

Public Enterprises in the National Economy of Sri Lanka: An Analysis of their Value-added Data for 1975*

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Introductory

The fact that since political independence there has been a clear trend towards greater public sector involvement within the economy of Sri Lanka is undisputed. There is however, a serious gap in the data base required for a quantitative analysis and evaluation of the role of the public sector in the national economy. The present study is an attempt at filling a very small area of this existing data gap.

The public sector in the economy covers a variety of organizations including central government ministries and departments, public corporations and statutory boards, local authorities, co-operative institutions and joint stock companies in which the majority share of the capital and powers of management control are in the hands of public authorities. This study does not deal with the entirety of this public sector. The co-operative sector, inclusive of the co-operative/collective farms, though clearly significant, is completely beyond its scope. Even in the case of the rest of the public sector, the study is restricted to public enterprises. A public enterprise can be and has actually been defined in different ways. For present purposes it is defined as a productive entity with three distinct but related characteristics:¹

- (a) It is owned and/or controlled by public authorities.²
- (b) It produces goods and/or services to be sold in the market; and
- (c) It is able to generate a sufficient revenue from its sales to cover at least 50 per cent of its operating costs.

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1. There is absolutely no claim of superiority for the definition adopted here. It has as in the case of any other definition, an element of arbitrariness in it. In this paper we have merely adopted the definition used in the research project referred to in the title footnote. This was part of a multi-country research project in which a common definition had to be agreed upon for comparative purposes.
2. For present purposes, an enterprise will be considered publicly owned if 51 percent or more of its capital is contributed by a public authority or a number of them. Similarly if the majority of an enterprise's board of directors is appointed by and responsible to a public authority or a number of them, it will be considered publicly controlled.

More than 97 per cent of the government departments and about 40 per cent of public corporations and statutory boards are excluded from the "enterprise category" on the basis of this definition. The list of public enterprises in operation in 1975, which fall within this definition and therefore form the subject matter of this paper is appended (Table 1).

The major objective of the present study is to assess the relative significance of public enterprises in the generation of the country's national value-added. In almost all primary, secondary and tertiary sectors of the economy public enterprises play a significant productive role. Nevertheless, no attempt has so far been made by official statistical agencies to provide a break-down of the value-added in different sectors of the economy into respective contributions from the public and the private sectors. The available national accounting statistics are insufficient therefore, to assess the significance of the public enterprise sector in the production pattern of the Sri Lanka economy. Under these circumstances, the present study has two subsidiary objectives in addition to the major one mentioned above: (a) to introduce a self-checking method of estimating an enterprise's value-added with the use of its accounting statements and apply that method to compute value-added by public enterprises in Sri Lanka in 1975 and (b) to examine, wherever possible, the reliability of available aggregative data against these "new" estimates of public enterprises' value-added.

Value-Added Estimates for Public Enterprises:

Methods, Sources and Reliability

Two methods can be used to estimate value-added by any enterprise. The first method is to estimate "the difference between the value of gross output (of the enterprise) . . . measured in producers' values . . . and the value of (its) . . . intermediate consumption measured in purchasers' values . . ." (UN, 1968, p. 94) and then to add to this difference the import duties paid on imported inputs used by the enterprise. The resulting measure is the enterprise's value-added at market prices.³

The second method is to add up factor incomes accruing from production, namely "the provision for consumption of fixed assets, compensation of employees, operating surplus, and excess of indirect

3. This is because it includes the indirect taxes paid by the enterprise. Gross output valued at producers' prices is equal to "... the sum of the values of direct inputs, intermediate inputs valued at purchasers' values and indirect taxes less subsidies in respect of the commodities" (UN, 1968, p. 236). When intermediate consumption measured in purchasers' values is deducted from gross output at producers' values, the resulting difference does not include the import duties paid on such intermediate inputs. Hence the subsequent addition of import duties to the difference between gross output and intermediate consumption as defined above in order to derive the enterprise's value-added at market prices.

taxes over subsidies" (UN, 1968, p. 85). Operating surplus, in this connection, is a composite payment including not only the net profit of the enterprise, but also the net rent and the net interest paid or received. It is defined as "the excess of the value-added by (an enterprise) over the sum of costs of employee compensation, consumption of fixed capital and indirect taxes reduced by subsidies, which (it) incurs" (UN, 1968, p. 124). When the operating surplus is so defined, the enterprise's value-added at market prices measured in either method should necessarily be identical.

The concept of an enterprise's value-added at market prices is unambiguous and straightforward. Yet, its computation for an individual enterprise is rendered almost impossible by the lack of sufficient information on the amount of indirect taxes paid by the enterprise. The majority of public enterprises publish data on their payments of indirect taxes on *final output*⁴ and their receipts of current grants from the government. Except in very rare instances, however, no information at all is available in published sources on indirect taxes these enterprises had to pay on their purchases of material inputs. The more significant ones among these indirect taxes on which data are not available are import duties and the payments on account of the purchase of Foreign Exchange Entitlement Certificates (FEECs).⁵ The available published data are therefore insufficient to estimate public enterprises' value-added at market prices.

