

Labour and Social Trends in Sri Lanka – 2009

A report titled “Labour and Social Trends in Sri Lanka, 2009” released jointly by the Ministry of Labour Relations and Manpower, the Central Bank of Sri Lanka and the Department of Census and Statistics, with the technical and financial support of the International Labour Organisation (ILO), contains detailed up-to-date labour market information with an in-depth analysis of the key trends driving economic growth and labour market outcomes in Sri Lanka and projections up to 2020. Therefore, The Economic Review reproduces the summary of this report for the benefit of its esteemed readers.

The end of the three decade-old war and the liberation of the Northern and Eastern Provinces has heralded a new era of economic, political and social development in Sri Lanka. Nevertheless, the country faces serious challenges in the economic and social spheres and in promoting decent and productive employment for all. The challenges of building a sustainable and progressive post-conflict era are made more difficult by the global economic crisis. Yet, as the cloud of uncertainty surrounding the war has lifted, the economy has attracted inflows of foreign funds and the process of rehabilitation and reconstruction in the newly-liberated north has the potential to provide a much-needed fiscal stimulus, helping to mitigate the worst effects of the crisis.

The aim of this report is to identify key economic and labour market trends along with the main challenges facing workers, employers and the Government as the country strives to promote economic growth and competitiveness and an adequate number of decent employment opportunities built upon a foundation of rights at work, social protection and tripartite dialogue.

Chapter 1: Recent economic, labour market and social developments

Macroeconomic Developments

Sri Lanka has registered healthy economic growth of more

than 5 percent in recent years. The services sector has contributed the most to GDP over the last decade (58 percent in 2008); it also grew the most at 6.9 percent from 2002 to 2008. The growth in services contrasts the declining trend in agricultural output and reflects the shift to higher value added products, a key component of Sri Lanka's economic growth. This growth has resulted in a 45 percent rise in real GDP since 2002, and with per-capita GDP now over US\$2000, Sri Lanka has become a middle income country.

Sri Lanka's trade and hotels industry accounted for around a quarter of GDP in 2008. Government policy has supported Sri Lanka's export-driven economy, particularly its strongest exports – textiles, wearing apparel and tea. However, the 2008 global economic slowdown has highlighted vulnerabilities that can accompany over-reliance on trade.

Foreign direct investment (FDI) and workers' remittances continue to be a major source of financing. In 2008, the value of remittances, at nearly US\$2.6 billion, was equal to nearly half of the country's total trade deficit. Workers' remittances grew by around 16 percent in both 2007 and 2008.

The fiscal position of the country remains precarious; year-

on-year budget deficits and a persistent trade deficit have put pressure on government finances. Added revenue will be required to fund domestic expenditure, if Sri Lanka is to achieve the productivity and employment growth necessary for continued economic growth.

Labour Market Trends

While the labour force and number of employed have grown, labour force participation and employment rates have fallen over the last decade. This is due in part to demographic structural changes occurring in Sri Lanka towards an aging population, but also to a drop in youth (aged 15–24) economic activity. Young people are spending longer in education, and thus, out of the labour force. Despite contributing to a higher educated workforce, the highly educated are over represented in the unemployed; this suggests that there is a shortfall in demand for educated workers. There is potential here for promoting this pool of highly-educated workers to attract FDI.

Low rates of female labour force participation and employment, high unemployment, and a static wage disparity between the sexes, are evidence that females are at a distinct disadvantage in the labour force. Indeed, of all the countries in the world for which data are available, Sri Lanka has the 20th

largest gap in labour force participation between the sexes.

- The share of employment in agriculture has declined sharply over the past decade, though the trend has reversed, at least temporarily, since 2006. The share of workers in industry and services has been on the rise. The services sector accounts for the largest share of employment in the country, though a large proportion of women work in agriculture than in services.

