

Sri Lanka
State of the Economy Report 2015

Chapter 6
Labour Market Reforms for Growth

by
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6. Labour Market Reforms for Growth

6.1 Introduction

Following the global financial crisis that depressed growth, the call for reforms to create more and better jobs resonated across the world.¹ The importance of better jobs has received attention for several reasons. From a macro perspective, both job growth and productivity progress can drive economic growth by building consumer confidence and expanding consumer demand. It is now a recognized fact that the access to productive jobs is the best means of pulling households out of poverty. Access to good jobs - those with adequate remuneration and social protection - can reduce inequality and vulnerability.² There is ample evidence, including in Sri Lanka, that unemployment and lack of access to good jobs is a driver of social unrest.

Improving access to better quality employment needs to happen within the development framework for Sri Lanka. The current strategies envisage developing the country by improving agricultural and industrial sectors through modernization and the adoption of new technologies.³ Such a development strategy requires a highly skilled and trained workforce that is able to identify, adopt and use appropriate technologies for modernizing and improving production processes. The planning for developing such a workforce should precede the launching of development plans. Unlike in the 1980s and the 1990s when short-term training

programmes could train large numbers of workers for employment in the manufacturing sector, the current development plans require highly trained workers with experience who take longer to train. Unless proper planning is in place, the envisaged development in the country will be impeded by human resource constraints.

This chapter will concentrate on four main issues faced by the labour market. First, the immediate challenge faced by the labour market is to source the workers needed to operate envisioned development plans of the country. However, already the country is faced with skill shortages. Many industries are contemplating importing workers to sustain operations, while others are contemplating automation.

Second, demographic transitions are changing the structure of the population and slowing its growth. The population ageing and the working age population is declining. These demographic effects on the economy can be mitigated through better utilization of existing labour resources. Medium term plans should be put in place to enhance labour market activity and draw non-participating workers to the market.

Third, effective human resource planning is hindered due to lack of information, limited coordination

¹ World Bank. (2011), *More and Better Jobs in Asia*, World Bank, Washington DC.

² Torres, R., and M.E. López (2014), "Development and Employment in Latin America and the Caribbean: A Look Ahead", International Labour Organization, Geneva.

³ Sirisena, M., (2015), "President Maithripala Sirisena's Address to the Nation at the 67th Independence Day Celebrations", News.lk: <http://news.lk/fetures/item/6044-president-maithripala-sirisena-s-address-to-the-nation-at-the-67th-independence-day-celebrations> [accessed May 13, 2015].

between different labour market institutions, and the changing structure and affiliations of the labour market institutions and the conflicting objectives of the different labour market institutions.

Fourth, the creation of jobs in the formal sector has been hindered due to lack of skilled people to take up available vacancies in the formal sector, and the high cost of providing social protection and employment in the formal sector. A high level of job protection and social security is enjoyed by those in the formal sector while those outside are left vulnerable to fluctuations in the economy, creating inequities and inefficiencies in the economy. Also, opportunities for on-the-job training are limited for those in the informal sector and for casual and temporary workers. As such, they have little opportunities for upgrading their skills.

The Sri Lankan labour market faces challenges on many fronts. To face these, the country needs to find the means to increase labour force participation, improve training and reduce mismatches in the labour market. Better information and a well-coordinated programme for developing human resources are needed to meet the challenge of worker and skill demands of the country in the coming years. In the following sections, this chapter details challenges faced by the labour market in Sri Lanka and the critical reforms needed to produce an uninterrupted flow of skilled workers to support the envisaged development in the country.

6.2 Age Structure of the Labour Force and its Growth

The changing age structure of the labour force and declining size can potentially slow economic growth.

Bloom, Canning, and Fink (2011) find that ageing has mixed effects on economic growth.⁴ They find that in OECD countries, ageing will lower participation in the labour force and the proportion of the population who are economically active. These in turn will have a modest declining effect on economic growth. The magnitude of the impact of population ageing on economic growth will depend on the remedial action taken by different countries to mitigate the effects of ageing on the economy, such as policies that increase the labour force participation of females, and encourage more savings for retirement. However, in non-OECD countries, the same study finds that an ageing population may not necessarily decrease labour force participation rates and labour-force to population ratios, as the reducing size of the younger populations will offset the older persons in the population. Also, in countries like China, labour shortages may be mitigated by making use of the rural and urban unemployed or underemployed workers.

Declining fertility rates and increasing life expectancy is slowing population growth and increasing the average age of the population of Sri Lanka. The total fertility rate in the country was 3.4 births per woman in 1981.⁵ This declined to 1.9 births per woman in 1998. Although it has increased since then to 2.4 births per woman in 2011, the effects of the initial decline in the fertility rate has slowed population growth. For example, the under 15 proportion of the population has declined from 35.2 per cent of the total population in 1981 to 25.2 per cent by 2012.⁶ These trends indicate that fewer numbers of individuals will be entering the labour market in the coming years.

Sri Lanka's labour force is ageing. The proportion of male workers aged 40 years and above has

⁴ Bloom, D. E., D. Canning and G. Fink (2011), "Implications of Population Ageing for Economic Growth. Program on the Global Demography of Ageing"; Harvard Initiative for Global Health, Cambridge, MA.

⁵ DCS (2013), *Sri Lanka Labour Force Survey - Annual Report 2013*, Department of Census and Statistics, Colombo.