The present study of public enterprises, therefore, is based on estimates of their value-added at factor cost only. The method of estimation is similar in all its major aspects to the one adopted by Leroy P. Jones in his study of Korean public enterprises (Jones, 1975, pp. 63-67). A brief description of the method is given below and is followed by an examination of the special problems encountered in the application of this method in the case of Sri Lankan public enterprises.

An enterprise's value-added can be estimated through a careful study of its accounting statements by adopting the product method and the income method simultaneously. Although very often statistical agencies adopt only one of these two methods, the use of both methods to

4. Of the indirect taxes on final output, the major item is the business turnover tax (BTI) introduced in 1963. Indirect taxes are defined as "... taxes assessed on producers in respect of the production, sale, purchase or use of goods and services which they charge to the expenses of production" (UN, 1968, p. 123).
5. The FEEC scheme (1968-1977) was a system of dual rates of exchange. Importers of goods subject to FEECs obtained their required foreign exchange by purchasing FEECs at a premium rate of exchange—the premium made variable from time to time in accordance with the government policy. The revenue from the sale of FEECs accrued to the government and could be considered somewhat equivalent to revenue from import taxation. The enterprises which imported inputs subject to FEECs charged the value of FEECs they had to purchase to their total production expenses. It is in this respect that the FEEC scheme is considered here as a system of indirect taxation.

make a simultaneous estimate of value-added provides a useful check on the accuracy of the results obtained. The check on the accuracy here is the principle that the statistical outcome of the two methods should be identical.

Tables 1A and 1B provide the essence of the method of value-added calculation adopted in this study. The basic principle involved in the use of the worksheet in these Tables to compute an enterprise's value-added is to use every non-repetitive entry in an accounting statement once, and only once, in either the product-flow or the income-flow computation so that the totals in either flow will be identical. Since financial flows towards the firm are given a positive sign and those away, a negative sign, income-flow value-added emerges with a negative and product-flow value-added with a positive sign. The difficulty involved in acquainting oneself with the present double flow method of value-added computation, however, is having to assign a negative sign to a profit and a positive sign to a loss.

This double-flow method of value-added computation could not, however, be adopted in the case of the departmental public enterprises⁶ and a few others to be mentioned later. Government departments do not, in general, prepare and publish complete sets of accounting statements as done by public corporations. The basic data to compute value-added by the departmental enterprises were, therefore, obtained partly from the annual two-volume publication titled *Estimates of the Revenue and Expenditure of the Government of the Republic of Sri Lanka* and partly from internal financial files maintained by the respective departments. Since these departments do not have the practice of setting aside funds for capital depreciation, the value-added figures reported for the departmental enterprises correspond approximately to the sum of employee compensation and operating surplus. Without an allowance for capital depreciation, their value-added can be significantly understated but there is no indisputable method of imputing a depreciation charge for them.

The conversion of an enterprise's financial accounts into the double-flow economic accounting format in Tables 1A and 1B is theoretically straightforward. The actual exercise using the accounting statements of public enterprises in Sri Lanka, however, presents a set of practical difficulties, the more important ones of which are worth discussing at some length.

Estimation of value-added by each public enterprise using the worksheet in Tables 1A and 1B was accomplished through a detailed analysis of its financial statements, supplemented wherever necessary,

6. Ceylon Government Railway, Department of Post and Telecommunication Services and Marketing Department.

by discussions with relevant officers of such enterprises. For purposes of estimating value-added on this basis, the minimum required statistical information is a set of detailed statements of manufacturing, trading, and profit and loss accounts with the necessary schedules and notes regarding various expense items. Public corporations in Sri Lanka are required by the Finance Act No. 38 of 1971 to publish these accounting statements⁷ but they can withhold financial information from the general public provided they have the authority of the Minister of Finance to do so.⁸

The two commercial banks in the public sector—the Bank of Ceylon and the People's Bank—and the Central Bank of Ceylon, however, are not required to publish detailed annual accounts. Owing to the very nature of their business, depending as it does on public confidence, they have the official sanction to maintain a great deal of secrecy about the state of their finances. Only a very brief summary of their annual accounts is published and they refuse to divulge any unpublished accounting details to outsiders. This study therefore contains no fresh value-added estimates for these three banking institutions. Instead, it uses estimates of their value-added as prepared by the Central Bank of Ceylon.

For almost all other public corporations and joint stock companies in our list of public enterprises, sufficiently detailed accounting information is available in published form. The manner in which these accounts are presented and various expense items in these accounts are described is obviously different from one public enterprise to another. But these financial accounts can, in general, be recast into the economic accounting format of Tables 1A and 1B, without much difficulty. In some instances, however, the description of various expenditure items in annual accounting statements of these enterprises is not sufficiently clear as to enable the researcher to judge whether the items of expenditure concerned are factor payments or intermediate payments. Such identification difficulties could generally be resolved through a perusal of unpublished accounting details and interviews.

