short each sector corporation would be the policy maker, coordinator, regulator and provider of resources for all industrial units both public and private operating within that sector (see Indian Reform Commission *Report* 1967:123, for similar proposal).

In all there would be eight such sector corporations with broad functions and defined boundaries in the industrial field. For instance all activities connected with the textile industry such as spinning, weaving, finishing of textiles and the manufacture of garments, would

constitute one sector under the specific authority and responsibility of a sector corporation. Similarly clay, sand and cement production would constitute another sector under another sector board. The other categories mentioned by the Minister (*CO* 1 December 1970) are:

(a) manufacture of wood, paper and pulp;

(b) petroleum, petroleum products, petro-chemicals, salt and salt based chemicals;

(c) basic metal industries, machinery, ferrous and non-ferrous metal products;

(d) transport equipment and stores;

(e) meat, fish, milk-products, confectionery, bakery and cereal foods, spirits, alcohol, beverages and aerated waters; and

(f) electrical goods, optical goods and precision instruments.

The entrie programme of industrial development would be entrusted to these eight sector boards.

Within a sector so defined, each sector corporation would operate to control and regulate the overall production in that sector. For instance, it would regulate the supply and distribution of raw materials needed for industrial production and ration the allocation of foreign exchange for the purchase of machinery and equipment. Also, it could license any expansion in the ongoing industry, fix industrial prices and supervise the quality of goods produced within the sector. Through these and several other regulatory means a sector board would have authority to regulate the pattern of industrial production carried on within the sector for which it would be made responsible (*CDN* 19 September 1971).

Apart from the regulatory and supervisory controls exercised over industrial production, sector boards would also have an opportunity to play a more positive and active part in the development of the particular industrial sector. Where a board thought, for instance, that a sector industry should be more diversified to suit the needs and requirements of the overall development of the economy, it could move in readily and participate in the management and capital structure of the private sector units (*CDN* 19 September 1971). The function assigned to the sector boards - to invest in, and buy shares in the private sector units and appoint members to their boards - would be appropriate to realise this objective. For by purchase of shares and appointment of members to the private sector firms the sector board would find itself in a position to motivate the private sector firms to serve the sector's overall interest rather than their private gain. It would not mean however that the sector board would take full control of the enterprise managed by the private sector firms, as that would be against the very spirit of the objective of the corporation. It would only exercise control, either through finance or management, to the extent necessary to make private sector firms do what they would not otherwise do through lack of security, certainty or finance, or the lack of other qualities associated with entrepreneurship. Giving the firms the freedom of management but making them operate only on lines consistent with the needs and requirements of the sector would be the aims that a sector board would strive to achieve in the private sector industries. This, I think, is a far better way of promoting development in the economic sector than through nationalising sectoral firms (*CO* 17 August 1970) or establishing new undertakings to achieve the same thing. For

under this set-up, while private sector firms served public ends in fulfilling the guidelines set for them by the sector boards, they would also have the advantage of separate management, such as employing their own personnel and setting their own procedures and controls to realise their objectives. If implemented (*CO* 23 January 1975) the sector board proposal could well mobilise the private sector and make it a partner rather than a competitor in industrial development.

Above all, however, the primary objectives of a sector corporation would be to plan the overall development of the entire sector and to formulate short term and long term investment policies consistent with the needs and resources of the sector. It would also be an important responsibility to conduct detailed and thorough surveys of the sector to ascertain market potential and the existing production capacity in order to establish the possible lines of expansion or contraction by the sector. The five year plan (1971:81) in fact emphasised this part of the function of the sector boards as the most important. The absence of detailed programmes for the main industrial subsectors, it said, has been the main drawback in the industrial field. The consequences for industrial development of unplanned and indiscriminate growth have already been highlighted: capital intensive investments have been made where conditions were favourable for small scale development. Surplus capacity in certain areas prevails alongside under-investment in others.

It was this lack of planning and programming leading to the consequences highlighted by the five year plan that in fact prompted the policy makers to conceive the idea of the Sector Development Corporation.

Broadly therefore the sector boards, if created, would have the following overall functions and responsibilities:

(a) the planning of all development in the particular sector of industry, and the coordination of its production programmes;

(b) the allocation of resources to various units in the sector;

(c) the organisation and encouragement of research devoted particularly to the utilisation of local raw materials;

(d) the management of publicly owned industries in the sector;

(e) investment in and direction of selected private sector units;

(f) the regulation of private sector units (*CHRD* 25 October 1970. Col.510).

Of special importance for us here is the relationship between the sector board and the existing boards for industrial production, and the nature of improvements, if any, it could make to the existing arrangements to initiate and promote state enterprises. Could a sector board bring about better quality enterprises more suited to the needs and requirements of economic growth than the Ministry of Industries? Could it in any way make the enterprises more efficient and economical, more enterprising than they are at present? If all functions outlined by the Minister were entrusted to it, the sector board certainly should prove effective in this regard. It would then be well equipped in terms of research and study; and well organised in terms of personnel and skill to select and develop industries that are suitable for the industrial sector and are necessary and important for overall economic development. In other words, the sector board would be more likely to bring into existence a better composed mixture of public sector enterprises consistent with needs and resources than the Ministry of Industries.

The importance of this aspect (Holland 1972: ch.1) namely the need to have a better combination of enterprises, is not well understood. It is easy enough to decide, as the economic plans did in the past, what sector industry the country should develop based on import figures or some other criteria, but it is not as easy to determine how and in what order that development of a sector should proceed. If textiles is the chosen sector for instance, the immediate questions that would arise concern what kind of textiles should be produced within the sector and what level of technology should be used. Where should the selected industries be located and on what scale should their operations be? These are difficult but nonetheless important questions, for on their answers will depend the nature and the quality of enterprises to appear in the island. But a board set on the lines of a sector development could tackle them easily and efficiently.

A further advantage to flow from the selection of enterprises by the sector board is that it would minimise the ideological content involved in the selection of industries and heighten the economic and administrative aspects necessary to make a success of the selected industries. That is, to choose only those that are economically worthwhile and administratively feasible for development by the state apparatus. The overplaying of ideological themes in Sri Lanka has been the cause of some of the uneconomic and unrelated enterprises to appear in the island. But for politicians and policy makers they were necessary and important building blocks to achieve socialistic plans. When the ideology overpowers economic criteria state enterprises tend to be viewed more and more as a means towards social and political goals and

less and less as economic units to be operated in a market subject to business principles. A sector board could not afford to be motivated by the same principle (ideology), since it would be judged for its overall financial performance, it would be forced to be more rigorous and rigid in the criteria it applied in selecting industries, and therefore less likely to be carried away by the ideological factor. The chances of fair selection of enterprises would be much higher under this arrangement and one could well expect the selection to be more like that of an entrepreneur operating under conditions of risk and uncertainty than that of a bureaucrat selecting to satisfy the vague vision of a political master.

Apart from selection, a sector board would be even more effective and positive in the improvement it would make upon the existing arrangement to operate state enterprises. There are today more than twenty-five corporations working under the direction and control of the Ministry of Industries. Appointing boards of directors, fixing guidelines for their operation, determining investment policies are also matters that fall within the purview of the Ministry. The deficiency in this arrangement is that the corporations that operate under the Ministry are in increasingly varied fields. Some of the problems that a steel corporation face are not the same as those faced by the plywood corporation. A policy initiative suitable for a given corporation is not the same for others. In making policy decisions and setting operational targets, etc., the Ministry is forced to remain further away from the realities of the corporate problems and affairs than a sector board would be. And it would be highly unfair to expect the

Ministry to be expert in every line of operation. Organising existing corporations in an allied field under a sector board would remove this deficiency. Since a sector board, unlike the Ministry, would be operating in a limited area, it would have the advantage of having a closer and better view of managerial and administrative aspects of the enterprises operating under its control and supervision. Thus in making policy decisions, setting operational targets, fixing production limits etc., the sector board would be well aware of the problems, capacities, means and methods of enterprises operating under its control. Its policy framework would therefore be more realistic and acceptable than those of the Ministry of Industries. Further they would be more specific and better directed; and therefore enterprises would have less difficulty in internalising them.

