CORRUPT PRIVATIZATION DOES NOT DETER IFI LENDING TO SRI LANKA

> *It is sufficient to say that the conscience of this court is shocked by the manner in which senior public officers had handled the sale of a pivotal asset of the state which belongs to the people of this country.*
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> ***Sri Lanka Supreme Court***
> ***Fundamental Rights Application No. 158/2007***
> ***June 4, 2009***

On July 24th, the Board of the International Monetary Fund (IMF) approved a 20-month standby arrangement worth US$ 2.6 billion for the government of Sri Lanka. The first tranche of the loan – US$ 322 million – was made available on the same day the Board approved the arrangement. According to the IMF's mission chief for Sri Lanka, the lending will help the government to reverse the decline in tax revenue over the past few years. The IMF is on the record, however, identifying the causes behind a decline in Sri Lanka's tax revenues: Budget deficits and the lack of reserves are not the result of a scarcity of available revenue, but rather a reluctance on the part of successive governments to implement the measures necessary to collect it. Among other things, two Supreme Court decisions handed down since June, 2008 show specifically that corruption and fraud favoring private interests in the sale of state-owned enterprises, a policy promoted by the Fund itself, together with the World Bank and the Asian Development Bank (ADB), are partially to blame. Ironically, six months after the Supreme Court reversed a fraudulent privatization that benefited John Keells Holdings, Ltd., the company's CEO, Susantha Ratnayake, enjoyed a dinner meeting with the IMF team visiting Sri Lanka to negotiate the standby arrangement just approved.

In 2004, the IMF published Sri Lanka: Selected Issues and Statistical Appendix identifying deficient tax and revenue policies that allowed foreign exchange 'leakage.' The lenient policies considered – including a tax amnesty in 2003 – are symptomatic of corrupt relationships between corporate and political elites, as policy makers at the IMF are well aware. At the same time the World Bank has been aware of pervasive fraud in Sri Lankan privatization since the early '00s, at the very least. More recently, in 2007, Nihal Sri Ameresekere, the former Chairman of the Public Enterprise Reform Commission (PERC) and one of the complainants in both Supreme Court cases, wrote to Praful Patel, the vice president for the Southeast Asia region at the Bank. In part, Ameresekere's letter read:

> In view of the gravity and seriousness of mismanagement of public finance and malpractices, the Auditor General deemed it necessary to forward an extensive Special Report to Parliament in July, 2006, which was a severe castigation of the systems and an indictment of those responsible. The parliamentary Committee on Public Enterprises in December, 2006 presented a Special Report to Parliament

> highlighting widespread fraud and corruption, including revelations of collusion by large corporations and questionable professional conduct by well-known accountants and auditors.

Within three weeks, Mr. Ameresekere received a platitudinous note from Elaine Tinsley, then the Bank's Country Officer for Sri Lanka:

> We have noted the contents of the series of letters you have sent to the World Bank in past years concerning governance. As we have mentioned, the World Bank recognizes the importance of governance in the development of countries like Sri Lanka and in their efforts towards poverty reduction. Our program of assistance to Sri Lanka includes a strong commitment to helping improve the governance of public sector institutions.

Mr. Ameresekere and others had, in fact, furnished World Bank and IMF management with numerous documented disclosures of corruption at the highest levels of government over the years, including the fraudulent tax amnesty, malfeasance on the part of the government's auditors, and the corrupt privatization process. The responses were always the same: a vague reference to 'good governance' and a reassurance that the corruption issue was taken 'very seriously.' Nonetheless, neither institution allowed these disclosures to constrain their lending programs to Sri Lanka. The judiciary took steps at the national level to reverse the tax amnesty and the most larcenous privatizations, but the work of the Supreme Court has gone unsupported by management at the IFIs.

In light of the most recent Supreme Court decisions, the US$ 2.6 billion vote of confidence of a week ago in Sri Lanka's governance practices by the IMF could not be more poorly timed. The Court reversed two major privatization transactions, effected six and seven years ago as part of the Public Enterprise Reform Program under the direction of Milinda Moragorda, former Minister of Economic Reform, Science and Technology. In both cases, the Court determined that the public interest had been subverted and, although the Court's jurisdiction did not extend to charging the Minister and his deputy, P.B. Jayasundera, the findings of the justices demonstrated illegality.[1] In response to the Court's decisions, the public began to demand Moragorda's resignation from office, and requests for investigation were formally submitted by the complainants in the lawsuits to the Inspector General of Police and the Criminal Investigation Department (CID). CID investigations do not generally proceed, however, without the direction of the Attorney General.