The State Plantation Corporation presents difficulties of a larger magnitude in any attempt to compute its value-added through analysis of its annual profit and loss account. In its published accounts, the Corporation has the practice of presenting only the total expenditure it incurs in the running of its estates, without any purpose-wise breakdown. The employee compensation element in the Corporation's expenditure cannot therefore be determined with any precision in the absence of an intensive study of the expenditure pattern of its large number of estates. Since this has not been feasible, the Corporation's expenditure

7. Sections (9)–(14), especially section (14) of the Act.

8. Section (5) of the Act.

TABLE 1 A

**Double-Flow Accounting Format Used in value-added Calculations:
Application to Ceylon Electricity Board for 1975 (Rs Million)**

<i>Income Flow</i>		- 145.7
1.	Compensation of Employees	- 42.1
2.	Net Rent	—
3.	Net Interest	- 15.2
4.	Transfers and Bad Debts	- 1.7
5.	Other Government Charges (Non-indirect taxes)	—
6.	Depreciation and Amortization	- 34.8
7.	Dividends Received	—
8.	Capital Gains/Losses	—
9.	Net Profit before Tax	- 51.9
<i>Produce Flow</i>		+ 145.7
1.	Value of Productive Activity at Factor Cost (a+b+c+d below)	+ 167.5
(a)	Gross Sales at Factor Cost (i+ii+iii below)	+ 154.1
(i)	Gross Sales at Market Prices	+ 155.3
(ii)	Indirect Tax on Final Output	- 1.2
(iii)	Government grant on Current Account	—
(b)	Imputed Sales	—
(c)	Other Sales	+ 13.4
(d)	Change in Inventories (Final Product)	—
2.	Intermediate Inputs	- 21.8

Source: Ceylon Electricity Board Annual Accounts for 1975.

TABLE 1 B

**Double Flow Accounting Format Used in Value-Added Calculations:
Application to National Milk Board for 1975 (Rs. Million)**

<i>Income Flow</i>		- 12.10
1.	Compensation of Employees	- 14.38
2.	Net Rent	+ 0.01
3.	Net Interest	- 2.34
4.	Transfers and Bad Debts	- 10.34
5.	Other Government Charges (Non-indirect tax)	—
6.	Depreciation and Amortization	- 3.85
7.	Dividends Received	—
8.	Capital Gains/Losses	—
9.	Net Profit Before Tax	- 1.88
<i>Product Flow</i>		+ 12.10
1.	Value of Productive Activity at Factor Cost (a+b+c+d below)	+ 315.30
(a)	Gross Sales at Factor Cost (i+ii+iii below)	+ 267.00
(i)	Gross Sales at Market Prices	+ 181.08
(ii)	Indirect Tax on Final Output	- 0.08
(iii)	Government Grant on Current Account	+ 86.00
(b)	Imputed Sales	—
(c)	Other Sales	+ 36.48
(d)	Change in Inventories (Final Product)	+ 11.82
2.	Intermediate Inputs	- 303.20

Source: National Milk Board Annual Accounts for 1975.

in connection with its employee compensation could only be approximately estimated. On advice of the relevant officials therefore, about 20 per cent of the Corporation's "total estate expenditure" and its

“administrative expenses” was taken to represent its total wage-bill. The balance 80 per cent of these expenditure items has been allocated to intermediate payments.

Annual accounts of the National Milk Board present a different set of problems. Its current operations in 1975 were highly subsidised by the government. The Board, however, reported heavy commercial losses in its profit and loss statement of 1975 because it did not treat the current grant it received from the government as a revenue item. But if, following the accepted national accounting convention (UN, 1968, p. 124), the current subsidy of Rs. 86 million it received in that year were treated as an addition to the income of the enterprise from current production this loss turns into a profit of Rs. 1.88 million (see Table 1B). Thus sometimes certain entries in published accounting statements required major adjustments before they could be used in the present exercise of value-added computation.

Almost every accounting statement examined and analysed, presented minor identification problems, in addition to the major ones referred to above. The most common ambiguity one comes across is the unclassified expense item variously referred to as “other”, “sundry” and “miscellaneous”. Such cover-all entries are normally small in magnitude. In the value-added calculations, such entries were taken to be equally distributed between factor payments and intermediate inputs.⁹

The use of published accounts of public enterprises to estimate their value-added involves the implicit assumption that these published accounts are reasonably accurate. These accounts have gone through the Auditor General's Department and therefore could be accepted as true, except where queries have been raised by the Auditor-General as to their accuracy. Accounts of public enterprises, audited by the Auditor-General, are then scrutinized by the Public Accounts Committee of the National State Assembly. The queries that are raised at this stage are, in general, satisfactorily answered by respective officers of the Corporations concerned. In the context of these checks and balances, published accounting statements used in the present exercise as primary sources are unlikely to contain serious inaccuracies.¹⁰

There is however, a more basic point regarding the quality of published accounting statements which needs to be mentioned. Although financial statements prepared by qualified accountants and audited by the Auditor-General are normally taken for granted as representing the

9. This procedure should cancel out errors made in individual cases to produce reasonably unbiased totals.

10. In private enterprises, however, accountants may tend to overstate some accounting items, while understating some others in order to evade taxes and for other purposes of private gain. Such tendencies are likely to be at a minimum in public enterprises where the accountants are public servants doing a job for a fixed salary.

financial reality of an enterprise, there are basic limitations in such statements arising from the very nature of the accounting function. These limitations arise from (a) the weaknesses of money as a unit of measure in the contexts of inflation or deflation (b) the existence of certain significant business events which, by their very nature, are not measurable and quantifiable, and (c) the variations in accounting practices and conventions, particularly in the treatment of such phenomena as capital depreciation (Government of Sri Lanka, 1974).

