



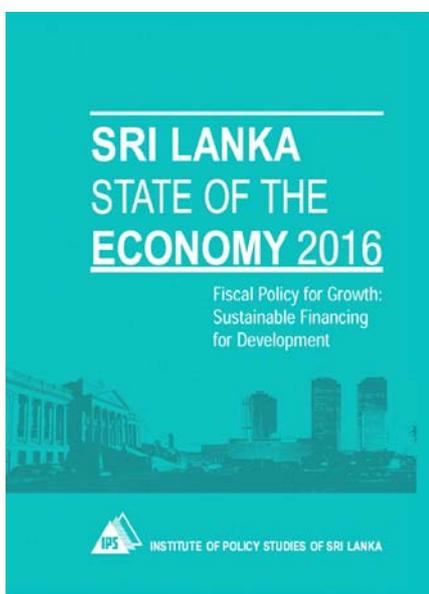
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POLICYINSIGHTS

INSTITUTE OF POLICY STUDIES OF SRI LANKA

LABOUR MARKET REFORMS UNDER TIGHT BUDGET CONSTRAINTS

From the IPS flagship publication 'Sri Lanka: State of the Economy 2016 Report'



The medium-term economic development policy framework presented in parliament in November 2015 envisaged generating one million jobs and improving living standards of workers. The stated goal of employment creation was to be met by encouraging investments in high employment intensity sectors on the demand side, and by improving skills on the supply side. The policy framework gives special attention to create a sophisticated and modern knowledge-based economy which is able to compete effectively in the global market.

One main challenge faced by the government in achieving the above mentioned labour market objectives are limited public finances. At present the government is attempting to consolidate

finances by gradually reducing both the budget deficit and the debt burden. In this backdrop the room for significantly increasing government expenditure is limited.

Creating One Million Jobs

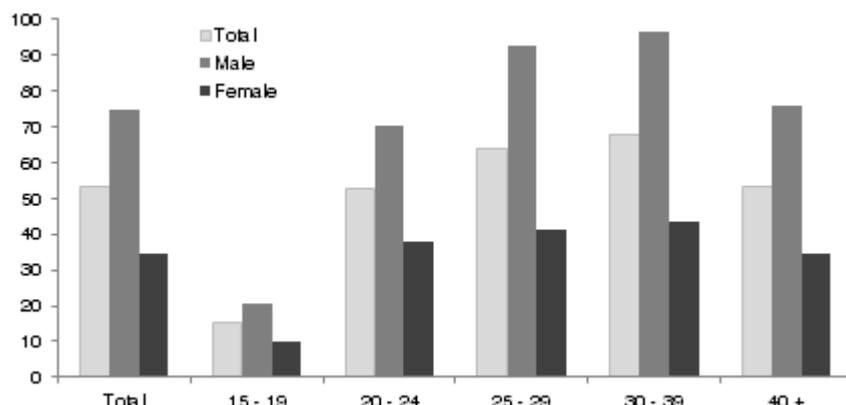
The government envisages creating one million jobs in the next five years. In order to achieve this goal, the economy will need to create 200,000 jobs a year, on average. The employed increased by 237,689 from 2011 to 2014, which resulted in an average annual increase of 79,230 employed. This means that in order to meet the policy target, job growth will need to increase by two and a half times its current levels. In 2014, there were 380,554 unemployed persons in the country, which amounted to an unemployment rate of 4.3%. An unemployed rate of around 4% is usual in

any economy in the presence of new entrants to the labour market and movement of workers between jobs (frictional unemployment). Given this, workers for the new jobs will need to be sourced mostly from the currently economically inactive.

“Given an unemployment rate of around 4%, workers for new jobs will need to be sourced from the currently economically inactive.”