In the wake of the second Supreme Court ruling reversing the privatization processes, the public anticipated actions leading to the prosecution of Moragoda and other high-level officials responsible for fraudulently divesting the state of its revenue producing assets. Instead, however, the government named a new Minister of Justice and Judicial Reforms with authority over the Attorney General: Milinda Moragoda.

[1] Jayasundera resigned his public office in September, 2008, after the first Supreme Court decision implicated him in financial misconduct.

Background

Sri Lanka is a south Asian island nation with a population of about 20 million. Located approximately 30 miles off the southern coast of India, the country has suffered from an intermittent civil war for the past 25 years that has displaced about 500,000 people, impoverished many more and hobbled efforts to promote sustainable development. From 2001 to 2004, the United National Party (UNP) governed the country, a leading political party that promotes a market-based, neo-liberal economic policy. When the UNP won control of the government, the pressure to privatize state-owned enterprises from the World Bank, the ADB and the International Monetary Fund (IMF) increased.

In August, 2002 the government, through the Ministry of the Treasury and the PERC under Moragoda, sold a majority stake in Lanka Marine Services (LMS). The following year, the same executive agencies sold a controlling interest in the Sri Lanka Insurance Company (SLIC). Over the course of 2008 and 2009, however, the Supreme Court of Sri Lanka reversed both share sales and denounced the corruption associated with them in the strongest terms. Describing the LMS transaction, the justices wrote that it "was done without lawful authority" for the benefit of a private holding company. With respect to the transfer of the SLIC to private control the Court determined: "The execution of the Share Sale and Purchase Agreement with parties not known and not approved by Cabinet was a wrongful executive act done without jurisdiction and as such was illegal and null and void *ab initio*."

The two privatizations concluded by the UNP government conformed to the conditions attached to fiscal support from the IMF, the World Bank and the ADB. In fact, the primary respondent in both cases was K.N. Choksy, the President's Counsel and former Minister of Finance.[2] In that capacity, Chosky had also served in 2003 as the Governor of the World Bank and the IMF for Sri Lanka. Another respondent in the privatization of the SLIC was Faiz Mohideen, former Deputy Secretary to the Treasury. Mohideen had been the Alternate Governor of the IMF and the World Bank for Sri Lanka in 2000, and was also the counterpart for Sri Lanka on the World Bank's Economic Reform and Technical Assistance Project (ERTA), which set out privatization goals in 2002.

Both transactions incorporated all the elements of corruption long identified and denounced by critics of the process around the world since the 1980s. The public assets were under-valued, the government lost a tax-paying revenue stream without just compensation, and private interests well-connected to high-level government officials effected a transfer of public wealth to private hands. As in many other cases, these transactions were justified by claims from the IFIs that they would promote efficiency and economic growth. The judgments handed down by the Court, however, show that the real motivation at work was an illegal intention to appropriate a substantial and

[2] Choksy was appointed Finance Minister in 2001 despite his central role in the 'Hilton Hotel Colombo' case, which also caused the Sri Lankan treasury enormous financial losses, and which was deemed fraudulent by a Special Presidential Commission.

reliable flow of revenues that had, until privatization, helped to support a struggling public sector, financially drained by civil war.

Lanka Marine Services

On July 21, 2008, the Supreme Court of Sri Lanka reversed the privatization of Lanka Marine Services, which, before its sale in August, 2002, had been a wholly-owned subsidiary of the Ceylon Petroleum Company (CPC). In their decision, the justices found that P.B. Jayasundera, then Chairman of the Public Enterprise Reform Commission (PERC) reporting to Moragoda, worked in collusion with the buyer, John Keells Holdings, Ltd. (JKH) to secure illegal advantages for JKH. John Keells is, ironically, a UN Global Compact Company, publicly and rhetorically committed to combating corruption.

