

An Investigation of Factors Affecting the Failure of Policy Attempts in Selected State-owned Enterprises in Sri Lanka

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Abstract

State-owned enterprises (SOEs) play a critical role in the growth of economic and social infrastructure development in Sri Lanka. Out of the 52 major SOEs, 18 reported losses in 2022, contributing to a cumulative loss of Rs. 1.64 trillion between 2013 and 2023, thereby contributing to fiscal inefficiencies. Although successive governments have implemented several policy attempts aimed at enhancing financial sustainability, efficiency, discipline, and autonomy, these initiatives have failed to deliver sustainable outcomes. Hence, the question of why such reforms fail remains to be addressed both empirically and theoretically. Thus, the objective of this study is to explore the internal and external structural, political, and institutional barriers that hinder reform outcomes and to analyse the gap between policy execution and implementation by focusing on five key loss-making SOEs – CPC, CEB, SLA, SLTB, and SATHOSA – which together account for over 95% of total cumulative losses. To deal with the research subject, the study employed the content analytical method with an employed thematic review of 75 institutional and policy documents covering the 2013–2023 period. The review results revealed that proposed policy attempts at Sri Lanka's SOEs – cost-reflective pricing, digitalisation, and improved audit functions have been delayed by institutional weaknesses & constitutional constraints and the absence of an effective, robust regulatory framework. Persistent barriers, including politically influential trade unions, bureaucratic resistance, political interference, and weak managerial control, have reinforced inefficiencies and fiscal dependence. Financial instability is caused by external shocks, low global competitiveness, high dependence on imports, and poor maintenance of assets. An incoherent policy narrative and ad hoc decision-making have sustained a cycle of Treasury-subsidised losses, burden on fiscal deficits and undermining of long-term sustainability. The study concludes that addressing these structural and governance constraints is essential to transform SOEs into financially sustainable entities. Strengthening institutional accountability, policy coherence, and competitive entities capable of contributing to long-term fiscal stability and economic growth.

Keywords: financial sustainability, reforms, state-owned enterprises