The currently economically inactive in Sri Lanka are mostly females, youth and elderly. According to 2014 labour force survey data, 75% of the economically inactive were females. By age group, 22% of the inactive individuals were aged 65

Labour Force Participation Rate by Age Group and Sex (2014)



Source: Estimated from data based on DCS, "Labour Force Survey- Annual Report 2014", Department of Census and Statistics, Colombo.

years or more, and 27% of them were youth (15-24 year olds). By type of activity, 49% were engaged in household duties, 20% were engaged in studies, and 21% were retired or too old to work.

In the case of females, these mainly aim to improve social support to families, in order to reduce barriers to female labour force participation; while most economically inactive youth are involved in education.

“Inefficiencies in the education system delay the onset of economic participation of youth.”

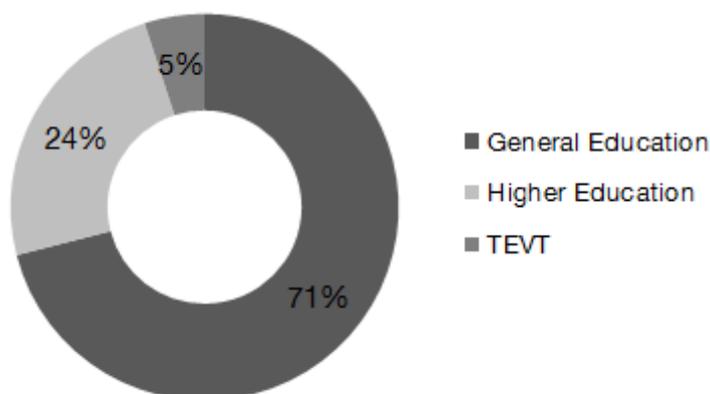
Improving Employability and Employment Services

The government expenditure on technical and vocational training, career guidance and job placements is very small. Even available funds are distributed amongst a multitude of institutions. The high dropout rates in these institutions suggest inefficiencies in the management of these institutions.

International experience suggests that the success of the Active labour market policies (ALMPs) depend largely on; (i) inclusion of multiple stakeholders in the design; (ii) involvement of the private sector to ensure that correct skills are taught; (iii) availability of reliable information on the labour market to make correct policy decisions; (iv) proper targeting aimed at the most disadvantaged; and (v) comprehensive programmes that link training to job placement. Training programmes which directly target 'skilling' workers to fill available vacancies are more efficient, and can be less costly.

The TVET sector in Sri Lanka can also benefit from reforms that aim to involve more stakeholders in the design, involvement of the private sector, better labour market information for making decisions, proper targeting, and programmes that are linked to employment placements.

Share of Education Expenditure by Level of Education, 2014



Labour Market Reforms for Creating a Knowledge-based Economy

The current development policy framework gives special attention to create a sophisticated and modern knowledge-based economy.

“Knowledge -based economies promote innovation and invest in professional and technical workers. However, the proportion of these workers in Sri Lanka is low.”

Improving human capital, especially tertiary level educated Science & Technology (S&T) workers are seen as an essential element for boosting innovation, which is needed for improving productivity and competitiveness. Although the education level of employed in Sri Lanka have improved over time, the proportion of tertiary educated in the country is very low. Many who are in professional, technical and associate professional occupation categories are without a tertiary education. A large proportion of those who are tertiary educated have done their studies in arts and humanities subjects. The country will need to expand access and improve the quality of the tertiary educated to promote innovation and competition. In this regard, in the face of tight budget constraints,

Sri Lanka will need to bring in policies for giving tertiary education institutes more autonomy to function independently, more autonomy to generate funding, and at the same time making tertiary education institutions more accountable.

This Policy Insight is based on the comprehensive chapter on "Fiscal Policy and Labour Market Reforms" in the 'Sri Lanka: State of the Economy 2016 Report' - the flagship publication of the Institute of Policy Studies of Sri Lanka (IPS). The complete report can be purchased from the publications section of the IPS, located at 100/20, Independence Avenue, Colombo 7. For more information, contact the Publications Unit on 0112143107/0112143100.



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