⁶ *Ibid.*

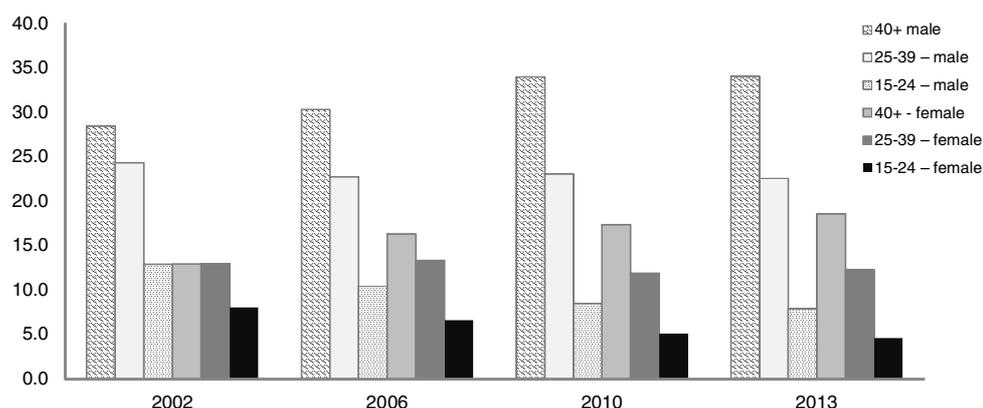
increased from 28.4 per cent in 2002 to 34.1 per cent in 2013, while the proportion of female workers aged 40 years and above has also increased from 12.9 per cent in 2002 to 18.6 per cent in 2013. By contrast, the proportion of both male and female youth (15-24 year olds) has declined (female youth from 8.1 per cent in 2002 to 4.6 per cent in 2013 and male youth from 12.9 per cent in 2002 to 7.9 in 2013) in the labour force (Figure 6.1). This is partly due to the earlier mentioned declining fertility rates and increasing life expectancy. With fewer babies being born, the younger age cohorts are becoming smaller in size. As a result of these changes, the proportion of Sri Lanka's population aged under 15 years has declined from 35 per cent in 1981 to 25 per cent in 2012,⁷ while the proportion of 60 years and above has increased from 7 per cent to 12 per cent over the same period.

Vodopivec and Arunatilake (2011) find that many older workers are engaged in the informal sector, work longer hours and are paid less than younger

workers.⁸ They further find that older previous formal sector workers leave the labour force due to mandatory retirement, while previous informal sector workers continue to work in the informal sector into very old ages until health prevent them from working due to lack of social security and other sources of income. Many workers who retire from their regular forms of employment find it difficult to get re-employed in the formal sector due to lack of opportunities and lack of skills. Such workers leave the labour market, while they are still able and willing to contribute to the labour market.

The reducing fertility rates have slowed working age population growth in Sri Lanka. For example, according to the population projections, the proportion of the prime working age population (i.e., individuals aged 15-59 years) is projected to decline marginally from 62 per cent in 2015 to 59 per cent in 2030.⁹ The average annual growth of the working age population has already come down from 1.8 per cent in the 1992 to 2002 period, to 1.1 per cent in

Figure 6.1
Composition of the Labour Force by Age and Sex

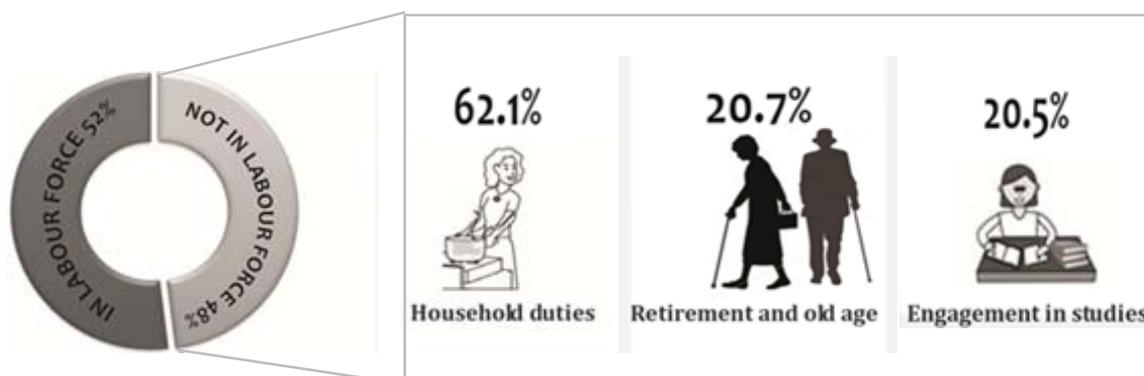


Source: Calculated based on DCS, *Labour Force Survey Annual Report 2013*, Department of Census and Statistics, Colombo.

⁷ *Ibid.*

⁸ Vodopivec, M., and N. Arunatilake (2011), "Population Ageing and Labour Market Participation of Old Workers in Sri Lanka," *Journal of Population Ageing*, 4(3), pp. 141-163.

⁹ United Nations (2012), "World Population Prospects: The 2012 Revision: Excel Tables - Population Data", <http://esa.un.org/unpd/wpp/Excel-Data/population.htm> [accessed 30 March 2015].



the 2002 to 2012 period (see Table 6.1). On average, the working age population and the labour force have grown at the same average rate from 1992 to 2012 (see Table 6.1). But, when the annual average growth rate is separated to the 1992-2002 and 2002-2012 periods, it is clear that the labour force growth has slowed down in the 2002-2012 period, both relative to the working age population growth as well as its own growth in the 1992-2002 period (Table 6.1). This lower growth in the labour force in the latter period is due to lower labour force participation rates.

The emigration of large numbers of workers for employment abroad exacerbate the issues of slowing working age population, by further reducing the supply of workers. The number of workers

leaving Sri Lanka for foreign employment increased from 203,773 in 2002 to 282,331 in 2012.¹⁰ Moreover, the proportion of professionals, middle level, clerical and skilled workers leaving the country for foreign employment has increased from 29 per cent in 2002 to 34 per cent in 2012, while the proportions of low skilled, unskilled and housemaid categories of workers have declined over the same period.¹¹ The low employment growth in the country is at least partly responsible for the promotion of foreign employment at the expense of promoting better quality employment in the country.

Labour force participation rates have declined over time in Sri Lanka (Figure 6.2). This is particularly the case for youth and females. The slopes for the labour force participation for different population

Table 6.1
Annual Average Growth Rates of Key Labour Market Indicators (1992-2012)

Annual average annual growth rates (%)	Working Age Population	Labour Force	Employed	Unemployed	Not in Labour Force
1992-2002	1.8	2.3	3.1	-2.6	1.3
2002-2012	1.1	0.7	1.3	-5.3	1.6
1992-2012	1.6	1.6	2.4	-3.3	1.6

Note: Time series data is not available beyond 2006 in the latest Labour Force Survey Annual Reports.