Sectoral and Size Distribution of Public Enterprises

The number of public enterprises and their value-added are classified into ISIC Sectors in Table 2 below. The total value added in the public enterprise sector works out to Rs. 2,551.4 million for 1975. In terms of ISIC groupings the largest contribution to this value-added total came from the transport (33.1 per cent) and the manufacturing (31.4 per cent) sectors. The above proportions may be compared with the corresponding proportions in the distribution of the number of public enterprises in these sectors—13.2 and 38.2 per cent respectively of the total number of public enterprises. The trade sector which contained 22.4 per cent of the country's public enterprises, however, contributed only 10.9 per cent of the value-added total.

In terms of value-added, public enterprises were obviously of different size. The 29 public enterprises in manufacturing added a value of Rs. 802.4 million to domestic product, yielding an average (mean) of Rs. 27.6 million per enterprise, with the median-sized enterprise contributing Rs. 15.6 million. The total contribution of 9 enterprises

TABLE 2

Public Enterprises in Sri Lanka in 1975: Their Number and Value-Added Classified into ISIC Sectors (a)

ISIC SECTOR with Code No.	No of Enterprises		Value-Added at Factor Cost	
	No.	Per cent	Rs. Million	Per cent
1. Agriculture, Hunting Forestry & Fishing	04	5.3	44.4	1.7
2. Mining & Quarrying	01	1.3	8.2	0.3
3. Manufacturing	29	38.2	802.4	31.4
4. Electricity, Gas & Water	01	1.3	145.7	5.7
5. Construction	03	3.9	84.4	3.3
6. Wholesale & Retail Trade, Restaurants & Hotels	17	22.4	277.9	10.9
7. Transport, Storage & Communications	10	13.2	843.4	33.1
8. Financial, Insurance, Real Estate & Business Services	09	11.8	322.8	12.7
9. Community, Social and Personal Services	02	2.6	22.2	0.9
TOTAL	76	100.0	2551.4	100.0

NOTE: (a) 1974 data for 5 out of 76 enterprises.
Source: Table A1 (Appendix)

in the finance group at Rs. 322.8 million, and of 10 enterprises in the transport group at Rs. 843.4 million yield averages of Rs. 35.9 million and Rs. 84.3 million respectively. Value-added by the single enterprise in the electricity group in 1975 amounted to Rs. 145.7 million.

The particular size distribution that is observed in the public enterprise sector is the result of the historical pattern in which public enterprise activity has penetrated into different areas of economic activity. The relatively old public enterprises in the transport group, for example, catering as they do for the entire transport requirements of the whole economy, employ very large numbers of workers and their capital assets are of very high value. Despite weak commercial performance of some of these enterprises, their value-added is generally very high because of their large wage bills and depreciation allowances. The same comment applies to the Electricity Board and the Petroleum Corporation which nevertheless, are highly profitable ventures. While there are also large enterprises in other economic activities, most of the relatively new public enterprises are small contributors to national value-added.

The high degree of concentration of value-added in the public enterprise sector can also be seen in Table 3. The proportion of value-added by the fifteen largest corporations amounted to 65 per cent of the total, with the seven largest enterprises contributing more than Rs. 100 million each. The smallest sixteen, on the other hand, made a contribution of 0.8 per cent to the total in 1975 and their average value-added amounted to Rs. 1.4 million per enterprise.

TABLE 3

Value-Added in Public Enterprise Sector: The Degree of Concentration 1975

<i>No. of Public Enterprises according to size (in terms of value-added) in descending order</i>		<i>Per cent of value-added</i>
First Fifteen	19.8%	65.2
Second Fifteen	19.8%	20.1
Third Fifteen	19.8%	9.1
Fourth Fifteen	19.8%	4.8
Fifth Sixteen	20.8%	0.8
		<u>100.0</u>

Source: Table A 1 (Appendix)

The rapid proliferation of public enterprises in Sri Lanka in recent years is somewhat misleading in the sense that their contribution to national value-added did not increase as rapidly as their number. Of the number of public enterprises that existed in 1975, 46 per cent were established after 1966, but value-added by these "new" enterprises at current factor cost in 1975 was 23 per cent of the total for that year.

Relative Contribution to Domestic Product

The place of public enterprises in the economy's productive activity can be examined by juxtaposing the above estimates of their value-added with National Product estimates as published, for example, in the Central Bank Annual Report for 1975. The question of the reliability of the available national accounting data arises naturally in this connection. The limitations of national accounting statistics in less developed countries are well known. It is particularly noteworthy that according to the findings of the present study there is a significant under-statement in the Central Bank estimate of value-added for one economic sector. Whereas national value-added in the entire sector of electricity, gas, etc. for 1975 is reported by the Central Bank to have been Rs. 43.7 million, the value-added by the Electricity Board alone works out to Rs. 145.73 million.¹¹

The existence of such a significant understatement in the available aggregative data should logically lead to any one of two alternative analytical approaches. The first is to reject the entire set of available national accounting statistics and avoid any comparison of public enterprise value-added estimates prepared in the present study with national aggregates. This study avoids taking such an extreme approach. The second alternative, which is preferred here, is to revise and use the available national accounting statistics for comparative purposes. National accounting statistics are necessarily very rough approximations and they must always be treated as such. The revision that has been made was only in connection with the sector of electricity, gas, etc. The Central Bank estimate of value-added in this sector minus electricity was first obtained; this estimated figure, though one cannot be entirely confident as to its reliability,¹² was then added to our value-added figure for the Electricity Board to arrive at the National value-added in that entire sector. The GDP total has also been revised accordingly. Although the revised statistics are far from being ideal, they provide a suitable working basis for the present analysis.