The sector board and the constituent enterprises could therefore be expected to work closely together; one serving the other's interest more cordially and harmoniously than would be possible under the Ministry's direction. A sector board would serve as a policy brain for all initiatives while managerial boards at the factory level would exist for all operations resulting from policy decisions.

In all matters that are of concern and importance politically, a sector board would deal directly. It would negotiate with the Ministry for all major changes and obtain necessary finance and authority to effect those changes and it would at all times remain close to the organs of governmental policy e.g. Treasury and Ministry of Economic Planning, to obtain their approval and support for the pattern of

development that should go on within that sector. The advantages that ensue from this arrangement are immense. Firstly, the political direction and control, the haggle-and-draggle pull between policy and economics, would be where they should be, at the higher level of the sector board. The operational units working lower down, where business decisions should predominate, would be free from any of these worries and concerns. Working the enterprises successfully to make them financially viable would be their major responsibility. Apart from the freedom it gave to operational units, secondly, the sector board would also be free, under this arrangement, to employ any tactics it liked to make the enterprises efficient. It could design new structural arrangements for control, and institute new accounting practices and any other tools of management for the purpose of making enterprises perform better.

Conclusion

Establishing corporations is a simple matter; but establishing those that are essential and in areas where needed on the one hand, and clearly defining their functions and objectives on the other is far more difficult. Difficult because of the background thought and research required on the pattern and process of industrial structure of the country. A short cut of course is to set up industrial corporations in import substituting areas. This would ensure a ready market and a good return through near monopoly. But to believe that state enterprises originating in this fashion would provide a viable and healthy industrial structure for economic development would be foolhardy. The corporations created in accordance with this principle in Sri Lanka are good examples of how inadequate and at times irrelevant to the total development need they can become.

Selecting enterprises - enterprises that are essential and important to serve the overall development needs of the country, enterprises that could be operated with the local talent and skill and with local raw materials - is half the problem of industrial management. For enterprises hastily selected, ill oriented and utterly unsuited to the conditions of the country would be bound to fail no matter how efficient the corporate system of administration undertaking its management might be. It is this realisation of the need and importance of careful selection and initial thought and research required for it that prompted reformers to suggest an organisational pattern different from the conventional public corporation: a setup where power and authority would exist to plan, research and study the overall industrial development and select and establish enterprises suited to the country's needs; a setup where economic rationality would outweigh mere political considerations. The development corporation is one such device and sector development is another.

APPENDIX 1

STATE SPONSORED CORPORATIONS IN SRI LANKA

(A list of corporate bodies other than Universities, whose staff are not civil servants and to whose Boards the government or a Minister in the Government appoint Directors. The bodies are classified in accordance with their primary functions)

I Business Enterprises (Corporations which have significant sources of Revenue other than Grants in Aid)

No.	Name	Address	Principal Activities	Establishment as State-sponsored Corporation	
				Year	Relevant Act
	A - PRODUCTION				
1	Ceylon Mineral Sands	167 Sri Vipulasena, Colombo	Production of ilmenite, rutile, and Zircon	1957	State Industrial Corporations Act No. 49 of 1957
2	National Salt Corporation	110 Sir James Peiris Mawatha, Colombo	Production of salt, gypsum etc.	1957	"
3	National Textile Corporation	16 Gregory Road, Colombo	Manufacture of textiles, cotton, yarn, thread etc.	1958	"
4	Eastern Paper Mills Corporation	356 Union Place, Colombo	Production of paper, paper board etc.	1958	"
5	Ceylon Ceramics Corporation	55 Rosmead Place, Colombo	Manufacture of sanitary wares, crockery, ceramics	1958	"
6	Ceylon Oils and Fats Corporation	7 Vajira Place, Colombo	Production of coconut oil, provender, detergents etc.	1958	"
7	Ceylon Cement Corporation	Independence Sq. Colombo	Manufacture of cement, concrete works	1959	"

No.	Name	Address	Principal Activities	Establishment as State-sponsored Corporation	
				Year	Relevant Act
	A - PRODUCTION				
8	Ceylon Plywoods Corporation	420 Baudha Mawatha Colombo	Tea chests, plyboards, furniture production	1959	State Industrial Corporations Act No. 49 of 1957
9	Sri Lanka Sugar Corporation	15 Layards Road, Colombo 5	Production of sugar and spirit	1957	"
10	Paranthan Chemicals Corporation	21 Abdul Caffoor Mawatha, Colombo 3	Manufacturing of caustic soda, chlorine and table salt, etc.	1959	"
11	Ceylon Leather Products Corporation	141 Church Road, Mattakuliya, Colombo 5	Production of leather footwear, op. tannery	1959	"
12	National Small Industries Corporation	181 Sir James Peiries Mawatha, Colombo 2	Carpentry, tiles, Ayu rugs	1959	"
13	Ceylon Hardboard Corporation	48 Sri Jinaratana Road, Colombo 2	Manufacture of hardboard, wall board, etc.	1959	"
14	Industrial Estates Corporation	30 Wijerama Road, Colombo 3	Provision of land, building and electricity for small-scale industrialists	1960	"
15	Ceylon Steel Corporation	Oruwela, Athurugiriya	Manufacture and processing of iron and steel products	1960	"

No.	Name	Address	Principal Activities	Establishment as State-sponsored Corporation	
				Year	Relevant Act
	A - PRODUCTION				
16	Ceylon Tyre Corporation	P.O. Box 8, Kelaniya Colombo	Manufacture of tyres and tubes	1962	State Industrial Corporations Act No. 49 of 1957
17	State Engineering Corporation	120 W.A.D. R'nayake Mawathatha, Colombo 2	Design and construction of industrial and engineering projects in the public sector	1962	"
18	Ceylon State Hardware Corporation	242 Havelock Road, Colombo 5	Production of hoes, chisels, agricultural equipment	1963	"
19	Ceylon Fertilizer Corporation	Caldecott Building, 746 Galle Road, Colombo 4	Import and distribution of fertilizer	1963	"
20	State Flour Milling Corporation	3 1/1 Station Road, Colombo 3	Flour milling	1964	"
21	Ceylon Fisheries Corporation	Mutwal, Colombo 15	Development of sea fishing industry, fish processing and canning	1964	"
22	State Fertilizer Manufacturing Corporation	21 Anderson Road, Colombo 5	Manufacturing of fertilizer	1966	"
23	State Timber Corporation	30 Asoka Gardens, Colombo 3	Logging and felling	1968	"

No.	Name	Address	Principal Activities	Establishment as State-sponsored Corporation	
				Year	Relevant Act
	A - PRODUCTION				
24	State Ayurvedic Drugs Corporation	207/2 Dharmapala Mawatha, Colombo 7	Production of ayurvedic drugs	1969	State Industrial Corporations Act No. 49 of 1957
25	State Graphite Corporation	63 Elvitigala Mawatha, Colombo 8	Mining and refining of of graphite	1971	"
26	State Pharmaceuticals Corporation	2 Gregory's Avenue, Colombo 7	Manufacture of drugs	1971	"
27	Sri Lanka Tobacco Industries Corporation		Import, distribution and manufacture of beedies	1972	"
28	Ceylon Fisheries Harbour Corporation	422 Galle Road, Colombo 3	Development of fisheries harbour	1972	"
29	State Distilleries Corporation	124 Barnes Place, Colombo 7	Manufacture of alcoholic spirits	1973	"
30	State Rubber Manufacturing Corporation	W.A.D. R'nayake, Mawatha, Colombo 2	Manufacture of rubber	1971	Not available
31	State Development and Construction Corporation	7 Gregory's Avenue, Colombo 7	Development and construction of Highways	1972	Not available
32	National Milk Board	33 Etibank Road, Colombo 5	Butter, milk powder production	1954	National Milk Board Act No. 12 of 1954

