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Towards an employment strategy framework for Sri Lanka

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Foreword

The International Labour Office shares with its tripartite constituents the objective of creating full, productive and freely-chosen employment with, and through, social dialogue. Progress in reaching the employment objective can be measured in terms of six dimensions:

- (i) changes in rates of open unemployment and in employment-to-population rates, i.e. providing opportunities for more people who want to find work;
- (ii) changes in the number of the working poor, i.e. those whose work cannot keep their dependants above the poverty line; an objective of an employment strategy must be to reduce the number of the working poor;
- (iii) wage behaviour, an indicator of whether increased prosperity is being spread;
- (iv) skill development, especially comprehensive access to new skills;
- (v) discrimination at work, principally, although certainly not exclusively, the gender dimension;
- (vi) social dialogue and tripartism, and respect for core labour standards¹.

These notions have inspired this report which attempts to review Sri Lanka's performance in recent years in these respects and suggests the next steps needed. It finds much that is praiseworthy and considers that the country is well poised for the further growth of productive employment. Sri Lanka is a country in transition to higher income levels and a different economic structure. It is well served by many labour institutions but unsurprisingly there is scope for improvement, especially in the effectiveness of social dialogue. Government can facilitate positive structural change in the economy by adopting a clear policy stance on matters of trade and globalization and by contributing to better labour market functioning, not least through greater transparency in its own recruitment procedures.

But the current ethnic conflict is impinging negatively on all forms of economic activity, both directly and indirectly. The longer it continues the greater the damage which will be done to prospects for employment generation and poverty alleviation.

This report is the outcome of a project undertaken jointly by the ILO in Geneva and New Delhi. Two technical missions were undertaken to Colombo by a team consisting of staff from ILO headquarters and ILO/SAAT. With the support of the ILO Area Office in Colombo, critical issues to be covered in the report were identified and background papers by local consultants were commissioned. The draft report was discussed in a technical workshop organized by the Area Office in Colombo in November 2001. This report has been prepared by the ILO, based on the various background papers, and the discussions at the above workshop. Peter Richards, in collaboration with Junko Ishikawa and Martina Lubyova, was responsible for the supervision of the research activity, and the preparation of the report. The background papers are as follows:

¹ For more detail see ILO, *Global Employment Agenda: Discussion Paper* Geneva, 2001 and P. Richards, *Towards the goal of full employment*, ILO, Geneva, 2001.

- P. Alailima: *Sri Lanka: Growth, distribution and redistribution*;
- C. Rodrigo: *Labour market developments: Sri Lanka country profile in the 1990s*;
- P.M. Leelarathne: *The relationship between education, training and employment*.
- A Fernando: *Challenges of growth, employment and decent work: Sri Lanka, small and medium enterprises component*;
- U.B. Ekanayake: *Study on the impact of labour legislation on labour demand in Sri Lanka*;
- T. Jogaratnam: *Allocation of State land for peasant agriculture in Sri Lanka*.

Chapter 1 looks at the structural shifts in the economy which have accompanied the liberalization process, especially in the 1990s. Chapter 2 attempts to review how these and other developments have affected the labour market and especially their effects on earnings. Chapter 3 reviews the current economic dilemmas facing the government, especially those resulting from the ethnic conflict and the financing of defence expenditure. Chapter 4 looks at repercussions on poverty and at the characteristics of poor households. Chapter 5 then situates Sri Lanka in the process of globalization and discusses how to have the country benefit more. Chapter 6 takes this up in considering how the country's widespread public training system could be more effective. Chapter 7 discusses the role of small and medium enterprises and means whereby government programmes can assist them. Chapter 8 concentrates on the role of social dialogue and of labour market regulation and the role of the Ministry of Labour in enforcing such regulation. Chapter 9 presents conclusions and recommendations.

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1. Growth and structural change in the nineties ²

Sri Lanka has opened up its economy through two waves of economic liberalization. However, in the first round of liberalization and reform, the budget deficit was allowed to go as high as 23 per cent (in 1980), and issues such as the privatization of public enterprises and the tariff and tax structure were not addressed. In the second round of reforms, which started in 1989, the budget deficit received more attention, privatization was introduced (but without adequate transparency), and the process of tax, trade and tariff reform was restarted.

Effective control of highly disruptive JVP activities in the early nineties and the initiation of a convincing structural reform agenda helped rebuild failing public confidence, and private investment started to grow from 1992 onwards; by 2000, private investment accounted for 76 per cent of total domestic investment. Public investment was increasingly restricted during the nineties by the need to contain the budget deficit in the face of rising defence expenditure; it declined from 9 per cent to 6 per cent of GDP, over the decade. Nevertheless, GDP growth averaged 5.1 per cent over the nineties.