In analyzing the presentations to the Court, the Justices ruled that the value of LMS had been artificially lowered for sale to JKH: a clause granting JKH a monopoly on the services it was to provide – which dramatically increased the profitability of LMS – was inserted into the transaction after the valuation was completed. Further, the then President of Sri Lanka awarded LMS, after its sale, substantial property in land for which the government was never compensated by the now private company, and LMS was assigned tax-free status for which it was ineligible. In addition, a subsequent assessment of the sale concluded that: "[T]he privatisation of LMSL had not yielded the expected low prices and competition, requiring further reforms in the sector." The transaction, in short, converted a profitable, tax-paying public enterprise into a tax-free private enterprise that operated a monopoly in a service of fundamental importance to the Sri Lankan economy.

The Supreme Court Judgment

In its judgment, the Court referenced the original mandate of the PERC, established in 1996 to promote a reform agenda in the public sector:

> The function of the Commission shall be to advise and assist the Government on the reform of public enterprises with the following objects in view:
>
> a) fostering and accelerating the economic development of the country;
> b) improving the efficiency and competitiveness of the economy;
> c) upgrading production and services with access to international markets on a competitive basis by the acquisition of new technology and expertise;
> d) developing and broadbasing the capital market and mobilizing long term private savings;
> e) motivating the private sector;
> f) augmenting the revenues of the government so as to enable it to better address the social agenda.[3]

[3] Act. No. 1, 1996., Section 4.

In writing its opinion, the court emphasized that the objectives of the PERC are to benefit the people of Sri Lanka and provide financial support to the country's public sector in order to better fund social services for a population ravaged by war.

As a public enterprise, LMS, provided marine fuel to ships at anchor in the port of Colombo or offshore, an operation known as "bunkering" that has the capacity to generate substantial foreign exchange revenue. To provide this service, LMS operated 12 tanks and a network of interconnecting pipes linked to shipping berths and a jetty in the port. This network is known as the Common User Facility (CUF). When an executive committee considered liberalization of bunkering in 2000, its recommendations were cautious. It advocated maintaining the public operation of bunkering in the port and the granting of three licenses for the supply of new bunkers beyond the confines of the port facilities. Subsequently, the Minister of Shipping agreed with the committee, but recommended that LMS be privatized through a phased approach within the following year as competitive bunkering services beyond the port expanded. When the Cabinet of Sri Lanka approved the proposal it articulated the purpose of the sale:

> The benefits to the GOSL are expected from the increase in tax revenue through higher income tax from local companies as well as opportunities for employment generation.

Despite directions to proceed deliberately, the PERC, under Jayasundera, proceeded to solicit Expressions of Interest from prospective buyers without broadening the licensing process and without establishing the necessary legal framework for competitive privatization. The actions taken by Jayasundera, in fact, had the effect of granting a private majority shareholder in LMS a continuing monopoly on limited bunkering services through the existing CUF. Jayasundera himself agreed to amend the draft CUF Agreement, at the behest of JKH and insert this provision, after the valuation of the company had been prepared. In effect, Moragoda and Jayasundera allowed JHK to monopolize the supply of bunkers post-privatization, in direct opposition to the stated intentions of the Cabinet of Ministers.

The value of LMS was additionally understated because Jayasundera had obtained an estimate of the company's assets through a private bank that he alone selected, rather than using the good offices of the government's Chief Valuator. The private bank in question did not ask for and was not given a true account of LMSL's monopoly privileges. A subsequent valuation prepared by the private bank, when its auditors were informed that LMSL held a monopoly on the provision of bunkering services, virtually doubled the worth of the company when compared to the figure the bank had previously submitted.

In a subsequent step, Jayasundera had the then Secretary to the Treasury appoint a Technical Evaluation Committee (TEC) that would assess the viability of the incoming bids. In apparent collusion with Jayasundera, the TEC accepted a bid from JHK in association with an enterprise that presented credible credentials in port operations, and

chose JKH as the winning bidder despite the subsequent withdrawal from the proposal of the qualified enterprise. The newly privatized company, LSML, then fraudulently applied to the Sri Lankan Board of Investment for tax-exempt status, which was granted. The Supreme Court Justices described this decision as a 'tailor made' special gazette notification by Minister G.L. Peiris, Professor of Law, and a former Minster of Justice for Constitutional Affairs.

Whereas the object of the process of liberalization, according to the Cabinet Memorandum that approved it, was to increase the volume of bunkering and thereby increase the foreign exchange revenue yield to the State, the end result was the transformation of a public monopoly into a private one and the complete loss of tax revenue because of a fraudulent exemption.