Source: Calculated based on data from DCS, *Labour Force Survey Annual Report 2012*, Department of Census and Statistics, Colombo.

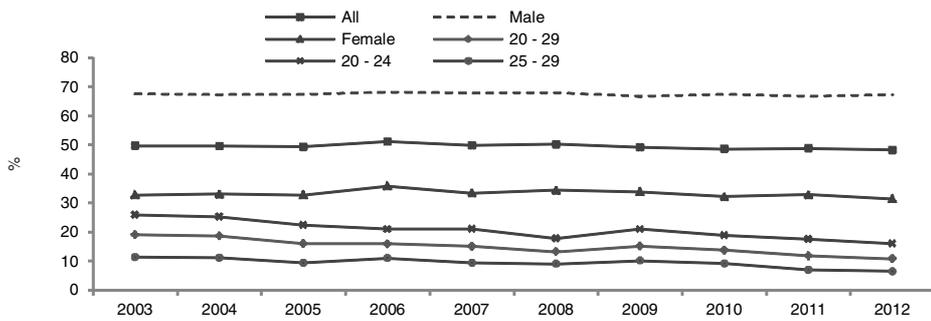
¹⁰ SLBFE (2012), "Annual Statistical Report of Foreign Employment – 2012", Sri Lanka Bureau of Foreign Employment, Battaramulla.

¹¹ *Ibid.*

groups show that the sharpest decline in labour force participation is for youth followed by females. As seen from Figures 6.3 and 6.4, labour force participation is low in Sri Lanka compared to many countries in South Asia (i.e., India, Pakistan and Bangladesh), and South East Asia (i.e., Singapore, Thailand, Philippines, Indonesia and Vietnam). The labour force participation of females is especially low compared to that of other countries, except that of India and Pakistan.

Labour force participation rates have declined over time in Sri Lanka (Figure 6.2). This is particularly the case for youth and females.

Figure 6.2
Trends in Labour Force Participation Rates



Note: Data excludes Northern and Eastern Provinces. Data is for 15 years and above population. The earliest year for which data is available in the "Labour Force Survey 2013" is 2006.

Source: Estimated based on data from DCS (2013), *Labour Force Survey Annual Report 2013*, Department of Census and Statistics, Colombo.

Figure 6.3
Labour Force Participation of Males by Age Group, Selected Countries

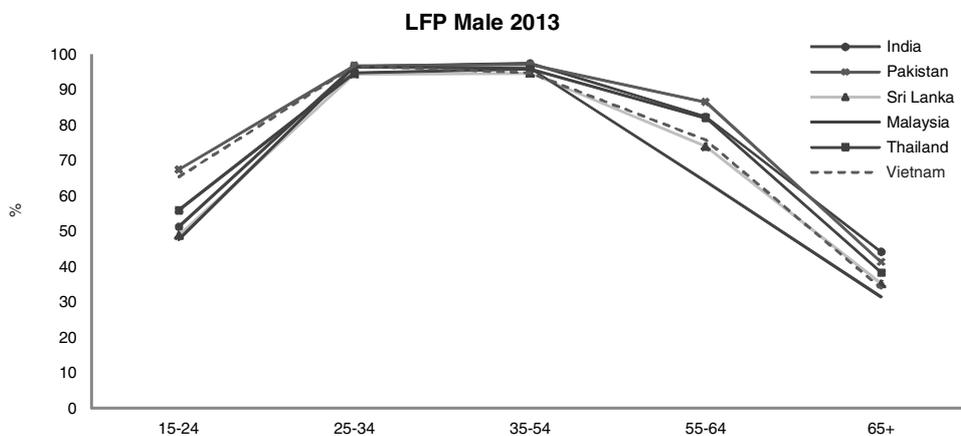
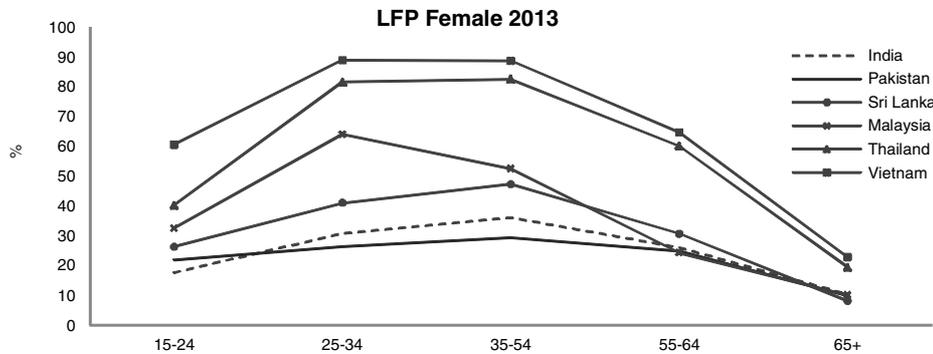


Figure 6.4
Labour Force Participation of Females by Age Group, Selected Countries



Source: Calculated based on ILO (2015), "Key Indicators of the Labour Market", International Labour Organization, Geneva.

According to labour force survey data, the number one reason (affecting 48 per cent of the working age population) for non-participation in the labour force is household duties.¹² This is mainly due to 62.1 per cent of females not in the labour force engaging in household duties. About 20.7 per cent are not in the labour force due to retirement and old age, while 20.5 per cent are not in the labour force due to engagement in studies.

Longer time taken in education - to bridge skills gaps and due to the inefficiencies in Sri Lanka's education system - has increased the time in education for youth, delaying their participation in the labour force. Relative to other countries, young people in Sri Lanka spend a longer time to obtain a degree due to inefficiencies in the education system. Accordingly, Sri Lankan students are more than 24 years old when they get their first degree, while students in most countries get university degrees at younger ages. The main reason for delayed graduation is not longer study courses, but inefficiencies in transition from one level of education to the next, and disruptions to university education due to university closures. On average, a Sri Lankan student wastes about half a year waiting for O-Level results before commencing A-Level course work,

and up to a year after finishing A-Levels to enter university because of delays in the release of A-Level results and admissions to universities. A recent study by the World Bank finds that the low education competencies of students entering Technical Vocational Education and Training (TVET) courses lengthen the time taken by TVET students to complete training.¹³ Further, it finds that some students require bridging courses to upgrade their skills before being able to complete TVET courses.