The contribution of public enterprises to GDP and to each of its component national economic sectors, worked out on the basis of the revised national aggregates, is shown in relative terms in Table 4. Public enterprises accounted for 11.6 per cent of GDP in 1975.

Of different areas of economic activity, public enterprise production is dominant in the financial sector and the sector of electricity, gas and water services. The very high (93 per cent) public enterprise proportion in

11. Some other errors have also been detected in national aggregative statistics. These will be discussed in suitable contexts.

12. The Central Bank estimate of the value-added in gas, water and sanitary services—i.e., without electricity, for 1975, is Rs. 10.8 million. Even if we set aside the value-added generated in gas supply, which anyway is restricted to a few major towns, it is doubtful whether the value-added generated in water and sanitary services in only urban areas even would amount to such a small magnitude when the Electricity Board alone produced a value-added of Rs. 146 million. This is merely an expression of doubt and no means is available, even for a rough verification.

the latter sector reflects partly the weaknesses of underlying national data as discussed above. Even with better national data, the public enterprise proportion in this sector can be expected to be very high because of the monopoly position of the Electricity Board which supplies electricity to almost every part of the country.

The financial sector is also virtually monopolised by public enterprises. The two largest commercial banks in the country—the People's Bank and the Bank of Ceylon—are in the public sector. The Insurance Corporation monopolises all types of insurance business in the country. Along with the Central Bank and the National Savings Bank it is not surprising that public enterprises have come to generate 96 per cent of value-added in the financial sector.

TABLE 4

Contribution of Public Enterprises to Gross Domestic Product & to Value-Added in Different Sectors of the Economy, 1975

<i>Economic Sector</i>	<i>Per cent contribution to GDP</i>
1. Agriculture, Forestry, Hunting & Fishing	0.5
2. Mining & Quarrying	2.6
3. Manufacturing	24.9
4. Electricity, Gas and Water	93.1
5. Construction	8.3
6. Wholesale & Retail Trade, etc.	9.0
7. Transport, Storage & Communication	44.7
8. Finance and Insurance	96.1
9. Community, Social & Personal Services	1.0
GDP^(a)	11.6

Note: (a) All sectors appearing in national accounting (sources of origin) tables are not shown above.

Sources: Appendix Table A1 and Central Bank Report for 1975. See p. 106 of the text also.

The other major sectors with a relatively high contribution from public enterprises to national value-added are transport and manufacturing. If one has the data for 1976, one might observe a high public enterprise contribution for that year within the agricultural sector too as the bulk of the plantations have been taken over by the state in 1975. The public enterprise proportion for this sector for 1975 is understated for the lack of data on the now defunct Up-country Co-operative Estates Development Board (USAWASAMA).

Public Manufacturing Sector

It has been noted that in 1975, 31 per cent of total value-added in the public enterprise sector was produced by manufacturing enterprises (Table 2). Of the total contribution of manufacturing activity to GDP, 25 per cent originated in public enterprises (Table 4). The public manufacturing sector is clearly of sufficiently high quantitative (and also qualitative)

significance to justify a more detailed analysis of its structure. Value-added data for public manufacturing enterprises at current factor cost are thus classified into two digit ISIC groups in Table 5.

The three largest manufacturing sub-groups in 1975, in descending order of significance, were (a) food, beverages and tobacco (ISIC 31) (b) chemical products (ISIC.35). and (c) non-metallic mineral products (ISIC 36). All the other industrial groups put together contributed only 30 per cent to total value-added in the public manufacturing sector.

TABLE 5
Composition of Value-Added in the Public Manufacturing Sector, 1975

ISIC GROUP	No. of Enterprises		Value Added at Current Factor Cost	
	No.	Per cent	Rs. Million	Per cent
31. Food, Beverages & Tobacco	9	31.0	278.1	34.7
32. Textiles, Wearing Apparel & Leather	3	10.4	91.4	11.4
33. Wood & Wood Products	2	6.9	54.8	6.8
34. Paper & Paper Products Printing & Publishing	3	10.4	63.6	7.9
35. Chemicals & Chemical, Petroleum, Coal, Rubber & Plastic Products	5	17.2	174.1	21.7
36. Non-Metallic Mineral Products. (Excluding Petroleum & Coal)	4	13.8	106.7	13.3
37. Basic Metal Industries	1	3.4	17.4	2.2
38. Fabricated Metal Products, Machinery & Equipment	2	6.9	16.3	2.0
TOTAL	29	100.0	802.4	100.0

Source: Table A1 (Appendix)

It is possible and, in the present discussion, useful to classify public manufacturing enterprises into industries producing consumer goods and producer goods. The conceptual and practical problems to be encountered in such a classification are many. A given enterprise is likely to be producing a multiplicity of commodities which may fall into either one of these two commodity categories. Even the product of a given type turned out by a given enterprise is likely to serve as a consumer good under one set of circumstances and as a producer good under a different set of circumstances. Whether a commodity is a consumer good, or a producer good depends essentially on its end-use. Physical characteristics of a commodity will not always provide a reliable guide to the type of end-use it will be put into.