Since 1995, Sri Lanka has followed a more integrated economic liberalization path. Policy has been directed towards gradually reducing the budget deficit and inflation, alleviating poverty, raising savings, and promoting private sector-led growth. However, control over the budget deficit has only been achieved irregularly. After a severe drought in 1996, GDP growth reached 6.3 per cent in 1997; there were declines thereafter to 4.7 per cent in 1998 and 4.3 per cent in 1999, partly due to two elections (in 1999), to the lagged-effect of the turbulence in world financial markets, the slackening of export prices and the escalation of oil prices. In 2000, despite further escalation of oil prices and the intensifying civil war, which required increased imports of defence equipment, the economy registered 6 per cent growth.

Sri Lanka's trade dependence has always been high and both exports and imports have grown rapidly, even as the structure of external trade has changed. The momentum of export growth was maintained till mid-1998 against moderate import growth, with external assets remaining at a level adequate to finance four months of imports. Exports fell for the first time in the first half of 1999 (by as much as 10 per cent) due to weak global demand; but there was an upturn in the second half of 1999, and strong growth in 2000.

However, in 1999, Sri Lanka's external vulnerability was exposed. The sharply-rising amortization of official debt and a reversal in short-term capital inflows were aggravated by the fall in gross disbursements of official aid (due to the completion of several large projects and delays in others). There was a sharp increase in the deficit in the balance of payments to US\$ 263 million in 1999 with gross official reserves falling to 3 months of imports; and there was a further decline to 2.5 months of imports in 2000 due to additional armaments purchases and in the sharp rise in oil prices.

The completion of major infrastructure projects, the privatization of public enterprises and the rapid expansion of the private sector led to a reduction in the size of the public sector in the economy. Government expenditure as a percentage of GDP declined from 31 per cent in 1990 to 25 per cent in 1999. The divestiture of public enterprises was started as part of the second phase of the reform programme (1989), and 47 enterprises were divested up to 1994 through the sale of shares (ceramics, cement, distilleries, tyres, etc.) and through management contracts (plantations). Major divestitures in the 1995-98 period included the Colombo Gas Company, the Steel Corporation, Sri Lanka Telecom Ltd., National Development Bank, Air

² This chapter is taken from Alailima, P.J. (2001) Sri Lanka: *Growth, distribution and redistribution*, mimeo, Colombo.

Lanka and the Regional Plantation Companies. These generated US\$ 525 million for the government and attracted US\$ 405 million in foreign inflows. By 1999, activities under public sector control had fallen to about one-tenth of total GDP.

The private sector's share in the financial sector increased with the establishment of new financial institutions, aggressive branch expansion and increasing ownership in the National Development Bank and the Capital Development and Investment Company. The provision of private post-offices, fax and pay-phone facilities, parcel delivery, wireless and mobile phone facilities and television and broadcasting services has also reduced the role of the public sector in the postal and telecommunications area. Private sector participation in major infrastructure projects has also been encouraged e.g. port, power, and telecommunications.

Defence expenditure has increased from 1.3 per cent of GDP in 1980 to 4-6 per cent of GDP in recent years. In 1999 the Government spent nearly \$ 1 billion on defence, more than the amount allocated to education and health combined. Equally large sums have been mobilized by the LTTE to sustain the conflict. As a result of the conflict, visitor arrivals have fluctuated widely; Sri Lanka has been unable to tap the higher unit-value tourism market; and has had to limit her ambitions to be a regional service sector hub. The conflict has also led to the migration of professionals, entrepreneurs and skilled workers; and increased violence in the society and political culture, creating an all-pervasive insecurity.

However, despite the protracted conflict, the country recorded an impressive average annual growth performance in the 'nineties and significant structural change in the economy took place during this period. Between 1990 and 1999, agriculture's share of GDP declined from 23.2 to 17.5 per cent; while the manufacturing sector's grew from 17.4 to 21.9 per cent and the combined service sector's from 49.5 per cent to 51.5 per cent (table 1.1).

Table 1.1: Distribution of GDP and employment

Category	Distribution of			
	Employment		GDP	
	1990	1999	1990	1999
Agriculture	48.3	38.0	23.2	17.5
Mining	1.6	1.3	3.0	2.2
Manufacturing	13.7	15.5	17.4	21.9
Construction	4.0	5.6	6.8	7.0
Electricity	0.7	0.5	1.3	1.6
Trade	9.9	12.7	20.5	20.9
Transport	4.2	5.4	11.1	12.5
Insurance	1.3	1.7	7.9	8.5
Personal services	16.2	19.3	8.7	8.0
Average	100.0	100.0	100.0	100.0

Note: The non classified category in the employed population has been distributed among other industrial categories on a pro rata basis.