No.	Name	Address	Principal Activities	Establishment as State-sponsored Corporation	
				Year	Relevant Act
	A - PRODUCTION				
33	Ceylon State Plantation Corporation	106 Havelock Road, Colombo 5	Development of crown lands; raising commercial crops	1958	Ceylon State Plantation Act No. 4 of 1958
34	Sri Lanka Cashew Corporation	153 Dharmapala Mawatha, Colombo 7	Development of cashew industry	1971	Not available
35	State Printing Corporation	28 De Fonseka Road, Colombo 5	Government printing	1968	Printing Corporation Act No. 24 of 1968
36	Ceylon Electricity Board	Sir Chittampalam Gardiner Mawatha, Colombo 2	Electricity production and supply	1969	Ceylon Electricity Board Act No. 17 of 1969
	B - COMMUNICATIONS				
37	Air Ceylon Ltd	Lower Chatham Street, Colombo 1	Operating regional and international air services	1951	Air Ceylon Ltd Act No. 7 of 1951
38	Ceylon Transport Board	200 Kirula Road, Colombo 5	Road transport	1957	Motor Transport Act No. 48 of 1957
39	Port Cargo Corporation	Church Street, Colombo 1	Post services, wharfage, stevedoring, bunkering, etc.	1958	Port (Cargo) Corp Act No. 13 of 1958
40	Ceylon Shipping Corporation	6 Sir Baron Jayatileke Mawatha, Colombo 1	Ocean freight services	1971	Ceylon Shipping Corporation Act No. 11 of 1971
41	Ceylon Broadcasting Corporation	Turrington Square, Colombo 7	Broadcasting and information services	1966	Ceylon Broadcasting Corp Act No. 37 of 1966

No.	Name	Address	Principal Activities	Establishment as State-sponsored Corporation	
				Year	Relevant Act
	B - COMMUNICATIONS				
42	Port Tally and Protective Services	21 Chaitya Road, Colombo 1	Tallying and watching of cargo	1967	Port Tally and Protective Services Act No. 10 of 1967
	C - TRADING				
43	Co-operative Wholesale Establishment	440 Union Place, Colombo 2	Export and import of goods required for Coop. and wholesale trading	1949	Coop. Wholesale Establishment Act No. 13 of 1971
44	Ceylon Petroleum Corporation	113 Galle Road, Columbo 3	Import and distribution of petroleum products	1961	Petroleum Corporation Act No. 28 of 1961
45	State Gem Corporation	25 Galle Face Terrace, Colombo 3	Gem export	1971	State Gem Corporation Act No. 13 of 1971
46	Sri Lanka State Trading (General) Corporation	119 Wekande Road, Colombo 2	Import trade	1970	Sri Lanka State Trading Corporation Act No. 33 of 1970
47	Sri Lanka State Trading (Textiles) Corporation	93 Jawalle Road, Colombo 5	Textile importing	1971	"
48	Sri Lanka State Trade (Tractor) Corporation	244 Arnold Ratnayake Mawatha, Colombo 10	Tractor importing	1971	"
49	Sri Lanka State Trading (Consolidated Exports) Corporation	68/70 York Street	Consolidated exports	1972	"

No.	Name	Address	Principal Activities	Establishment as State-sponsored Corporation	
				Year	Relevant Act
	C - TRADING				
50	Building Materials Corporation	1st Floor, Chartered Bank, Queen Street, Colombo 1	Purchase and sale of building materials	1971	Sri Lanka State Trading Corporation Act No. 33 of 1970
51	Weaving Supplies Corporation	HPT Building, D.S. Senanayake Mawatha, Colombo 8	Import and distribution of cotton yarn	1971	"
52	Paddy Marketing Board		Purchase and sale of paddy	1971	The Paddy Marketing Board Act No. 14 of 1971
	D - FINANCE				
53	Agricultural and Industrial Credit Corporation	2nd Floor, 292 Gelle Road, Colombo 3	Agricultural and industrial Credit	1943	Agricultural and Industrial Credit Corporation Act No. 19 of 1943
54	Bank of Ceylon	York Street, Colombo 1	Banking business	1938	Bank of Ceylon Ordinance No. 53 of 1938
55	Central Bank of Ceylon	Queen Street, Colombo 1	Central Banking, currency control	1949	Monetary Law Act No. 58 of 1949
56	Development Finance Corporation	42/1 Horton Place, Colombo 7	Providing long term loans for industrial projects	1955	Development Finance Corporation Act No. 35 of 1955
57	Insurance Corporation of Ceylon	288 Union Place, Colombo 2	Life insurance. As from 1964 it has sole rights for all kinds of insurance	1961	Insurance Corporation Act No. 2 of 1961
58	National Lotteries Board	502/1 Galle Road, Colombo 3	Lotteries	1963	Lotteries Board Act No. 11 of 1963

No.	Name	Address	Principal Activities	Establishment as State-sponsored Corporation	
				Year	Relevant Act
	D - FINANCE				
59	People's Bank	G.C.S.U. Building, Parsons Road	Providing general banking facilities for rural areas	1961	People's Bank Act No. 29 of 1961
60	National Ceylon Savings Bank	Echelon Square, Colombo 1	Saving and lending	1859	Ceylon Savings Bank Ordinance No. 12 of 1859
61	Ceylon State Mortgage Bank	91 Horton Place, Colombo 7	Providing long term credit for agricultural projects	1931	State Mortgage Ordinance No. 16 of 1931
	E - TOURISM				
62	Ceylon Hotels Corporation	63 Queen's Street, Colombo 1	Providing high class hotels, restaurant facilities for tourists	1966	Hotels Corporation Act No. 14 of 1966
63	Ceylon Tourist Board	25 Gelle Face Center Road,	Promotion and development of tourism	1966	Ceylon Tourist Board Act No. 10 of 1966
	F - MULTI PURPOSE				
64	Colombo District (Low Lying Areas) Reclamation and Development Board	4 22nd Lane, Colombo 3	Reclamation of low lying areas in Colombo District	1968	Colombo District (Low Lying Areas) Reclamation Act No. 15 of 1968
65	Mahaweli Development Board	53/29 Torrington Avenue, Colombo 7	Development of Mahaweli Grange Basin	1970	Mahaweli Development Act No. 14 of 1970
66	River Valleys Development Board	415 Baudolhaloha Mawatha, Colombo 7	River Valleys Development	1949	River Valleys Development Board Act No. 37 of 1965