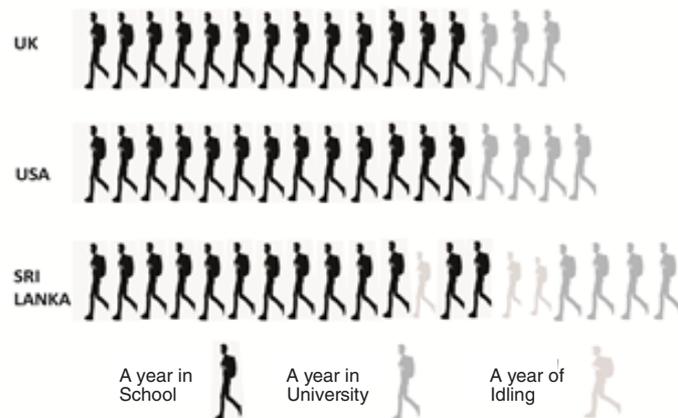
6.2.1 Available Supply of Workers for Development

The available supply of workers is growing at increasingly slower rates due to many reasons. Demographic transitions have reduced the size of the younger age groups, reducing the number of young people entering the working age population. Large numbers of working age population is not engaging in the labour force due to household work (mainly females), retirement and old age and engagement in studies (mainly youth). In the absence of good jobs within the country, many workers are leaving the country for employment abroad. The emigration of skilled workers has increased in recent times. At the same time, the

¹² DCS (2013), *The Labour Force Survey Annual Report-2013*, Department of Census and Statistics, Colombo.

¹³ Dunder, H., *et al.*, (2014), "Building the Skills for Economic Growth and Competitiveness in Sri Lanka", World Bank, Washington, D.C.

On average, university students in Sri Lanka graduate 3 years after their peers in the West



Longer time taken in education has increased the time in education for youth, delaying their participation in the labour force.

labour force is ageing. These demographic transitions are likely to create labour shortages, unless mitigated by introducing policies to improve labour force participation and better productivity.

In order to sustain a ready supply of workers, Sri Lanka will need to restructure the labour market through encouraging population groups with low participation rates, such as youth, females and older persons, to engage more in the labour market. Given lower availability of workers, attention will need to be made to improve the productivity of existing workers through well thought-out human resource development plans that take into account the changing structure of the population, and the fast changing shifting demands of the labour market.

6.3 Worker and Skill Shortages

Despite economic growth, the proportion of formal employment in Sri Lanka has improved only marginally. Labour force survey data show that employment grew at 2.4 per cent per annum on average from 2006 to 2012.¹⁴ This growth is mostly

explained by growth in public sector employment. During this period, public sector and semi-public sector employment grew at 4.8 and 2.8 per cent per annum on average, respectively, while formal private sector employment grew only by 1.4 per cent per annum on average. This suggests that although unemployment rates have been coming down, the employment rates have not increased in tandem.

The lack of skills offered by individuals for the available vacancies is partly responsible for the slow increase in employment numbers. According to the World Bank's Skills Toward Employment and Productivity (STEP) survey 2012, the main obstacle faced by firms when recruiting is the lack of skills.¹⁵ This was especially a concern when recruiting for higher skilled occupation categories, such as managers, professionals, technicians, clerks, service, sales workers, and plant and machine operators. Only for elementary occupations was the lack of applications, skilled or otherwise, the main problem in recruiting workers.

Many industries in Sri Lanka are facing a problem of skills shortages. In 2011, an inadequately educated workforce was found to be a "severe" (9

¹⁴ Labour force survey data as analyzed in Byiers, B., (2015), "Manufacturing Progress? Employment Creation in Sri Lanka", Overseas Development Institute, London.

¹⁵ Dundar, M., *et al.*, (2014), "Building the Skills for Economic Growth and Competitiveness in Sri Lanka", World Bank, Washington, D.C.

Despite economic growth, the proportion of formal employment in Sri Lanka has improved only marginally.

per cent) or a "major or severe" (27 per cent) constraint for current operations by 36 per cent of firms.¹⁶ The issue of lack of skilled workers is increasing; in 2004, an inadequately educated work force was found to be a "severe" (7 per cent) or "major or severe" (21 per cent) constraint for current operations by only 28 per cent of firms.¹⁷ The third biggest perceived obstacle in the business environment faced by firms is the inadequately educated workforce, preceded by access to finance and practices of competitors in the informal sector.¹⁸

The type of demand for skills varies according to the skill category of workers. According to the STEP survey, the most important reason for retaining workers after the probation period was job specific skills for both low-skill and highly-skilled workers.¹⁹ The job specific skills for retaining workers was ranked as important for retaining low-skilled workers by a larger share (33.8 per cent compared to 24 per cent) of firms. Sinhala or Tamil literacy was ranked as the second most important skill for retaining workers by firms for both low-skilled and highly-skilled workers. In the order of importance, the other

skills deemed important for the retention of highly-skilled workers after the probation period are English literacy, leadership skills and numeracy. For lower skilled workers these were, English literacy and team working skills.

6.3.1 Main Issues Faced by the Demand Side

Employment creation in the formal sector in the 2006 to 2012 period was mostly in the public sector. The creation of formal private sector employment was much slower. This is more due to the lack of skills offered by job seekers, rather than due to the lack of opportunities for work. In fact, anecdotal evidence suggests that almost all main industrial sectors are facing labour shortages. A well-coordinated effort to identify skill needs of different industries, and develop human resources to cater to that need is essential to reduce the issue of labour shortages in the economy.

6.4 Reducing Duality of the Labour Market and Increasing Equity

Most labour markets which have regulations protecting employment, by making it harder and costlier to fire workers and where costs of hiring workers are high due to employment based social protection, observe dual labour markets.²⁰ On the one hand, there are workers in the formal sector enjoying the benefits of employment protection and associated social protection, and there are workers outside the formal sector who do not have access to either. Labour markets with high job protections do not adjust to economic fluctuations, as those in permanent positions resist adjustments to the

¹⁶ A constraint labeled as "severe" depicts large impediments for operations while a constraint labeled as "severe or major" depicts moderate impediments for operations.