It is not practically possible to examine the end-use of different broad commodity categories, let alone each individual commodity, turned out by different public manufacturing enterprises. However, a rough classification of these enterprises is attempted using the 1975 data. The results of this

exercise are presented in Table 6 below. The two-digit ISIC categories 31 and 32 have been classified into consumer goods and 33-38 into the producer goods categories. In some instances, however, we have deviated from this general pattern of classification and the reader is referred to the Appendix Table A2 for details.

TABLE 6

Public Manufacturing Enterprises Classified by Type of Product, 1975

Industries Producing	No	%	Value-Added	
			Rs. Million	%
1. Consumer Goods	16	51.6	491.2	61.2
2. Producer Goods	15	48.4	311.2	38.8
	(a)			
TOTAL	31	100.0	802.4	100.0

Note: (a) There were only 29 manufacturing enterprises in the public sector in 1975. The total here is inflated by 2 because 2 enterprises have been included in both consumer goods and producer goods categories.

Source: Tables A1 and A2

Concentration of manufacturing activity in the production of consumer goods has been the observed pattern everywhere in the world in early stage of industrialization (Sutcliffe, 1971, pp. 33-58.) Sri Lanka in general, and its public manufacturing sector in particular does not seem to be an exception to the rule. The bulk of the country's manufacturing enterprises in public as well as in private sectors is less than two decades old and this is a relatively short period indeed in a society's economic-life. Thus it is not surprising that in 1975, 52 per cent of public manufacturing enterprises were in the consumer goods producing sector with their proportion in the total value-added in public manufacturing activity at 61 per cent.

Even within the public manufacturing sector, there is highly unequal distribution of value-added as between individual enterprises. Of 29 manufacturing enterprises whose value-added data are analysed in the present discussion, the five largest enterprises (17 percent of the number) produced 55.1 per cent of the sector's total value-added. On the other hand, the proportion of value-added contributed by the five smallest enterprises would work out to be a mere 1 per cent.

A discussion of the composition of the public manufacturing sector in relation to that of the total domestic manufacturing sector is necessary and useful at this stage. Here again, the researcher comes up against the shortcomings in national data. The Central Bank estimates the value-added in the country's manufacturing sector by taking the sum of added-values in three component sectors: (a) factory industries (b) processing of tea, rubber and coconut products and (c) cottage industries. The breakdown of manufacturing value-added totals for 1975 into these 3 component groups is given in Table 7.

TABLE 7

**Composition of Value-Added in the Manufacturing Sector of the
National Economy, 1975**

	<i>Value-Added</i> Rs. Million
Factory Industries	2261.2
Tea, Rubber & Coconut Processing	655.8
Cottage Industries	299.7
Total (Item 3 of GNP Table)	<u>3216.7</u>

Source: Unpublished Central Bank Documents.

The breakdown of the value-added total for factory industries above into ISIC two digit categories is made available in the Central Bank Report. These published details of factory industries' value-added could be used to compare the composition of public manufacturing sector with that of the entire manufacturing sector of the economy. The absence of a suitable breakdown of cottage industry value-added, however, is likely to render the analysis somewhat incomplete but not entirely irrelevant.

The Central Bank's national value-added figure for 1975 for factory industry in one ISIC manufacturing sub-group happens, however, to be lower than the value-added by public enterprises in that particular sector. Whereas domestic value-added total for factory industries in the wood and wood products sector is estimated at Rs. 9.2 million, public enterprises in the sector alone are found to have generated a value-added amounting to Rs. 54.79 million. The state of available national statistics thus makes any comparative study of public manufacturing enterprises with the economy's total manufacturing sector rather difficult. No revision in the available national statistics has been attempted in this connection because the information needed to undertake such a revision could not be obtained. The available national statistics are used therefore, for whatever they are worth, to make some assessment of the place of public manufacturing activity in the country's manufacturing sector. Table 8 sets out the ratios of value-added in public manufacturing enterprises to that of total manufacturing sector in terms of different ISIC two digit categories. The relevant proportion for ISIC 33 is taken to be equal to 100 per cent because of the analytical difficulties arising from data weaknesses mentioned above. It is common knowledge, however, that there are private sector factory industries in this sector.

Given the weak national data, the ratios in Table 8 must be interpreted with utmost care. As national totals appear to be generally understated, there is naturally an overstatement in these ratios. On impressionistic evidence, one would place greater faith in some ratios than others.