II OTHER STATE SPONSORED CORPORATIONS

No.	Name	Address	Principal Activities	Establishment as State-sponsored Corporation	
				Year	Relevant Act
	G - GENERAL RESEARCH				
67	Coconut Research Board	Bandirippawa Estate, Lunuwila, Nejombo	Research on coconuts	1928	Coconut Research Ordinance No. 29 of 1928
68	Ceylon Institute of Scientific and Industrial Research	363 Buddhaloka Mawatha Colombo 7	General technical development advisory service to industries	1955	CISIR Act No. 15 of 1955
69	Rubber Research Board	74 Davidson Road, Colombo 7	Research into agricultural, biological, chemical chemical aspects of processing natural rubber	1930	Rubber Research Board Act No. 10 of 1930
70	Tea Research Institute	Coombs Estate, Talawakelle, Colombo	Tea Research	1925	Tea Research Ordinance No. 12 of 1925
	H - PROMOTION AND DEVELOPMENT				
71	Ceylon Coconut Board	1st Floor, 11 Duke Street, Colombo 1	Operate copra auctions; supervise manufacture and export of dessicated coconut	1935	Coconut Products Ordinance No. 13 of 1935
72	Coconut Development Authority	6 Sir Baron Jayatileke Mawatha, Colombo 1	Promotion, regulation and cultivation of coconut plantations	1971	Coconut Development Authority Act No. 46 of 1971
73	Coconut Fibre Board	5th Floor, Ymba Building, Colombo 1	Promotion, regulation and the development of the coconut fibre industry	1967	Coconut Fibre Board Act No. 17 of 1967

No.	Name	Address	Principal Activities	Establishment as State-sponsored Corporation	
				Year	Relevant Act
	H - PROMOTION AND DEVELOPMENT				
74	Ceylon Tea Board	574 Galle Road, Colombo 3	Promotion and regulation of Tea plantations	1970	Ceylon Tea Board Act No. 15 of 1970
75	Water Resources Board	7 Sigriya Gardens, Colombo 3	Conservation and utilization of water resources of the island	1964	Water Resources Board Act No. 29 of 1964
76	Bureau of Ceylon Standards	53 Dharmapela Mawatha, Colombo 3	To promote standardization in industry and commerce	1964	Bureau of Ceylon Standards Act No. 38 of 1964
77	Industrial Development Board	16 Gregory's Road, Colombo 7	Establishment and Administration of Industrial Development Fund; assistance and encouragement of the development of the industries in the private sector	1969	Industrial Development Act No. 36 of 1969
	I - CULTURE				
78	Anuradhapura Board	Town Hall, Anuradhapura	Preservation of national monuments in Anuradhapura	1961	Anuradhapura Preservation Board Act No. 32 of 1961
79	Arts Council	135 Dharmapela Mawatha, Colombo 7	Fine Arts; handicrafts pageants, music etc.	1952	Arts council Act No. 18 of 1952
80	Ceylon National Library Services Board	10 Chelsea Gardens, Colombo 3	Promotion and development of library services	1970	Ceylon National Library Services Board Act no. 17 of 1970

No.	Name	Address	Principal Activities	Establishment as State-sponsored Corporation	
				Year	Relevant Act
	I - CULTURE				
81	Sri Lanka Sahitya Mandalaya	135 Dharmapala Mawatha Colombo 7	Promoting interest in and knowledge of the arts and literature	1958	Sri Lanka Sahitya Mandalaya Act No. 31 of 1958
	J - OTHER BODIES				
82	Atomic Energy Authority	48 Sri Jinaralna Mawatha Colombo 2	Research and Development of Atomic Energy	1969	Atomic Energy Authority Act No. 19 of 1969
83	National Science Council	69 Horton Place Colombo	Application of science and scientific research to national development	1968	National Science Council Act No. 9 of 1968
84	National Council for Higher Education	202 Bullers Road, Colombo 7	Higher education	1966	Higher Education Act No. 20 of 1966
85	National Youth Service Council	54 Chatham Street, Colombo 1	National Voluntary Service schemes	1967	National Youth Service Council Act No. 11 of 1967
86	Ayutvedic Medical Council	23 Cotta Road, Colombo 8	Development and control of Ayurvedic Medical practice		Not available
87	State Film Corporation	224 Baudhaloka Mawatha, Colombo 7	Promotion and development of Ceylon made films	1971	State Film Corporation Act No. 47 of 1971

APPENDIX 2

STATE INDUSTRIAL CORPORATIONS

under the control of

THE MINISTRY OF INDUSTRIES AND SCIENTIFIC AFFAIRS

No.	Name of Corporation and Location of Plants	Date of incorporation	Stage of Development at December 1973	No. of employees at December 1973	Funds employed at December 1973	Gazette Notification Number
1	CEYLON MINERAL SANDS					
	(a) Pulmoddai	3.12.1957	In operation	503	38,641,000	11,212
	(b) China Bay		"			
2	NATIONAL SALT					
	(a) Hambantota	3.12.1957	In operation	1,007	34,099,000	12,841
	(b) Elephant Pass		"			
	(c) Mannar		"			
3	NATIONAL TEXTILES					
	(a) Veyangoda	10.1.1957	In production	7,087	400,025,000	11,237
	(b) Thulhiriya		"			
	(c) Pugoda		"			
4	EASTERN PAPER MILLS					
	(a) Valaichenai Paper	1.7.1958	In production	2,685	186,837,000	11,404
	(b) Valaichenai Paper Board		"			
	(c) Empilipitya Paper		Under construction			
	(d) Rajangana Paper		Planning			
5	CEYLON CERAMICS					
	(a) Negombo	1.8.1958	In production	1,436	80,508,000	11,466
	(b) Boralesgamuwa		"			
	(c) Pilyandala		"			
6	CEYLON OILS AND FATS					
	(a) Seeduwa	1.8.1958	In production	924	32,685,000	11,466

No.	Name of Corporation and Location of Plants	Date of incorporation	Stage of Development at December 1973	No. of employees at December 1973	Funds employed at December 1973	Gazette Notification Number
7	CEYLON CEMENT (a) K.K.S. (b) Puttalam (c) Galle	1.1.1959	In production " "	2,739	354,400,000	11,634
8	CEYLON PLYWOODS (a) Gintota (b) Kosgama	1.1.1959	In operation "	2,464	132,449,000	11,632
9	PARANTHAN CHEMICALS Paranthan	1.1.1959	In operation	374	33,083,000	11,632
10	CEYLON LEATHER Mattakuliya	1.1.1959	In operation	1,053	19,325,000	11,632
11	NATIONAL SMALL IND. (a) Carpentary (b) Tiles and Bricks (c) Drug Factory (d) Manufacture of Beedi	26.8.1959	Wound up; activities transferred to Plywoods Ceylon Ceramics Ayurvedic Drugs Sri Lanka Tobacco	2,249	21,510,750	11,480
12	CEYLON HARDBOARD Horana	18.11.1959	Would up; activities transferred to Ceylon Paper		450,000	11,958
13	INDUSTRIAL ESTATES Ekala	1.1.1960	In operation	40	7,000,000	12,028

No.	Name of Corporation and Location of Plants	Date of incorporation	Stage of Development at December 1973	No. of employees at December 1973	Funds employed at December 1973	Gazette Notification Number
14	CEYLON STEEL Oruwela	30.9.1961	In operation	1,167	296,234,000	12,684
15	CEYLON TYRE Kelaniya	1.1.1962	In operation	2,006	100,676,000	12,841
16	CEYLON HARDWARE (a) Yakkala (b) Enderamulla	23.8.1963	In production "	1,398	47,001,000	13,737
17	CEYLON STATE FLOUR (a) Mutwal (b) Mutwal expansion	12.3.1964	In production Planning	550	78,203,000	13,982
18	STATE FERTILIZER MANUF. Colombo	10.5.1966	Under construction	100	350,000,000 (authorised capital)	14,694
19	STATE AYURVEDIC DRUGS Colombo	11.5.1969	In operation		8,760,000	14,853
20	STATE GRAPHITE (a) Bogala (b) Kahatagaha (c) Kolongaha (d) Rangala	2.7.1971	In operation " " Under survey	1,544	20,994,000	14,964
21	STATE PHARMACEUTICALS Colombo	27.9.1971	In operation	37	1,000,000	14,976
22	SRI LANKA TOBACCO INDUSTRIES Colombo	13.7.1972	In operation	114	1,000,000	15/9
23	STATE DISTILLERIES Colombo		In operation	n.a.	n.a.	n.a.