¹⁷ *Ibid.*

¹⁸ *Ibid.*

¹⁹ *Ibid.*

²⁰ The Economist (2015), "France and Labour Market Reforms - François Hollande's Rhine Journey", <http://www.economist.com/news/europe/21649471-french-president-tries-belatedly-catch-up-other-more-competitive-countries-his> [accessed 13 May 2015].

Box 6.1

Labour and Skill Shortages Faced by Different Industries

Labour shortages in the plantation sector have been an ongoing issue for decades. Estate youth who are now more educated, prefer to work in urban centres rather than find employment in the estates.

The garment industry, the second highest foreign exchange earner for the country, has also been experiencing labour shortages for years. According to the Chairman of the Apparel Exporters Association, the industry is contemplating automation given difficulties in finding workers, with an estimated 15,000 vacancies in the industry in November 2014.

A recent report by the Institute of Construction Training and Development (ICTAD) indicates that the construction sector is experiencing a severe shortage of skilled workers. This situation is aggravated by the migration of skilled construction workers for work abroad.

According to the President of the Tourist Hotels Association of Sri Lanka, the hospitality sector is facing a severe shortage of workers, especially skilled workers. With the ending of the 30 year separatist conflict in 2009, the hospitality sector is expected to grow in the immediate term. This growth can only be sustained with the supply of skilled workers for the sector. These are only some examples of sectors facing labour shortages.

According to the ICT Work Force Survey conducted in 2013, Sri Lanka needs about 6,246 ICT graduates a year. This includes the demand for ICT graduates amongst ICT companies, non-ICT companies, government, and Business Process Outsourcing (BPO) companies. There is a shortfall of about 458 graduates per year due to the shortage of graduates with required skills in technical as well as soft skills.

Sources: Lanka Business Online (2013), "Sri Lanka Plantations Facing Labour Shortages", <http://www.lankabusinessonline.com/news/sri-lanka-plantations-facing-labour-shortages/2035551014>; Mirror Business (2014), "Apparel Industry in Sri Lanka Mulls Automation to Overcome Labour Woes", <http://www.dailymirror.lk/57033/apparel-industry-in-sri-lanka-mulls-automation-to-overcome-labour-woes#sthash.bbpyL9Ph.dpuf>; Balachandra, H. K. (2014), "The 20th Asia Construct Conference - Sri Lanka Country Report", Institute for Construction Training and Development, Colombo; Lanka Business Online (2013), "Sri Lanka Hotels Profits May be Squeezed by Rising Labour Costs", <http://www.lankabusinessonline.com/news/sri-lanka-hotels-profits-may-be-squeezed-by-rising-labour-costs/1592368372>; ICTA (2013), "National ICT Work Force Survey", Information and Communications Technology Agency of Sri Lanka, Colombo.

benefits enjoyed by them. On the other hand, in countries with more flexible labour markets, firms are not reluctant to hire workers as they can adjust their workforce with ease if necessary.²¹

There are clear indications of a dual labour market in Sri Lanka. Despite economic development, the structure of the labour market has not changed much over time. Around 60 per cent of employment in Sri

Lanka is in the informal sector (Table 6.2). About 40 per cent of workers are self-employed or contributing family workers - workers described as vulnerable workers by the ILO.²²

Formal sector workers are legally entitled to receive a host of benefits. They receive better social protection. For example, those in the public service are eligible for a pension upon retirement through

²¹ *Ibid.*

²² DCS (2013), *Sri Lanka Labour Force Survey - Annual Report 2013*, Department of Census and Statistics, Colombo.

Employment creation in the formal sector in the 2006 to 2012 period was mostly in the public sector. The creation of formal private sector employment was much slower.

the Public Service Pension Scheme (PSPS). It is a non-contributory pension scheme that is financed by government revenue. The PSPS is the only comprehensive pension scheme in the country

which allows beneficiaries to continue their usual consumption patterns to their old age. It is also the only pension scheme which provides an annuity. Employees in the private sector contribute to the Employees' Provident Fund (EPF) to which they are eligible upon retirement. Unlike in the PSPS, formal private sector workers receive a lump sum payment at retirement rather than a monthly pension. This was established under the Employees' Provident Fund Act No. 15 of 1958. Companies can also set up their own Provident Fund, under approval from the Commissioner of Labour.

Those in the formal sector also receive paid holidays and paid sick leave and maternity leave. For example, the public sector workers are eligible for maternity leave under the Establishment Code and formal sector workers are granted maternity leave under the Shop and Office Employees Act of 1954.²³ They are eligible for a severance pay if their work is terminated. In addition, workers in the formal sector receive training funded by their employers, which helps them to keep abreast of new developments.

Table 6.2
Trends in Sector of Employment

	2006		2012	
	No.	% of Total	No.	% of Total
Total	7,105,322	100.0	8,128,704	100.0
By employment status				
Employees	3,949,758	55.6	4,586,066	56.4
Public	954,886	13.4	1,230,398	15.1
Private	2,994,872	42.1	3,355,668	41.3
Employer	221,512	3.1	231,087	2.8
Own account worker	2,189,566	30.8	2,591,580	31.9
Contributing family worker	744,486	10.5	719,970	8.9
By economic sector				
Informal sector	4,378,645	61.6	4,964,358	61.1
Formal sector	2,726,677	38.4	3,164,345	38.9

Source: Calculated based on DCS, Labour Force Survey *Annual Report 2006* and 2012, Department of Census and Statistics, Colombo.

²³ Ministry of Labour Relations and Productivity Promotion (2010), "Labour Code of Sri Lanka," Ministry of Labour Relations and Productivity Promotion, Colombo; Ministry of Public Administration and Home Affairs (2004), "Public Administration Circular No. 3/2004 - Maternity Leave - Chapter XII of the Establishment Code," Government of Sri Lanka, Colombo.