The available data, on the whole, do not warrant firm conclusions on the relative significance of public and private sectors in different areas of manufacturing activity. In 1975, the public sector accounted for about 35

TABLE 8
Ratios of Value-Added in Public Manufacturing Enterprises to Relevant National Totals in Terms of ISIC Groupings, 1975

Industry Category with ISIC Code	Ratio of Value-Added in Public Sector Manufacturing to National Value-Added in Manufacturing (a) %
31. Food, Beverages & Tobacco	25.0
32. Textile & Leather Products	30.1
33. Wood & Wood Products	100.0
34. Paper and Paper Products	76.7
35. Chemicals & Chemical, Petroleum, Coal, Rubber & Plastic Products	49.5
36. Non-Metallic Mineral Products	68.1
37. Basic Metal Products	31.5
38. Fabricated Metal Products	12.2
Factory Industries Total	35.5
Manufacturing Sector Total	24.9

Note: (a) Factory industries only.

Source: Table A1 and Central Bank Report.

per cent of total factory industry value-added and about 25 per cent of total manufacturing activity.¹³ Within the manufacturing sector, three ISIC two-digit sectors were clearly dominated by public enterprise activity, accounting for more than 50 per cent of sectoral value-added. Except in ISIC 38 and also perhaps 31, in all other two-digit manufacturing sectors, public enterprises contributed more than 25 per cent of sectoral value-added.

Public Enterprises vs. Public Sector

Sri Lanka's public sector comprises of following groups of institutions all of which contribute to national product at varying degrees:

- (a) Central Government
- (b) Local Government
- (c) Public Corporations and Statutory Boards
- (d) Co-operative Institutions and
- (e) Joint ventures (i. e. public plus private) with majority share capital and management control in the hands of public authorities.

Public enterprises as defined for the purposes of the present study form only a section of this total public sector. The entire category (e) above falls into the public enterprise sector according to the definitions adopted. Though the majority of institutions in category (c) also qualifies for the enterprise status, there is yet a large number of corporations and

13. In our classification, processing of tea, rubber and coconut falls into ISIC 1 rather than into ISIC 3, except for the rubber processing activity of the State Rubber Manufacturing Corporation which is nevertheless of marginal significance in terms of value-added generated. In this respect relating the value-added^o of manufacturing public enterprises to domestic manufacturing output (Table 8, last row) is of somewhat questionable relevance. If the Central Bank definition of manufacturing were adopted value added generated by the State Plantation Corporation, the Land Reform Commission, Coconut Processing Board and similar enterprises in processing of tea, rubber and coconut also goes into ISIC 3 and accordingly the ratio given in the last row of Table 8 should go up.

statutory boards which fall outside the definition of "enterprise" adopted here. Co-operative institutions are normally of the enterprise type but they have been deliberately excluded from the scope of the present study. No institution from category (b) came within our definition of public enterprises. Three departments only of a total of nearly 200 departmental entities in category (a) above came within the purview of the present analysis.

Public enterprises within the definition of the present study could thus appear to form a small section of the country's public sector. The relative size of these enterprises in the entire public sector in the national economy cannot be quantified with much confidence. National accounting information supported by our estimates of value-added by public enterprises can be used to make an approximate quantification of the relative size of the entire public sector in the national economy. The available national accounting data can be used to estimate value-added in non-enterprise government departments and local government institutions approximately. The total contribution of public administration and defence would clearly be part of value-added generated in central and local government. Part of the value-added in "services not elsewhere specified" is also generated within central government. It has been found through interviews that value-added by health, education and meteorology departments is included within services n.e.s. in Central Bank estimates of GDP. Their share in total services n.e.s. in 1975 was learnt to be around 40 per cent. On this basis the contribution of public enterprises and non-enterprise departments to GDP would work out to Rs. 4259 million in 1975 (at current factor cost).¹⁴ This represents 19.2 percent of GDP of that year.

These totals still underestimate the absolute and perhaps also the relative size of the country's public sector. The under-estimation is due to the total exclusion of value-added by two significant sectors: (a) Co-operatives and (b) non-enterprise corporations. National accounting statisticians claim that the value-added in these institutions are included in value-added totals for economic sectors they belong to. It has not been possible, however, to obtain the relevant sectoral breakdowns. Without this information, the relative size of these two areas of activity within the national economy cannot be quantified and therefore, also the relative size of the total public sector.

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14. The relevant breakdown of this total is as follows.

	(Rs. Million)
Public enterprises	2551.4
Public Administration and Defence	797.8
Government Services in Services n.e.s.	910.3
	<u>4259.5</u>

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Appendix

TABLE A 1

Value-Added by Public Enterprises in Sri Lanka, 1975^(a)