APPENDIX 2

STATE INDUSTRIAL CORPORATIONS

under the control of

OTHER MINISTRIES

No.	Name of Corporation and Location of Plants	Date of incorporation	Stage of Development at December 1973	No.of employees at December 1973	Funds employed at December 1973	Responsible Ministry
1	SRI LANKA SUGAR					
	(a) Kantalai	26.11.1957	In operation	6,114	132,449,000	Agriculture since 28.11.1961
	(b) Gal Oya	(11212)	"			
2	STATE ENGINEERING Colombo	1.1.1962 (12841)	In operation	13,244	Advances from other corporations	Housing and Construction since May 1972
3	STATE FERTILIZER Colombo	30.1.1964	In operation	n.a.	58,000	Agriculture since inception
4	CEYLON FISHERIES Colombo	1.10.1964 (14186)	In operation	1,308	73,800,000	Fisheries since May 1972
5	CEYLON FISHERIES HARBOUR Colombo	14.7.1972 (14966)	In operation	n.a.	1,000,000	Fisheries since inception

Source: Central Bank Annual Reports, *CHRD* 26 January 1966; Government Gazettes.

APPENDIX 3

SCHEDULE OF INDUSTRIES RESERVED FOR STATE, PRIVATE AND JOINT OWNERSHIP

Schedule A (State Reserve)

(1) Iron and steel
(2) Cement
(3) Chemicals
(4) Fertilizers
(5) Salt and its by-products
(6) Mineral sands
(7) Sugar, power alcohol and rayon

Schedule B (Jointly by both State and private enterprise)

(1) Textile spinning and weaving
(2) Tyres and tubes
(3) Tiles
(4) Asbestos products
(5) Bicycles
(6) Industrial refining
(7) Acetic acid
(8) Sugar brown - small scale
(9) Vegetable oil refining
(10) Ceramic ware
(11) Kaolin
(12) Glass ware
(13) Leather products
(14) Plywood
(15) Paper
(16) Electric bulbs and lighting equipment
(17) Dry cell batteries
(18) Barbed wire
(19) Accumulators
(20) Lumber industry
(21) Agricultural implements
(22) Wood-working, furniture and cabinet-making
(23) Concrete products

Schedule C (Private enterprise)

(1) Motorcar assembly
(2) Bicycle tyres and tubes
(3) Boats and launches
(4) Foundry products
(5) Steel products
(6) Sewing machines
(7) Aluminium ware
(8) Aluminium linings
(9) Metal containers
(10) Hurricane lanterns
(11) Razor blades
(12) Kerosene stoves
(13) Weighing scales
(14) Crown corks
(15) Tin printing
(16) Cutlery
(17) Wire drawing
(18) Wire nails
(19) Paper clips
(20) Pins
(21) Hair clips
(22) Solder and soldering wire
(23) Zip fasteners
(24) Metal fittings
(25) Bolts, nuts, rivets and screws
(26) Brass nails, screws, hinges and nails
(27) Galvanizing
(28) Galvanized buckets
(29) Enamelling
(30) Hollow bricks
(31) Sanitary ware
(32) Earthenware
(33) Insulators
(34) Electric fans
(35) Gas mantles

(36) Assembly of radio receivers
(37) Readymade garments
(38) Banians, knitting and weaving
(39) Water-proof clothing
(40) Hosiery
(41) Ball thread
(42) Spectacle frames
(43) Umbrellas
(44) Suit cases
(45) Pharmaceuticals
(46) Milk foods
(47) Biscuits
(48) Chocolate
(49) Confectionery
(50) Boiled sweets
(51) Margarine
(52) Cured meats
(53) Sauces and fruit juices
(54) Tooth paste
(55) Perfume
(56) Face powders
(57) Soap
(58) Tanning of leather
(59) Hardboard
(60) Cardboard and pressboard
(61) Paper cartons
(62) Fountain pens and propelling pencils
(63) Inks - writing and printing
(64) Pencils
(65) Penholders
(66) Nibs
(67) Slates
(68) Abrasive paper
(69) Emery cloth
(70) Fireworks and bonbons

(71) French polish and varnish

(72) Paints

(73) Paint brushes

(74) Distemper

(75) Linoleum

(76) Waxes and polishes

(77) Citric acid

(78) Caffeine

(79) Flue-organic and synthetic

(80) Rubber products

(81) Fungicides and pesticides

(82) Activated charcoal

(Source: U.N. 1966: 110)

THE CHARACTER AND COMPOSITION OF CORPORATE BOARDS AS AT DECEMBER 1969

	Name	Chairman		Board			Members	Background
		Type	Remuneration	Number	Type	Remuneration		
1	Eastern Paper Mills Corporation	W/MD	30,000	2 1 GM 1 WD	P W W	Fees Paid Fixed Salary 12,000	K.C. Thangarajah A.M. Mirza L.H. Sumanadasa T.B. Naranpanawe Vincent Panditha	Business Politics Public Service Public Service Public Service
2	Ceylon Oils & Fats Corporation	W/GM	21,159	4	P	Fees Paid	Dr A. Amarasinghe C.A. Harischandra L.J. Fernando A.G.V. Wijesekara R.A. Gunawardena E.G. Wijesinghe	Public Service Business C.I.S.I.R. Treasury
3	Ceylon Leather Products	W/MD	30,000	5	P	Fees Paid	Linus Silva Dr S.K. Madanayake M.K. Perera M.P. Perera W.G. Weeraratne Mrs Sumana Jayasundera	Management Medical Public Service
4	Ceylon Cement Corporation	W/MD	28,296	3 1 WD 1 GM	P W W	Fees Paid	E.M. Wijenaike Dr G. Ponnemperuma L.J.D. Fernando M. Kanagasabhai M. Chandrasena V. Perampalam	Public Service Public Service Coop. Movement

W - Whole time MD - Managing Director
P - Part Time WD - Working Director

	Name	Chairman		Board			Members	Background
		Type	Remuneration	Number	Type	Remuneration		
5	National Salt Corporation	W/MD	26,550	4	P	Fees Paid	M. Sivananthan	Public Service
							D.A. Goonetilleke	Business
							D.N. Selvaratnam	Engineer
							H.S. Ismail	Proctor
							S. Abeyawickrema	
6	Ceylon Ceramics	P	4,600		P	Fees Paid	D.B. Pattiaratchi	Public Service
							P. Murugesu	Public Service
							P. Tennekoon	
							V. Ranasinghe	Public Service
7	Paranthan Chemicals	P	4,600	4	P	Fees Paid	M. Sivananthan	Public Service
							V. Kirtisinghe	
							R. Bhuvenandram	Public Service
							Dr M.L.T. Kannangara	
							D.C. Munasinghe	
8	Ceylon Steel	P	8,750	4	P	Fees Paid	C. Abeysekara	Public Service
				1 MD	W	28,500	P. Manickkam	Public Service
							Prof.P.B.G.L.Siriwardena	Academic
							N.M. Kappagoda	Public Service
							S.W. Peiris	
							A.N.S. Kulasinghe	
9	Ceylon Tyre	P	8,750	3	P	Fees Paid	Godfrey Gunatilleke	Public Service
							D.P. Welikala	Engineer
							D.S. de Silva	Public Service
							Dr R.T. Wijewantha	C.I.S.I.R.
							C. Abeysekara	Public Service