The Sri Lanka Insurance Corporation

On June 4th, 2009, the Supreme Court of Sri Lanka reversed the privatization of the Sri Lanka Insurance Company (SLIC) after determining that the company's sale had been improperly concluded six years ago. The court expressed its opinion strongly, writing that the improper way in which the sale of the SLIC took place "shocked the conscience."

Documents produced for the Court show that the Sri Lankan Ministry of the Treasury transferred a prosperous, tax-paying public enterprise to private hands under pressure from the International Monetary Fund (IMF), the World Bank and the Asian Development Bank (ADB). In fact, the fraudulent transaction was carried out in apparent compliance with guidelines formulated through a US$ 15 million technical assistance loan from the World Bank. Moreover, the private enterprises that bought controlling interests in the SLIC were holding companies whose beneficial owners were concealed behind the anonymity allowed to Special Purpose Vehicles (SPVs) incorporated in the tax haven of Gibraltar. Finally, the monetary value of the SLIC was artificially lowered using a bogus evaluation method concocted by compliant auditors from PriceWaterhouseCoopers (PwC). Like the scheme used to devalue the worth of LMS prior to privatization, this process also excluded a government asset evaluation specialist, who might have safeguarded the public's interest by placing more realistic prices on the assets' value. In short, corrupt officials handed over an under-valued, revenue-producing public enterprise to companies controlled by one Harry Jayawardena, who already held substantial interests in Sri Lanka's most prosperous and profitable companies, as well as in Sri Lanka's largest private commercial bank.

The Supreme Court Judgment

In its judgment, the Supreme Court sets out in detail the duplicity and conspiracy behind the sale of the SLIC. High-level Treasury officials, in collaboration with auditors and private interests, formulated a multi-phase scheme to defraud the Sri Lankan public and

appropriate a viable and profitable state-owned enterprise for a price that represented only a fraction of its true value.

The Tender Board

The first step toward privatization was the establishment of a Steering Committee, which Milinda Moragoda, as the Minister of Economic Reform, Science and Technology, appointed on January 21st, 2002. Moragoda set out the need to privatize the SLIC in a memorandum written to the Cabinet on February 28, 2002: "The company lacks the management and technical skills to compete effectively in the market. The company needs insurance expertise and upgrading of its technology to increase capacity and efficiency of its operations."

Subsequent assessments showed this assertion to be patently false. According to its audited records, SLIC, as a public enterprise, was "the market leader in insurance" in Sri Lanka. The year prior to its privatization, the company had recorded a net profit of approximately US$ 10 million and had paid US$ 3.5 million in taxes to the Sri Lankan treasury.

Despite the fact that the SLIC was a profitable functioning enterprise, the Steering Committee set for itself a pressing timetable for privatization, In the course of the Supreme Court hearing it emerged that the pace of privatization was, in fact, unrelated to the financial state of the SLIC but had instead been stipulated by the IMF reform agenda, to be completed in 2002. Further, court documents revealed that the rapid sale was a condition of a private sector development loan from the ADB the same year.

The pressure was unwarranted, as the Court pointed out in its judgment. The sale of the SLIC took place at possibly the worst moment in the decade for such a transaction. Less than one year before, the September 11th attacks on the US had severely depressed the value of insurance corporations around the world by demonstrating that even an apparently impregnable asset like New York's World Trade Center was vulnerable to devastation.

Under instructions from the Steering Committee, however, N. Parmanathan, the Deputy Secretary to the Treasury formed a Tender Board to accept bids for the SLIC. The Board was named without approval by Cabinet, which was illegal, and Parmanathan had himself named chairman. This was the body that would select the winning bidder.

Undervaluation of the SLIC

Despite the poor timing for the sale of a public insurance company, the Treasury officials behind this transaction took steps to lower the value of the SLIC further. They commissioned PwC to assess the value of the company, and the auditors based their estimate on the "historical book value" of the land, buildings, plant and equipment: US$ 2.3 million. A more conventional method of valuation would base calculations on the

market value of the assets, however, which was estimated at US$ 18 million despite depressed circumstances. PwC thus undervalued the physical assets of the SLIC by more than US$ 15 million.

In addition, PwC underestimated forecasts of the after-tax profits of the company for the year 2002 by over 70 percent, according to the judgment, and the auditors' estimate failed to include the brand value of the SLIC. Despite what Moragoda had written to the Cabinet in January, the SLIC had a positive record of over 40 years standing in Sri Lanka, which the buyer identified in his technical proposal as one of the attractions of the share purchase: "The products introduced by SLICL are trusted over competitor products in the life business. SLICL, due to its financial strength and prudent management of funds, has gained the most financially stable insurer status in the Island."