- An observed decline in unemployment rates between 1998 and 2008 is most likely due to a combination of job creation, demographic change and outward migration. Nevertheless, youth unemployment remains a serious problem, accounting for more than half of total unemployment. The educated are found in disproportionate numbers among the unemployed, which reflects, among other factors, a lack of suitable jobs for educated and skilled workers.

- The average worker in the agricultural sector produces only one quarter of the value compared with the average worker in the services sector, and the gap has been widening, as the services sector registered the fastest productivity growth in recent years.

Key Social Issues – Poverty, Occupational Safety and Health and Industrial Relations

- Despite successful progress to reduce poverty, nearly 15 percent of all Sri Lankans (excluding the north) remained poor in 2006 – 07; poverty in rural areas is particularly rife, accounting for 82 percent of Sri Lanka's poor.

- The high proportion of workers in the informal sector (around 60 percent) means that inspections of the workplace and accident reports are difficult to

measure. Nonetheless, the number of registered accidents has fallen over the past decade, and reflects the increased attention to occupational safety and health (OSH) issues.

- The adoption of the National Framework on Social Dialogue is a key step towards strengthening industrial relations; however, there are a number of challenges that still need to be addressed, and the lack of a recognised apex body for workers' organisations is a particular drawback.

Chapter 2: The impact of the global economic crisis in Sri Lanka

Macroeconomic and Labour Market Impacts

- The impact of the global economic slump is making its way through Sri Lanka's economy. Transmission is mainly through a contraction in external trade volumes and prices, but other sectors, such as, construction and financial services, have also been affected. Nevertheless, the end of the war has brightened Sri Lanka's economic prospects. The economy has attracted inflows of foreign funds, and the process of rehabilitation and reconstruction in the newly-liberated north can provide a much-needed fiscal stimulus that will help mitigate the worst effects of the crisis.

- Labour force data suggest an intensification of job losses during the first half of 2009 in key sectors, such as, manufacturing, construction, trade and financial services. Many companies have also been forced to reduce labour absorption by various means, which have had the effect of drastically reducing workers' take-home pay and triggering voluntary resignations. Available micro-data suggest that the apparel sector is

the worst effected among manufacturing enterprises.

- Growth in female employment has partially offset reductions in male employment in some sectors, possibly because females offer employers a less expensive substitute form of labour and also due to increased pressure for additional family members to find work. This is further evidence of the need to address the wage, employment and unemployment disparities so apparent between males and females in the labour market.

- Job losses in urban areas and the closing up of employment opportunities abroad are likely to impact on poverty levels. While the existing jobs are under threat, the global economic downturn will depress the rate of new job creation, seriously affecting the job prospects of vulnerable groups, such as, the young, the disabled, and those with lower human capital, as a result of repeated displacement caused by conflict.

Responses by Employers, Workers and the Government

- Industrial relations have largely been cooperative as workers and unions, desperate to hold on to their jobs, have complied with various measures taken by employers to reduce labour absorption rates without resorting to dispute. The labour authorities have also done their best, within the framework of the law, to provide as much flexibility as possible to employers to jobs can be saved. The Government has responded to the crisis with stimulus packages for exporters, efforts to reduce interest rates and increase liquidity, and by passing on most of the decline in oil prices to consumers. But, it is still not clear how effective these measures will be, given that the general macroeconomic climate, not least the fiscal deficit, is

working against the competitiveness of exports through its impact on the credit market.

Can Sri Lanka's Social Floor Cope with the Crisis?

While policymakers need to shore up consumption, Sri Lanka lacks effective mechanisms to transfer incomes to those likely to be worst affected by the crisis. Urgently needed reforms in the social protection sector include: setting up an unemployment benefit insurance scheme, consolidating the existing social security systems, increasing coverage to certain segments of workers, such as, construction workers, and enhancing the effectiveness of Samurdhi by implementing the new methodology for targeting assistance to those who really need the support. Other measures to address the issue of poverty dynamics also need to be implemented. The nettle of instituting and implementing effective social protection mechanisms needs to be grasped without delay.