	Name	Chairman		Board			Members	Background
		Type	Remuneration	Number	Type	Remuneration		
10	Ceylon Textiles	W/MD	15,000	4	P	Fees Paid	M.L.D. Caspersz	Public Service
							G.D. Loos	Public Service
							P.H.P. de Silva	Public Service
							U.B. Dolahapilla	Textile Engineer
							A.T. Somaratne	
							D.R. Umagiliya	Public Service
11	Ceylon Plywoods	W	30,056	4	P	Fees Paid	W.G. Weeraratne	Public Service
							W.S. de Silva	
							A. Abeyawardene	
							David Weerakoon	Advocate
							H.D.S.A. Gunawardena	Public Service
12	Ceylon Sugar	W	27,000	2	P	Fees Paid	C.R. Karunaratne	
				2 WD	W	12,000 each	R.P. Jayawardena	
							T.P. de Zoyza	
							M.F.A. Jaward	Politics
13	Ceylon Hard-board	P		2	P	Fees Paid	C.W.M. Aponso	
							I.O.K.G. Fernando	
							M. Thevathason	
14	National Small Industries	W	24,000	5	P	Fees Paid	R.A.K. Perera	Advocate
				1 MD	W	12,000	J.R.P. Suriyapperuma	Politics
							G.D. Loos	Public Service
							W.G. Weeraratne	Public Service
							M.M.J.W. Herath	
							D.N. Welikala	
							C.D. Wijedevendram	

	Name	Chairman		Board			Members	Background
		Type	Remuneration	Number	Type	Remuneration		
15	Ceylon Mineral Sands	P	5,400	2	P	Fees Paid	L.J.D. Fernando	Public Service
				1 MD	N		C.A. Cooray	Public Service
							M.S. Bakmiwewa	
							H.A. de Silva	Port Commissioner
16	Ceylon Hardware	P		5	P	Fees Paid	B.D. Rampala	Public Service
				1 MD	W	24,000	G.D.T. Seneviratne	
							G.V.S. de Silva	Public Service
							A.N.S. Kulasinghe	Public Service
							Ayr. Dr C.Chandrasena	
							A.I. Mohideen	Public Service
							K. Selvarajan	
17	State Flour Milling Corporation	P		3	P	Fees Paid	K. Alvapillai	Public Service
				1 MD	W		M.D.A. Jayawardena	
							Mrs C. Dissanayake	
							H.A. de Silva	
							B.K. Jayasinghe	Proctor
18	Industrial Estates	P		3	P	Fees Paid	C. Mylvaganam	IDB
				1 MD	W		J.H. Lanerolle	
							B. Aluvihare	
							P.H.P. de Silva	Public Service
							A. Edirisinghe	

	Name	Chairman		Board			Members	Background
		Type	Remuneration	Number	Type	Remuneration		
19	Ceylon Fisheries	W	30,000	3	P	Fees Paid	D.C.L. Amarasinghe	Public Service
				2 WD	W	12,000 each	G.V.S. de Silva	Public Service
				1 GM	W	30,000	M.S. Abubacker	Politics
							H.W. Stanley Fernando	Politics
							I.O.K.G. Fernando	
							D.K. Supramaniyam	IDB
							Com. Kadiragamar	Navy
20	State Engineering	W/GM	9,000	4	P		A.N.S. Kulasinghe	Port Commissioner
							D.P. Jayasekara	
							A.E.C. de S.Gunasekara	
							N. Gunaratne	
							G.D. Loos	Public Service
21	State Fertilizer	W	21,000	5	P	Fees Paid	A.T.M. Silva	Public Service
							C.P. Chanmugam	Public Service
							T. Rodrigo	Engineer
							Dr E. Abeyratne	Public Service
							E.J. de Silva	Public Service
							J.P.C. Siriwardena	Public Service
22	State Fertilizer Manufacturer	W	18,000	5	P	Fees Paid	M.J. Perera	Public Service
							Anil Obeysekara	
							C.R. Panebokke	Public Service
							C. Satkunanathan	Public Service
							D.M. Jayatilleke	
							N.J.R. Kotgama	

	Name	Chairman		Board			Members	Background
		Type	Remuneration	Number	Type	Remuneration		
23	Ayurvedic Drugs Corporation	P	n.a.	6	P	Fees Paid	W.J. Fernando J.R. Suriyapperuma W.J.R. Nahkgamuwa Dr H.K. Buddhadasa Dr S.L.M. Rasheed Dr A. Kanagaratnam Dr D.M. Jayasinghe	

Sources: *Financial Times and News of Ceylon*, October 1969, p.207; *Ferguson's Ceylon Directory*, 1969; Annual Reports of Corporations

BOARD MEMBERS' BACKGROUND AND EXPERIENCE (1969)

Officials

Amarasinghe, A.; B.Sc. Ph.D.
Amarasinghe, D.C.L.; C.C.S.
Abeyratne, E.; Ph.D.
Abeysekara, C.; C.A.S.
Alvapillai, K.; O.B.E. C.C.S.
Aponso, C.W.M.; C.A.S.
Bhuvenandram, R.; B.Sc.(chemists)
Caspersz, M.L.D.; C.C.S.
Chanmugam, C.P.; B.Sc. C.A.S.
Fernando, I.O.K.G.; C.A.S.
Fernando, L.J.; B.Sc. C.I.S.I.R.
Fernando, L.J.D.; M.Sc. F.G.S.
Gunaratne, N.; M.P.I.T.(Engineer)
Gunatilleke, Godfrey; C.C.S.
Jayasekara, D.P.; (Engineer)
Kadirgamar, Rear Admiral (Navy)
Kappagoda, N.M.; C.C.S.
Kotgama, N.J.B.; Engineer (P.W.D.)
Kulasinghe, A.N.S.; B.Sc. F.I.Mech.E. (Port Commission)
Lanerolle, J.H.; I.D.B.
Loos, G.D.; C.C.S.
Manikkam, P.P.; C.A.S.
Mohideen, A.I.; C.A.S.
Murugesu, P.; C.A.S.
Mylvaganam, C.; I.D.B.
Naranpanawe, T.B.; C.A.S.
Panabokke, C.R.; Soil Survey
Pattiaratchi, D.B.; M.Sc. F.G.S.
Peiris,S.W.; B.Sc.(Elect.Engineer)
Perera, M.J.; B.A.
Rampala, B.D.; G.M. C.G.R.
Ranasinghe, V.; M.Sc. M.I.C.E.
Satkunanathan, C. (Government Analyst)
Silva, A.T.M.; C.C.S.
Silva, D.S. de (Mech. Engineer)
Silva, E.J. de; (Agrarian Services)
Silva, G.V.S. de; C.A.S.
Silva, Hubert A. de; C.C.S.
Silva, P.H.P. de C.A.S.
Siriwardena, J.P.C.; C.C.S.
Sumanadasa, L.H.; (Engineer)
Sivananthan, M.; C.A.S.
Umagiliya, D.R.; C.C.S.
Vincent Panditha; C.A.S.
Weeraratne, W.G.; B.Sc. Dip.Forestry
Wyedevendram, C.D.; C.A.S.
Wijenaike, E.M.; C.A.S.
Wijesekara, A.G.V.; C.C.S.
Wijewantha, R.T.; Ph.D. C.I.S.I.R.