Table 6.3
Change in Employment Status of Public and Private Employees (2006 to 2012)

	2006	2012	Change 2006 to 2012
Permanent	1,825,284	2,096,870	14.9
Temporary	931,031	1,345,081	44.5
Casual	492,611	410,629	-16.6
Not permanent	698,844	731,532	4.7
Total	3,947,770	4,584,112	16.1

Source: Jayawardena, P., (2014), "Sri Lanka Employment Case Study", Background Paper, Institute of Policy Studies of Sri Lanka, Colombo.

The need to extend social protection coverage to the informal sector is now well recognized.²⁴ But, attempts to establish contributory pension schemes for the informal sector has not met with much success due to low coverage of the target populations, inadequacy of the benefit amounts, and administrative issues.

Another characteristic of a dual labour market is the increase in the proportion of precarious workers - i.e., workers on short-term contracts or temporary work arrangement. As can be seen in Table 6.3, the proportion of temporary workers in the labour force has increased at a much higher rate than the proportion of permanent workers. Further, data indicate that of the 1.8 million temporary and casual workers in the country, 92 per cent work outside the public sector.

Recent examples illustrate that countries with dual labour markets can result in high unemployment rates (when the unemployed are provided with an allowance by the state) or high levels of informality (as with the case of Asian countries). A dual labour market can reduce labour market flexibility and lower productivity and increase inefficiencies, such as

unemployment and underemployment. For example, France's high unemployment rates are largely attributed to the low creation of formal sector jobs. High costs of creating employment due to high levels of job protection and higher wages are contributing to low job creation.²⁵ In 2012, Mexico brought forward a Bill before Congress to modernize their outdated labour code with the intention of relaxing labour regulations with the hope of expanding job creation.²⁶ Some reforms that were contemplated include, the introduction of hourly pay, allowing companies to hire workers on trial basis for up to six months, and a cap on severance pay so that it is less costly for companies to restructure their workforce. The proposed reforms also introduced clear rules on outsourcing and improved the rights of females in the workplace. These reforms are expected to create an additional 400,000 jobs yearly, reduce informality and increase economic growth by 0.3 per cent. The Bill also aims to improve the governance of labour unions by requiring them to elect officials through secret ballot and submit their accounts for auditing.

6.4.1 Main Issues of Duality in the Labour Market

Sri Lanka has a dual labour market. Those working in the formal sector receive employment protection as legislated by law. They also enjoy paid holidays, maternity leave benefits and superannuation benefits. Despite attempts to improve social protection for those in the informal sector, these have not improved over time. Evidence for other countries shows that dual employment markets reduce job creation and leave large segments of the population economically and socially vulnerable. Investments on training by firms on informal, casual and temporary workers are also lower. As such, skills of workers who remain as temporary or casual workers

²⁴ See Chapter 10 of this report on "Reforming Sri Lanka's Social Protection System."

²⁵ The Economist (2015), "France and Labour Market Reforms - François Hollande's Rhine Journey," <http://www.economist.com/news/europe/21649471-french-president-tries-belatedly-catch-up-other-more-competitive-countries-his> [accessed 17 May 2015].

²⁶ The Economist (2012), "Reforms in Mexico - Labour Pains," <http://www.economist.com/news/americas/21565607-travails-bill-modernise-labour-markets-and-unions-highlight-difficulties-facing> [accessed 7 May 2015].

over a longer period will get outdated and their productivity will decrease over time. Further, informal, casual and temporary workers are more likely to fall into poverty as they are not covered by social protection provisions enjoyed by the formal sector workers.

6.5 Issues with Human Resource Development

Many of the demand and supply mismatches discussed above could have been avoided with proper planning. A clear understanding of the trends in the supply of workers, their skill competencies and the demand for workers and skills by the industries can better prepare planners to make structural adjustment to minimize the gaps. Better labour market information, better capacity in the labour market institutions to analyze available information for advising policy makers, and better coordination between different labour market institutions can facilitate the generation of a skilled workforce to meet the demands of industries.

6.5.1 Labour Market Information

A prerequisite for proper analysis of labour market trends and restructuring of training to match demand is information. Comprehensive, reliable and up-to-date information is essential for identifying demand and supply mismatches in the labour market and for taking action to fill gaps. In the absence of such analysis, the envisaged economic development plans will not be able to be carried out according to plan.

The main source of information on the labour markets is provided by Labour Force Surveys conducted by the DCS. Although these provide fairly comprehensive information on the supply of workers, they do not provide information on training, labour demand and labour migration.

The Labour Force Survey only collects information on education attainment at school level and

A prerequisite for proper analysis of labour market trends and restructuring of training to match demand is information.

university education. Information on TVET is only collected from the unemployed. Better information on the TVET sector could provide information on the skills mismatches in the market. Information available from the TVET sector can also be improved. The present available information is limited to enrolments and completions. Although some studies have been done to collect information on the labour market outcomes of those who have completed TVET training, these studies are done on an ad hoc basis. Regular information on labour market outcomes of TVET graduates can provide valuable information on the quality and relevance of the training, and the need to adjust training requirements to match demand.

Most available information on the labour market is from the supply side. However, regular surveys need to be conducted to assess the vacancies and skill shortages in the economy, and circulate these results for new entrants to the market. This will allow students to choose their training programmes more rationally, and allow training providers to adjust their training programmes to better meet the market demands.

Given that large numbers of workers are leaving the country for employment, better information on the migrant workers are also necessary for improved human resource planning. The Sri Lanka Bureau of Foreign Employment (SLBFE) collects information on labour migrants and makes them available on the web with regular updates. It is a first step towards improving information on migrant workers. The information available at present are limited to those who register with the SLBFE and for those leaving the country for work. Information should also be collected on those returning to the country after work abroad, and those leaving the country without registering at the SLBFE. Discussions with the SLBFE reveal that there are already attempts to link SLBFE data with that of customs data so that more comprehensive information on both arrivals and departures for foreign employment can be collected. Further, to facilitate analysis of available information, classification of migrant workers should also be done using international standard classifications, as done by the DCS for the classification of workers in Sri Lanka.