Chapter 3: Realising decent work in Sri Lanka: Key challenges and opportunities

Sri Lanka and the Asian Decent Work Decade

Initiated in 2006, the Asian Decent Work Decade (ADWD) was intended to combine a series of initiatives, priorities and objectives with the goal of achieving decent work for all in the Asia Pacific region by 2015. To achieve such aims, the scheme takes into account the different social and economic development priorities of each country; accordingly, Sri Lanka complied specific goals for a national development framework with its Decent Work Country Programme (DWCP).

Key Challenges

Demographic trends have been in Sri Lanka's favour over the last few decades, with an expanding working-age population, contributing to a growing labour force. This trend is now coming to an end, and Sri Lanka is faced with an aging population. Between 2009 and 2020, the child population (aged 0-14) is projected to grow by only around 100 thousand while the youth population (aged 15-24) is projected to shrink by 300 thousand. The prime age cohort is projected to increase only marginally, while the population aged 55 and above is projected to surge by 1.7 million, or 45 percent.

Adding to demographic pressures, labour force participation has been falling. Large, persistent gender-based participation gaps reduce potential employment growth, which can adversely impact on overall economic growth and development. Indeed, to maintain robust economic growth, Sri Lanka will require a combination of increased labour force participation, expanded employment opportunities and higher rates of productivity growth. In the "baseline scenario" of a continued decline in participation rates and historical productivity growth rates, the average rate of GDP growth over the 2009-20 period declines to 3.7 percent, a considerable slowdown from the historical rate of 5.1 percent. However, in the "increased participation and productivity scenario", which provides reasonable targets for improvements in productivity and participation, output growth would average a robust rate of 6.6 percent between 2009 and 2020.

The implications for living standards are great. In the baseline

scenario, per-capita GDP in 2020 would stand at 164 thousand rupees (in 2002 prices), 41 percent higher than that in 2008. In the increased participation and productivity scenario, per-capita GDP would be 229 thousand rupees, 40 percent higher than that in the baseline scenario in 2020, and nearly double the level in 2008.

Emerging Opportunities for Growth and Development in a Post-conflict era

The cessation of the military conflict presents social and economic opportunities in areas, including, poverty alleviation and the expansion of decent and productive employment. Prospects are clearly improving for increasing Sri Lanka's competitiveness in the global economy. Current competitiveness rankings place Sri Lanka at 79th out of 133 countries, still behind India, but, already breaking away from other neighbouring countries, such as, Bangladesh and Pakistan. Policy needs to harness Sri Lanka's highly educated, healthy and innovative workforce to exploit the new opportunities in the wake of the war.

Key Policy Areas

A selection of key policy consideration areas are specified to allocate effort and resources to the challenges Sri Lanka faces. First, labour market policies should be reviewed with the aim of ensuring that workers have fundamental protections and that firms compete on a level playing field, while not unduly constraining growth and development prospects and formal wage employment growth. Second, expanding employment opportunities by opening up new markets for Sri Lanka's exports and encouraging investment, both

Contd. on page 68

domestic and foreign, in the national economy should be a priority. Third, dialogue is needed as to what the priority investment areas should be, with the overarching goal being to identify productive investments that yield long-term benefits. Inadequate infrastructure, particularly, electricity and roads, is a prime target, as are investments that could boost agricultural productivity

and improve the situation of the rural poor. Fourth, there is a need to promote marketable skills development across the primary, secondary and tertiary education levels, to ensure that young people entering the workforce will be equipped with skills that are in demand in the marketplace. Fifth, extending social protection to vulnerable workers – particularly the working poor and those operating in the informal economy – will be essential for Sri Lanka's

long-term development. Sixth, fostering social dialogue at the enterprise, industry and national levels is crucial for national development. Finally, in order to better inform decision-making by policymakers, employers, workers, job-seekers, school leavers and education and training providers, efforts should be strengthened to bolster the country's body of gender-and-age specific labour market information (LMI).