C.C.S.	Ceylon Civil Service
C.A.S.	Ceylon Administrative Service
I.D.B.	Industrial Development Board
C.I.S.I.R.	Ceylon Institute of Scientific and Industrial Research

Non-Officials

Abeyawardene, A.
Abeyawickrema, S.
Abubacker, M.S. (Politics)
Aluvihare, B.
Bakmiwewa, M.S.
Buddhadasa, H.K.; Dr D.I.M.S.
Chandrasena, M.; M.I.C.E.(Engineer)
Chandrasena, Ayr Dr.
Dolahapilla, U.B. (Textile Engineer)
Dissanayake, Mrs C. M.Sc.
Edirisinghe, A.
Fernando, W.J.
Goonetilleke, D.A. (Business)
Gunawardena, H.D.S.A.
Harischandra, C.A.(Business)
Herath, M.M.J.W.; Ph.D.
Ismail, H.S.; Proctor (ex-Speaker)
Jayasinghe, B.K.; Proctor
Jayasinghe, D.M.; Dr.
Jayatilleke, D.M.
Jayawardena, M.D.A.
Jayawardena, R.P.
Jaward, M.F.A. (Politics)
Kanagaratnam, A.; Dr.
Kanagasabhai, O.B.E.
Kannangara, M.L.T.; Ph.D.
Karunaratne, C.R.
Kirtisinghe, V.; B.Sc.(Lond.)
Linus Silva, M.B.A. (Penn.)
Madanayake, S.K.; L.R.C.P. M.R.C.P. (Medicine)
Mirza, A.M. (Politics)
Munasinghe, D.C.; B.Sc. A.R.I.C.
Nawagamuwa, W.J.R.
Obeysekara, Anil
Perera, M.K.
Perera, M.P.
Perera, R.A.K. (Advocate)
Rasheed, S.L.M. (Medicine)
Rodrigo, T. (Engineer)
Selvarajan, K.
Selvaratnam, D.N.; B.Sc. A.R.I.C.
Seneviratne, G.D.T.
Silva, W.S. de
Siriwardena, Prof. P.P.G.L. (University)
Somaratne, A.T.
Stanley Fernando, H.W.; (Politics)
Sumana Jayasundera, M.
Suriyapperuma, J.R.P. (Politics)
Tennekoon, P. (Engineer)
Thangarajah, K.C. (Business)
Thevathason, M. (Accountant)
Weerakoon, David (Advocate)
Welikala, D.N.
Welikala, D.P. (Engineer)
Wijesinghe, E.G.
Zoysa, T.P., de

APPENDIX 5

EXTRACTS FROM FINANCE ACT NO. 38 OF 1971

FINANCIAL CONTROL OF PUBLIC CORPORATIONS

5. (1) The provisions of this Part of this Act shall apply to every public corporation notwithstanding anything to the contrary in the provisions of any other written law.

7. (1) It shall be the duty of the governing body of a public corporation to conduct the business of the corporation so that the ultimate surpluses on revenue account shall at least be sufficient to cover the ultimate deficits on such account over a period of five years or such other period as may be determined by the Minister of Finance. In determining the ultimate surplus or ultimate deficit for each year under this section, there shall be charged against the revenue account the charges specified in section 9 and the appropriations specified in section 10.

8. (1) Every public corporation shall prepare a budget in respect of every financial year and such budget shall be approved by the governing body of such corporation not later than three months prior to the commencement of the financial year to which the budget relates.

(2) Notwithstanding the approval of the budget by the governing body of a public corporation, no commitments of capital expenditure provided in such budget in excess of five hundred thousand rupees shall be incurred by such corporation except, -

(a) in any case where the appropriate Minister is the Minister of Planning, with the prior approval of the appropriate Minister given with the concurrence of the Minister of Finance; or

(b) in any case where the appropriate Minister is not the Minister of Planning, with the prior approval of the appropriate Minister given with the concurrence of both the Minister of Planning and the Minister of Finance.

(3) The budget of a public corporation shall give projections of revenue and expenditure both recurrent and capital, financial resources,

investments of funds, cash resources and other relevant information. Such budget shall show a budgeted profit and loss account or income and expenditure account for each financial year and a projected balance sheet showing the position at the end of that year. The form and manner in which the budget shall be prepared, and the minimum information that the budget shall contain, shall be as determined in any case where -

(a) the appropriate Minister is the Minister of Finance, by the appropriate Minister; or

(b) the appropriate Minister is not the Minister of Finance, by the appropriate Minister with the concurrence of the Minister of Finance.

13. (1) The Auditor-General shall be the auditor for every public corporation. For the purpose of assisting him in the audit, the Auditor-General may if he thinks it necessary to do so, employ the services of any qualified auditor or auditors who shall act under his direction and control.

(2) For the purpose of meeting the expenses incurred by him in the audit of the accounts of a public corporation, the Auditor-General shall be paid by the corporation such remuneration as the appropriate Minister may, with the concurrence of the Minister of Finance, determine. Any remuneration received from the corporation by the Auditor-General shall, after deduction of any sums paid by him to any qualified auditor or auditors employed by him for the purposes of such audit, be credited to the Consolidated Fund.

(3) The Auditor-General shall inspect the accounts, the finances, the management of the finances and the property of a public corporation. The Auditor-General shall as far as possible, and as far as necessary, examine -

(a) whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of financial control purposes and from the point of view of the presentation of information to enable a continuous evaluation of the activities of the corporation, and whether such systems, procedures, books, records and other documents are in effective operation;

(b) whether the conduct of the corporation has been in accordance with the law, rules and regulations relevant to the corporation and whether

there has been fairness in the administration of the corporation;

(c) whether there has been economy and efficiency in the commitment of funds and utilization of such funds;

(d) whether systems of keeping moneys and the safeguarding of property are satisfactory;

(e) whether the accounts audited have been so designed as to present a true and fair view of the affairs of the corporation in respect of the period under consideration due regard being had to principles of accountancy, fin ancing and valuation; and

(f) any such other matters as he may deem necessary.

(4) The Auditor-General shall at his discretion determine the nature and extent of the audit that shall be carried out in any particular period in respect of any particular public corporation, and may at his discretion dispense with the audit of any particular aspect or aspects relevant to a particular public corporation in the period under review.

(5) The Auditor-General shall have -

(a) the right of access to any books, records, documents and any type of information which is directly or indirectly related to the activities of a public corporation under audit as he deems necessary;

(b) the right to call for such information, documents, explanations, reports or other material at any time as in his opinion are necessary for the purposes of the audit;

(c) the right to summon any person for examination, and for the production of any documents where such examination or production is considered necessary for the purposes of the audit;

(d) the right to require the corporation to settle its minimum internal audit programmes by agreement with the Auditor-General, and the right to give any directions to the corporation with regard to the conduct of the minimum internal audit programmes and the manner of reporting by the internal audit.

The corporation or any person shall comply with any request made by the Auditor-General in the exercise of his above-mentioned rights.

(6) The accounts of a public corporation for each financial year shall be submitted to the Auditor-General for audit within four months after the close of that year along with any report on the accounts which the Auditor-General may require to be submitted in the manner specified by him. Any such corporation which contravenes or fails to comply with the preceding provisions of this sub-section shall be guilty of an offence under this Act and shall, on conviction after summary trial before a Magistrate, be liable to a fine not exceeding one thousand rupees.

15. The appropriate Minister may direct the governing body of a public corporation to give effect to such recommendations made by the Public Accounts Committee in its reports to the House of Representatives relating to the corporation as may be determined by the Minister.