As a result of using the book value of physical assets rather than the market value, dramatically lowering the revenue forecasts for the year 2002 and dismissing completely the brand value of the SLIC, PwC presented a valuation of SLIC for sale that grossly understated the worth of the company in favor of the buyer.

Selection of the Buyer

Having already manipulated the constitution of the Tender Board, the selection of the favored buyer was the final step in the scheme. The Board stipulated that, to be eligible, bidders must represent foreign institutional investors because, like many privatizations in developing countries, a major objective of the process was to increase foreign direct investment in Sri Lanka. In keeping with this stipulation, the parties named as the buyers at the moment of sale were Milford Holdings, incorporated in Sri Lanka on March 31, 2003, and Greenfield Pacific EM Holdings, an SPV incorporated in Gibraltar on March 28, 2003. The purchasers argued that Greenfield Pacific EM Holdings represented the foreign institutional investors and the TEC accepted their assertion without verification.

From an examination of the documents submitted, however, the Supreme Court concluded simply: "There was no plan or proposal to get a foreign investor to fund the acquisition." By concealing the identities of the owners of Greenfield Pacific EM Holdings, local investors obscured the fact that this sale did not represent an increase in foreign investment in Sri Lanka. On the contrary, as the court concluded: "The institutional investors are local investors."

This financial slight-of-hand occurred because the TEC, operating in collaboration with PwC and ultimately the Tender Board, allowed it. The Supreme Court unequivocally states, in fact, "The TEC has not made any endeavor to ascertain the identity of the institutional investor referred to in the PwC report and the foreign investor referred to in the Financial Bid." Further, the Court wrote:

> The beneficial owner of the money brought into the country by Greenfield Pacific Ltd. is concealed behind a series of corporate veils, thereby making it difficult to ascertain the real beneficial owner of such money.

Having concluded this dubious procedure in the interests of a purchaser finally identified as a consortium run by Harry Jayawardene and acting in collusion with Ernst & Young, Finally, the new controllers of the SLIC retrospectively restated the accounts of the enterprise. Auditors transferred approximately US$ 30 million of current assets to the category of fixed assets, and then asserted that the Jayawardene group had overpayed for the SLIC. To complete the deal, Ernst & Young subsequently facilitated the demand for a refund of US$ 20 million from the treasury of Sri Lanka.

Nullification of the Sale of the SLIC

The court found that "The Tender Board acted without jurisdiction and accordingly it had no legal authority to perform any function with regard to the shares of SLIC." The contract with Milford Holdings and Greenfield Pacific EM Holdings Ltd. was therefore declared null and void. The contract annulled had been signed by Faiz Mohideen, a Deputy Secretary of the Treasury, who had also served as the government counterpart for the World Bank's ERTA Project.

A Note on the Role of the World Bank

The illicit sale of the SLIC took place behind the backs of a technical assistance team from the World Bank financed by the Bank's concessional lending arm, the International Development Association (IDA). The ERTA, approved in December, 2002, explained its support for privatization in Sri Lanka using the same broad and ambitious terms the Bank, like the Fund, has employed for more than 20 years:

> The implementation of government's economic reforms will in turn expand the role of the private sector in the economy and put the country on the path of higher economic growth and faster poverty reduction.

The Implementation Completion Report (ICR) for the project written five years later is more modest about the project's goals but still claims that the Bank's performance was "satisfactory," while the borrower's was "moderately unsatisfactory."

The claim made by the ICR, however, is misleading. In fact, no performance associated with the loan and the activities that evolved from it could be construed as "satisfactory." At the outset, a core ERTA project component violated the World Bank's Articles of Agreement (Art. 5, Sec. 6), which read: "The Association and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned."

In Sri Lanka in 2002, Bank officials knew that privatization was politically unpopular, although in all likelihood they did not realize that significant transactions were fraudulent. Rather than eschewing political action as dictated by the Articles of Agreement, however, and examining the policy and its potential for fraud, the Bank designed and tried to implement a mass communications program favorable to privatization and financed by US$ 1.5 million in project funds:

> The main issues that are likely to be controversial in this operation include the attempts to privatize previously publicly operated utilities or SOEs [State-Owned Enterprises – e.g. the SLIC]. Controversy can be tempered by effectively using the mass communications component to undertake meetings with groups opposing the reforms, such as the unions, while building popular support by explaining to the public at large what the objectives of the reforms are.