6.5.2 Labour Market Planning and Governance

There is ample evidence that timely, reliable and comprehensive information on various aspects of the labour market is essential for the proper planning of labour markets. Human resource planning is interlinked with economic planning. The strategies adopted by different governments to develop the country will determine the human resource needs of the country. Human resource planners should ideally forecast the skills and employment needs according to the development objectives of the country, examine the present demographic trends, and institutional environment for human resource development. If there are identifiable gaps in the supply and demand of labour according to different skill levels, corrective action should be taken to

restructure the labour supply and training practices so as to ensure proper supply of workers.

Institutions responsible for planning and implementation of labour related policies is scattered across different ministries in Sri Lanka. Further, their distribution amongst different ministries changes from time to time. Some labour market institutions have even come under non-labour related ministries (Box 6.2). Such changes have complicated the proper planning of labour and employment.

At present, labour market planning is done by different ministries with different objectives in mind. For example, the stated functions of the Ministry of Foreign Employment are broadly, promotion of foreign employment, welfare of migrant workers, regulation and supervision of employment agencies and other institutions coming under the ministry, career guidance of foreign employment job seekers, and the welfare of expatriate workers. The Tertiary and Vocational Training Commission (TVEC) identifies improving the quality and relevance of TVET programmes, increasing enrolments in TVET institutions, and improving the operational and managerial efficiency of TVET institutions as their objectives. The mission of the Ministry of Labour and Labour Relations is to contribute towards the socio-economic development through the promotion of industrial peace and harmony, social protection, rights at work and productivity. However, no ministry is in charge of coordinating the actions of these different ministries, so that there is a clear strategy for developing human resources in the country to cater to local and foreign employment skill demands of the country. The present skills mismatch experienced in the country is partly arising from this lack of coordination. For example, on the one side, when Sri Lanka is facing a shortage of labour in the construction sector, the country has been promoting migration of construction workers with the objective of bringing foreign exchange earnings.

Box 6.2**Shifts in Ministerial Responsibilities for TVET**

The main ministry responsible for the TVET sector changed several times from 2007 to 2015. Even when it remained the same, changing policy priorities was a challenge for development of the TVET sector.

Segregation of training agencies into different ministries was identified as a weakness of the TVET sector in the Corporate Plan of the Tertiary and Vocational Education Commission (TVEC) in 2007. For example, the Ministry of Vocational and Technical Training, the main ministry responsible for the TVET sector in 2007, had only some of the important vocational and technical training institutions (such as the Department of Technical Education and Training (DTET), Vocational Training Authority of Sri Lanka (VTA), and the National Apprenticeship and Industrial Training Authority (NAITA)) coming under its purview. Several other important training institutions came under different ministries in this year. For example, the National Institute of Fisheries and Nautical Engineering (Ocean University) came under the Ministry of Fisheries and Aquatic Resources, and the Ceylon German Technical Training Institute (CGTTI) came under the Ministry of Skills Development and Public Enterprise Reforms.

In the post-2010 period, a main challenge for the sector was not the distribution of TVET institutions amongst different ministries, but the frequent change of government priorities. In 2010, the government showed a renewed interest in youth affairs. Along with this new interest, the most important technical and vocational training institutions mentioned above (i.e., DTET, VTA, NAITA, Ocean University and CGTTI) were brought under the Ministry of Youth Affairs. In 2012, this ministry was renamed as the Ministry of Youth Affairs and Skill Development. In the new government formed in 2015, again the above institutions were kept together; the new ministry responsible for those is the State Ministry of Youth Affairs, which is a non-cabinet level ministry.

Sources: TVEC (2007), "Corporate Plan 2008-2012", Ministry of Vocational and Technical Training, Colombo; TVEC (2011), "Corporate Plan 2012-2016", Tertiary and Vocational Education Commission, Colombo.

6.5.3 Training

Sri Lanka has several networks of well-established vocational and technical training institutions that are spread throughout the country. The oldest of these is the Department of Technical Education and Training (DTET) which established its first technical college in 1893 in Colombo.²⁷ In recent times, from 1968 to 1995, four more networks have been established for the purpose of technical and vocational education and training. These are the National Apprentice and Industrial Training Authority (NAITA), the National Youth Services Council (NYSC), the Vocational Training Authority (VTA), and

the Sri Lanka Institute of Advanced Technological Education (SLIATE). In 2009, 63,323 students (DTET - 12,175; NAITA - 11,500; VTA - 25,534; SLIATE - 5,341) were admitted for training to these institutions. These institutions are mainly concerned with training crafts persons for the industrial sector, but in recent times they have also started offering courses in computing, information technology, health and elderly care, etc. In addition to the above institutions responsible for TVET, individual line ministries, and provincial councils are also conducting TVET programmes using public funds. Several private sector institutions are also engaged in providing TVET education.

²⁷ The paragraph draws from ADB (2011), "The National Qualification Framework for Skills Training in Sri Lanka", Asian Development Bank, Manila.

The need for a national level qualification system to assess skills of workers has been a pressing need. In response to this, the National Vocational Qualification (NVQ) system was developed to standardize the assessment of qualifications within the country. The NVQ system provides certificates confirming competencies in seven levels according to industry identified competency standards. For example, NVQ 1 certifies the acquisition of entry level competencies, levels 2, 3, 4 certifies competencies in full craftsmanship, levels 5 and 6 recognizes competency levels for managers and supervisors, while level 7 recognizes degree level competencies in TVET. Unlike with university education, individuals can obtain certification in different levels of NVQ at different times. There is also provision for those who have obtained competencies through experience, rather than through class room work, to obtain certification after an assessment. In 2008, the University of Vocational Technology (UNIVOTEC) was established for the purpose of training individuals to obtain level 7 competencies in TVET and for developing curricula, teacher guides and learner guides. The TVEC is responsible for the administration of NVQ with the assistance of NAITA and UNIVOTEC.

Currently, competency standards are developed for 96 occupations for NVQ levels 1 to 4, 14 fields for those at NVQ levels 5 and 6. The TVEC conducts labour market analysis to identify occupations and fields needing development of competency standards and instructs the NAITA to develop them. The process of developing the NVQ system was long. It was initiated in 1997 with a report by a Presidential Task Force, the development of the NVQ framework started in 2003, and it was formally launched in 2004 and the first set of individuals received NVQ certificates in 2007.