APPENDIX 6

TABLING OF ACCOUNTS

Position in regard to the Tabling of Accounts of the State Industrial Corporations as at 31 August 1970

	Corporations	Last account tabled in the House of Representatives
1	Ceylon Mineral Sands	For the year ended 31 March 1965
2	National Salt	For the year ended 31 March 1964
3	National Textiles	For the year ended 31 March 1966
4	Eastern Paper Mills	For the year ended 31 March 1965
5	Ceylon Ceramics	For the year ended 31 March 1964
6	Ceylon Oils and Fats	For the year ended 31 March 1965
7	Ceylon Cement	For the year ended 31 March 1967
8	Ceylon Plywood	For the year ended 31 March 1967
9	Paranthan Chemicals	For the year ended 31 March 1966
10	Ceylon Leather	For the year ended 31 March 1965
11	National Small Industries	For the year ended 31 March 1964
12	Ceylon Hardboard	For the year ended 31 March 1961
13	Industrial Estates	For the year ended 31 March 1967
14	Ceylon Steel	For the year ended 31 March 1966
15	Ceylon Tyre	For the year ended 31 March 1966
16	Ceylon Hardware	For the year ended 31 March 1968
17	State Fertilizer Manufacturing	For the year ended 31 March 1967
18	Ceylon State Flour	For the year ended 31 March 1965
19	Sri Lanka Sugar	For the year ended 31 March 1966
20	State Engineering	For the year ended 31 March 1964
21	Ceylon Fisheries	For the year ended 31 March 1965
22	State Fertilizer	For the year ended 31 March 1967

Source: Report of the Auditor General for 1968-69, Parliamentary Series No. 3.

APPENDIX 7

TERMS OF REFERENCE OF SOME SELECTED COMMISSIONS OF INQUIRY

1 Commission on Commercial Undertakings

Appointed on 16 April 1951, to inquire and report on:

(1) the operation, by Government Departments, of business and commercial undertakings (other than the Railway, the Electrical Undertakings and the Food Supplies) which are financed from the Advance Accounts of Government;

(2) the causes of the losses incurred in such operations and the steps that should be taken with a view to preventing such losses in the future and to placing such undertakings on an economic footing;

(3) the advisability of ceasing to operate particular undertakings which are uneconomic;

(4) the advisability of placing the operation of such undertakings in the hands of institutions such as Co-operative Societies or Corporations; and

(5) the financial control exercised by Government, through the Financial Regulations, and Treasury Circulars, in such operation, and the changes, if any, that should be effected in such control.

2 Commission on Organisation and Operative Methods

Appointed on 22 November 1946 to investigate and report on:

'the changes which, in order to secure efficient and economic administration and the elimination of overlapping and waste, are necessary in relation to the organization, staffing, cadre, and operative methods of all Public Departments and other Government Establishments, Services or Institutions for which financial provision is made in the Estimates for the year 1946-47 under the Heads of Expenditure other than the following, that is to say, Heads 1, 3, 5 (save in so far as it provides for the Government Archives), 9, 10, 11, 17, 26, 27, 29, 32, 33, 35, 42, 48, 55, 60, 62, 72, 73, 77, 84 to 87, 90, 100, 105, 106, 107, 108, 110, 112, 120, 128, 129'.

Commission Observation on its terms of reference: Our terms of reference might fairly be said to cover an inquiry into the whole *machinery of Government,* other than that part of it excluded from our consideration, with a view to recommending such changes as we may think desirable in the numbers, recruitment, training and conditions of service of all Government servants, and in the way in which all Government institutions carry out their functions.

3 Salt Commission of Inquiry

Appointed on 22 September 1963 to inquire into and report:

(1) Whether any member of the Board of Directors or any officer of the Salt Corporation or of the Salt Department had directly or indirectly misdirected the activities of the Corporation from the aims and objects for which it was formed; and

(2) Whether any member of the Board of Directors or any officer of the Salt Corporation or of the Salt Department had by any act or omission caused any loss to the Salt Corporation or impeded the efficiency of the work of such Corporation, and, if so, the extent of the loss so caused.

4 Fisheries Commission of Inquiry

Appointed on 1 August 1970 to inquire and report:

(1) Whether during the period commencing on 1st April 1965, and ending on 31st May 1970, any member of the Board of Directors or any officer or employee of the Ceylon Fisheries Corporation has directly or indirectly by any act, omission, neglect of duty, impropriety, misconduct or otherwise misdirected the activities of the Corporation from the aims and objects for which it was formed or otherwise impeded the work of the Corporation;

(2) Whether during the aforesaid period any member of the Board of Directors or any officer or employee of the Ceylon Fisheries Corporation has directly or indirectly by any act, omission, neglect of duty, impropriety or misconduct caused any loss to the Ceylon Fisheries Corporation and, if so, the extent of the loss so caused;

(3) Whether during the aforesaid period there had been any favouritism, nepotism, corruption or other irregularity in the matter of appointments, promotions and transfer or the assigning of stations to officers and employees of the Ceylon Fisheries Corporation or in the matter of granting any increase of pay, travelling allowances and other perquisites of office to any member of the Board of Directors or any officer or employee thereof;

(4) Whether during the aforesaid period there had been any fraudulent or irregular practice on the part of any member of the Board of Directors or any officer or employee of the Ceylon Fisheries Corporation in carrying on the business of the Corporation, in particular in regard to the purchase, sale or distribution of fish;

(5) Whether during the aforesaid period any gratification by way of gift, fee, reward, loan or advantage had been offered, promised, given or paid, whether directly or indirectly to any person who was or who had been a member of the Board of

Directors of the Ceylon Fisheries Corporation or who was or had been an officer or employee of the Corporation with the object or for the purpose of influencing his judgement or conduct in respect of any matter or transaction with which he, in his capacity as such member, officer or employee was or had been concerned;

(6) Whether during the aforesaid period any member of the Board of Directors or any officer or employee of the Ceylon Fisheries Corporation has solicited, demanded, or received any gratification by way of gift, loan, fee or reward as a motive for doing or forebearing to do any act in his capacity as such member, officer or employee;

(7) Whether during the aforesaid period any member of the Board of Directors or any officer or employee of the Ceylon Fisheries Corporation has directly or indirectly received any commission, gift, favour, reward or any other benefit or advantage from any contract or other transaction;

(8) Whether during the aforesaid period any member of the Board of Directors, or any officer or employee of the Ceylon Fisheries Corporation has directly or indirectly enriched himself at the expense of the Corporation and, if so, to what extent;

(9) Whether during the aforesaid period any member of the Board of Directors, or any officer or employee of the Ceylon Fisheries Corporation has acquired property, movable or immovable, either in his own name or in the name of others, and if so, to what extent such person is able to account for his acquisitions from his legitimate sources of income;

(10) Whether during the aforesaid period any goods, stores, machinery or equipment which are inferior, superfluous or unnecessary have been purchased for the Ceylon Fisheries Corporation and, if so, whether any member of the Board of Directors or any officer or employee of the Corporation, has been instrumental in or has in any way been responsible for or concerned in such purchases;

(11) Whether during the aforesaid period there has been any unauthorised or illegitimate use or disposal or other misappropriation of any property or equipment belonging to the Ceylon Fisheries Corporation and, if so, what measures should be adopted to prevent such abuses in the future;

(12) Whether during the aforesaid period any member of the Board of Directors or any officer or employee of the Ceylon Fisheries Corporation, has for the purposes of furthering or promoting the interest of such member, officer or employee or that of any other period, failed to make adequate use of the facilities provided for the repair and maintenance of fishing boats;

(13) Whether during the aforesaid period maximum use was made of the trawlers and fishing boats of the Ceylon Fisheries Corporation for the purpose of taking fish;

(14) What measures should be adopted to prevent the recurrence of any irregularity or abuse which may have been revealed in the course of the investigations;

(15) What measures should be adopted to secure the efficient and smooth working of the Ceylon Fisheries Corporation so as to realise the objects for which it has been constituted; and to make recommendations in respect of the matters investigated.

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