In effect, then, the World Bank charged the Sri Lankan population US$ 1.5 million to convince itself to support a privatization program that a majority of people strongly opposed for reasons that, in light of what transpired, were well-founded.

While the ICR does not challenge the legitimacy of the project's propaganda component, despite the Bank's statutory prohibition of interference in the political affairs of its member states, the report does recognize the strategy as a costly boondoggle characterized by extraordinary naïveté. According to the ICR, the project contracted foreign English-speaking consultants who could not communicate directly with 90 percent of the non-English speaking Sri Lankan population. When the government changed in 2004, the consultants were immediately terminated.

In sum, the mass communication strategy was illegitimate, ill-conceived and poorly executed, resulting only in lucrative contracts for a few well-connected consultants, and in that context, privatization of the SLIC discreetly proceeded until 2009, when it had to be reversed.

After the fact, though, the Bank cannot claim that its management was unaware of corruption in the PERC and the Finance Ministry. As Chairman of the PERC in 2005, Nihal Ameresekere had warned World Bank president Paul Wolfowitz about suspicious dealings in the ministry. Moreover, in December, 2006, a special Commission of Public Enterprises (COPE) had filed a report with the Parliament on corruption in the privatization and share sale process that received broad press coverage. According to the COPE report, not one of the 98 privatizations that occurred after 1994 had benefited the state enterprise transferred to private ownership.

Nonetheless, in May, 2008, just two months before the Supreme Court handed down its decision that the LMSL share sale was illegal, the World Bank approved a "Public Sector Capacity Building" Project based on these claims:

> Important improvements have been implemented in the ports and petroleum sectors, initial reforms have been made in the Ceylon Electricity Board, and the

Sri Lanka Insurance Corporation has been privatized – all of which have met with relative success. These measures will contribute to continued economic growth.

Among the 'improvements' to the ports and petroleum sectors, of course, was the privatization of LMS. In this 85-page document, the project appraisal mentions corruption and fraud as relevant considerations one time. Overall, the discussion continues about public sector reform as if nothing were known about its pitfalls. Within 14 months of the release of this document, the Supreme Court decisions reversing the two privatizations referred to here would be handed down.

Investigations and Prosecutions

Until very recently, the government's actions stopped with the Supreme Court judgments in both post-privatization cases. The Supreme Court confined itself to sanctioning and reversing executive and administrative actions that came under its jurisdiction, but it went no further. The attorneys representing the two complainants in the reversals demanded that the CID investigate and prosecute suspects in terms of the Penal Code and Public Property Act**.** On June 15th, the Presidential Advisor Vasudeva Nanayakkara, one of the complainants (petitioners), requested that the court inform the authorities of its findings in order that they might take legal action against those responsible for the fraudulent sale.

Then on July 3rd, Milinda Morogoda, the former Minister under whose jurisdiction the illicit transfers of LMS and the SLIC had occurred, was named Minister of Justice and Judicial Reforms in Sri Lanka, with authority over the Attorney General, who directs the CID to carry out criminal investigations. The announcement of the appointment by the government caused a public outcry because it showed the extent of explicit and unabashed high-level corruption.

Civil society organizations and the ethical public servants who brought the lawsuits that resulted in the Supreme Court decisions have advocated for transparency and accountability in government. In Sri Lanka, however, it seems that only the issue of accountability is still relevant, as the corruption itself is perfectly transparent. Moragoda, for example, has moved seamlessly from one ministry to another, stopping off in court and at the World Bank on his way. For apparent criminal conduct there are no investigations and no penalties.

While both the SLIC and LMS represented substantial losses for the public sector in tax revenues when they were privatized, it cannot be argued that these losses alone made the difference in the budget deficits of Sri Lanka. If, however, the officials and businesspeople responsible for such transactions are not sanctioned in any way and can openly display their contempt for the distinction between public resources and private wealth, then it is safe to assume that these cases are only indicative of the true level of corruption and fraud among the elite in both the public and private spheres of Sri Lanka. In this environment continued lending on the scale of the IMF standby arrangement is irresponsible and continued silence by the World Bank on the issue of corruption in public sector "reforms" in the country is indefensible.