Name of Enterprise with ISIC Sector	Value Added at Current Factor Cost 1975 Rs. Thousands
1. Agriculture, Hunting, Forestry & Fishing	
Ceylon Fisheries Corporation	5,973
Land Reform Commission	11,651 ^(b)
National Livestock Development Board	1,234
Sri Lanka State Plantation Corporation	25,520
2. Mining & Quarrying	
State Graphite Corporation of Ceylon	8,165
3. Manufacturing	
31. Food Beverages and Tobacco	
British Ceylon Corporation	15,620
Ceylon Oils & Fats Corporation	45
Coconut Processing Board	98
National Milk Board	12,107
National Salt Corporation	12,152
Sri Lanka Sugar Corporation	69,140
Sri Lanka State Flour Milling Corporation	20,171
Sri Lanka Tobacco Industries Corporation	19,353
State Distilleries Corporation	129,426
32. Textile, Wearing Apparel & Leather	
Ceylon Leather Products Corporation	6,262
National Textile Corporation	81,127
Sri Lanka Jute Corporation	4,075
33. Wood and Wood Products	
Ceylon Plywoods Corporation	40,757
State Timber Corporation	14,034
34. Paper and Paper Products, Printing & Publishing	
Associated Newspapers of Ceylon Ltd.	16,868
Eastern Paper Mills Corporation	40,215
State Printing Corporation	6,451
35. Chemicals & Chemical, Petroleum, Coal, Rubber & Plastic Products	
Ceylon Petroleum Corporation	112,232
Ceylon Tyre Corporation	49,903
Paranthan Chemicals Corporation	8,385
Sri Lanka Ayurvedic Drugs Corporation	2,539
State Rubber Manufacturing Corporation	1,040
36. Non-metallic Mineral Products (Excluding Petroleum & Coal)	
Ceylon Cement Corporation	46,210
Ceylon Ceramics Corporation	34,848
Ceylon Mineral Sands Corporation	16,464
Lanka Porcelain Limited	9,153

37. Basic Metal Industries	
Ceylon Steel Corporation	17,431
38. Fabricated Metal Products, Machinery & Equipment	
Ceylon State Hardware Corporation	10,301
United Motors Limited	5,976
4. Electricity, Gas & Water	
Ceylon Electricity Board	145,729
5. Construction	
Ceylon Fishery Harbours Corporation	1,069
State Development & Construction Corporation	19,214
State Engineering Corporation of Sri Lanka	64,074
6. Wholesale & Retail Trade, Restaurants & Hotels	
Ceylon Fertilizer Corporation	36,133
Building Materials Corporation	19,838
Ceylon Hotels Corporation	4,853
Ceylon Shipping Lines Ltd.	1,009
Coconut Marketing Board	515
Co-operative Wholesale Establishment	31,420
Hotel Services (Ceylon) Ltd.	1,289 ^(b)
Marketing Department (Tripoli)	925 ^(b)
Paddy Marketing Board	19,958
Sri Lanka State Trading (Consolidated Exports) Corporation	24,597
Sri Lanka State Trading (General) Corporation	32,153
Sri Lanka State Trading (Textiles) Corporation	36,101
Sri Lanka State Trading (Tractor) Corporation	11,939
State Pharmaceuticals Corporation	11,228
State Gem Corporation	9,244
State Film Corporation	7,602
Weaving Supplies Corporation	29,121
7. Transport, Storage & Communications	
Air Ceylon Limited	41,983
Central Freight Bureau of Sri Lanka	425
Ceylon Government Railway	94,733
Ceylon Shipping Corporation	74,918
Ceylon Transport Board	329,079 ^(b)
Colombo Dockyard Limited	1,230 ^(b)
Lanka Tankers Limited	13,836
Port (Cargo) Corporation	124,321
Port Tally & Protective Services Corporation	10,762
Post & Telecommunication Services	152,079
8. Financial, Insurance, Real Estate & Business Services	
Agricultural & Industrial Credit Corporation of Ceylon	818
Agricultural Insurance Board	549
Ceylon State Mortgage Bank	6,278
Development Finance Corporation of Ceylon	4,858
Insurance Corporation of Ceylon	104,976
National Savings Bank	22,640
Bank of Ceylon	182,671 ^(c)
Central Bank of Ceylon	
People's Bank	
9. Community, Social & Personal Services	
Sri Lanka Broadcasting Corporation	11,334
National Lotteries Board	10,855

Notes: (a) Excluding a very small number of public enterprises for which data are not available, e.g. Up-country Co-operative Estates Development Board.

(b) 1974

(c) See the note on sources.

Sources: Financial Statements of non-departmental enterprises and Government Annual Estimates for departmental ones, except in (c) where the value-added figure reported is obtained from the Central Bank.

TABLE A 2

Public Enterprises in the Manufacturing Sector Reclassified into Consumer Goods, and Producer Goods Industries**I. Consumer Goods Industries**

Associated Newspapers of Ceylon Ltd.
British Ceylon Corporation
Ceylon Ceramics Corporation
Ceylon Leather Products Corporation
Ceylon Petroleum Corporation (1/3 of value-added)
Ceylon Tyre Corporation (1/2 of value-added)
Coconut Processing Board
Lanka Porcelain Ltd.
National Milk Board
National Salt Corporation
National Textile Corporation
Sri Lanka Ayurvedic Drugs Corporation
Sri Lanka State Flour Milling Corporation
Sri Lanka Sugar Corporation
Sri Lanka Tobacco Industries Corporation
State Distilleries Corporation

II. Producer Goods Industries

Ceylon Cement Corporation
Ceylon Mineral Sands Corporation
Ceylon Petroleum Corporation (2/3 of value-added)
Ceylon Plywoods Corporation
Ceylon Oils & Fats Corporation
Ceylon State Hardware Corporation
Ceylon Steel Corporation
Ceylon Tyre Corporation (1/2 of value-added)
Eastern Paper Mills Corporation
Paranthan Chemicals Corporation
Sri Lanka Jute Corporation
State Printing Corporation
State Rubber Manufacturing Corporation
State Timber Corporation
United Motors Limited