6.5.4 Main Issues of Human Resource Development

The limited demand side information available indicates that there are serious skills gaps in almost

all industrial sectors of the country. This skills gap is more acute for highly skilled workers. Further, as the number of skilled workers going abroad for work is increasing, the training institutions in the country need to take into account the needs of the market for migrant workers as well as the domestic market.

Up-to-date reliable information on all aspects of the labour market needs to be systematically collected, and analyzed to identify mismatches in the supply and demand of workers and skills. Such information should be freely accessible and should be used to help students make career decisions, help training providers design courses, and help development planners to assess availability of labour resources for anticipated development plans for the country.

Once skills gaps are identified, programmes should be put in place to guide training providers develop courses to train individuals to fill skills gaps. In the immediate term, an accelerated programme of action is necessary to develop human resources to fill anticipated vacancies in different industries.

6.6 Conclusions and Policy Recommendations

Most industrial sectors are experiencing labour and skill shortages in the country. At the same time, demographic changes and related ageing of the population is slowing down the available supply of workers. Lower labour force participation and high levels of migration of workers are exacerbating the labour shortage problem. To meet the increasing demand for skilled workers, the education and training sector in the country needs to improve. The country is endowed with a well-established network of training institutions. However, these need to be modernized and improved so that the graduates who come out of these institutions are properly trained and ready for employment. Developing high skilled workers take time. Planning for human resource development for the envisaged development plans needs to happen immediately.

However, human resource development is hindered by several factors in the country. Comprehensive, reliable and timely information on all aspects of the labour market are not available to guide planning. Policies relating to human resources in the country are done by several institutions spread across different ministries. This has made holistic planning difficult. Therefore, the following policy reforms are envisaged on a priority basis to ensure unhindered development.

Policy Priority 1: Better information and better coordination, better planning and effective career guidance

Better information on worker and skill demands of the country and analysis of this information for better planning to develop human resources for the different demands of the country is essential to minimize growth constraints associated with labour and skill shortages. The knowledge created through information thus collected must be publicly available, for policy makers, for students for career planning, for training institutions for designing courses, and for industries for development planning.

Collected information should also be used for monitoring and evaluating the effectiveness of different labour market institutions. Adequacy and relevance of different types of workers coming out of training institutions to cater to the needs of different industries should be assessed. If there are deficiencies, plans must be put in place to address the gaps in human resources.

A multitude of public and private training providers is in operation in the TVET sector in the country. Information on the quality and relevance of courses offered by these different institutions, and the relevance of courses offered must be made available to job seekers so that they can make informed decisions on their careers and training providers.

A central body should be in charge of drafting policies for the development of labour resources. The present

labour market policies are developed by a variety of institutions with different, and sometimes conflicting, objectives. Better coordination amongst labour market institutions is essential for strategic human resource planning in the country.

Policy Priority 2: Improving skills and productivity of workers

Productivity increases is another means of mitigating the adverse effects of reducing labour resources. Training is central to improve labour productivity. With the changing structure of the population and fast changing technology and global integration, the traditional modes of vocational and technical training models are unable to supply adequate numbers of skilled workers. Depending on the level of skills and experience needed, the planning will have to be done in advance, as skilled workers take longer to train. As such, in future, the training institutions will need to train workers for globally recognized certificates.

The present training programmes in the country are aimed at training young workers who come out of school. Technological change will require that presently employed workers also get on-the-job training so that they keep abreast of changes in technology. Training institutions will also need to cater to the needs of the adult students so they can productively engage in the labour market

Policy Priority 3: Improving labour force participation of females, youth and elderly

To make up the reducing numbers, those outside the labour market - namely, youth, females and older persons - will need to be encouraged to participate in the labour force.

Females are the prime caregivers for young children and the elderly, and they play a major role in household activities such as cooking and cleaning. These different roles played by females will need to be taken into account when designing policies for encouraging female labour force participation. Policy

recommendations for improving female labour force participation adopted by other countries include,²⁸ improving public assistance for child care and child care benefits, improving flexibility of employment by facilitating part-time work, reducing the discrimination of females in the labour market, and providing tax benefits for second earners.

Deficiencies in the school education system for preparing children for the world of work and time taken in improving skills to match the demands of the market increase the time taken by youth to acquire skills demanded by the market. Improving relevance and quality of education and managing their transitions to different levels of education more efficiently can reduce the time spent in education and improve labour force participation of youth.

Upgrading and modernizing school education to match demands of the market, and improving the vocational and technical training sector can make general and TVET education more efficient and relevant, so that less time is spent in education. Better information on the skill demands of the market can help young people choose their study courses wisely, facilitate course planning for technical and vocational training institutes, and reduce time taken for job search.

Lifelong training that reduce the skills mismatches for older workers and more flexible work arrangements can improve the labour force participation of older workers.

Policy Priority 4: Reducing the duality of the labour market and improving equity

Reducing the cost of firing workers, shifting the responsibility of social protection from the firm to

the public domain and improving the governance of unions so that union decisions truly reflect the interests of the workers are some policy options adopted by countries to reduce the gap between the 'insiders' and 'outsiders'.

At present, the cost of providing social protection for workers is borne by the firms. For example, when a young mother goes on maternity leave, it is the responsibility of the firm to give the mother paid leave for the duration of the legally stipulated maternity leave. Although this may not be a problem for large firms with many workers, firms operating with a handful of workers will find the costs of providing for paid leave for several months difficult. Some countries have funds to assist smaller firms deal with such costs of social protection. Lowering the costs of social protection will also encourage smaller firms to enter the formal sector and provide formal employment to workers.

Lobby groups consisting of employees already in the formal sector have prevented planned reforms in many instances in the country. Such trade union actions help to protect the interests of the workers, who have already gained formal sector employment and prevent workers from outside from entering the system. Trade union actions should be restricted to fighting for the interests of the workers. Ensuring democratic election of trade union leaders is necessary to ensure that unions are functioning democratically with the interest of the workers in mind.

²⁸ Dao, M., et al, (2014), "Strategies for Reforming Korea's Labour Market to Foster Growth", International Monetary Fund, Washington D.C.