GDP has been estimated at 1982 prices.

Employment figures exclude the North-East province.

Figures for employed population in 1990 are the average for 3 quarters.

Source: Quarterly Labour Force Survey, 4th Quarter 1999 for employment.

Central Bank of Sri Lanka, Annual Report, various issues.

The largest increase in employment in any of the above sectors was by 2.8 percentage points in both manufacturing and trade. The share of agriculture in total employment dropped from 48 per cent to 38 per cent. Relative to the average, productivity in manufacturing is not particularly high, coming behind trade, transport and insurance. Relative productivity in both agriculture and personal services remains low.

Growth in agriculture has lagged behind that of other sectors of the economy despite a vast array of public programmes aimed at its stimulation. From 1990-99 agriculture, forestry and fishing grew at an average annual rate of 1.9 per cent compared to an overall GDP growth rate of 5.1 per cent. In one sense paddy (rice cultivation) predominates in the agriculture sector, accounting for the largest extent under any crop (about 42 per cent of cultivated area). Paddy cultivation is essentially small-scale, mainly for domestic consumption and is carried out throughout the country. Increases in production and yields have come mainly from the expansion of cultivated area under the Mahaweli Programme, and then from larger farmers who had an assured water supply through irrigation and could be sure to benefit from fertilizer subsidies. Nonetheless output has fluctuated very considerably with usually corresponding effects on consumer prices. Imports of rice declined to 9,000 MT in 1995 as Sri Lanka achieved self sufficiency, but increased again thereafter; rice consumption is supplemented by substantial imports of wheat flour, from which the government monopoly was removed in the 2000 budget. Only rice imports still requires a license (these are assigned to private companies). However, the official approach to the liberalization of food imports is ambivalent and it is not obvious whether it is farm incomes or consumer purchases that are being targeted.

Despite the Government's efforts to diversify domestic agriculture and move cultivators on marginal lands out of paddy cultivation, the area under other farm crops than rice decreased by 30 per cent from 1986 to 1997 (IDCJ, International Development Centre of Japan, 2000); this was apparently due to:

- off-farm wage rates being higher than returns to family labour for higher value crops, possibly because local producers could not compete with cheap imports (mainly from India and Pakistan);
- the absence of proper land titles may be an obstacle to increasing farm size and developing higher value-added crops;
- farmers growing rice for prestige reasons, and in addition, rice takes fewer labour days per season (compared to other crops) and thus allows the farmer to engage in more lucrative off farm work;

Import protection has been provided to the cultivation of potatoes, onions, chillies and other crops through import duties, a producer (floor) price system, subsidized inputs, concessionary bank credit and occasional import surcharges. But the results have been poor. Weak infrastructure for collection, transport, marketing and distribution on a commercial scale are probably also contributory factors.

In contrast the profitability of the tree-crop sector gathered momentum after the nationalized state plantations were privatized and as high-yielding clones were adopted by large and smallholders. The level of profitability was restored in the organized plantation sector after privatization, and smallholders began to play a prominent and productive role, contributing 60 per cent of total production by 2000. Tea production increased by 31 per cent during the decade (from 233 mn. kg. in 1990 to 305 mn. kgs. in 2000) partly in response to relatively good tea prices from 1995-98 and partly due to better cultivation practices. Rubber production and yields declined during the second half of the decade in response to falling prices. Since the demand from local industry has increased over the decade, exports have halved. Coconut production showed a substantial increase in response to good weather, higher export prices, better cultivation practices and productivity. Despite a fall in prices during 2000, nut production reached an all-time record.

Industrial policy during the nineties emphasized the continuation of export-oriented industrialization. Government established a one-stop shop, the Board of Investment (BOI), to

facilitate the entry of foreign and the promotion of local investment, and encouraged rapid industrialization by trying to maintain macro-economic stability.

Within manufacturing, factory industry, which contributes about 80 per cent of total value added in manufacturing, grew at an average of 9.1 per cent over the 1990s, while small-scale industry averaged 6.0 per cent. The third component of manufacturing industry i.e. tree crop processing (tea, rubber, coconut) averaged only 1.3 per cent growth over the period. The garment industry grew rapidly increasing its share of industrial production from 23.1 per cent (1990) to 38.5 per cent (1999), although there was a decline in export prices (\$ per piece) in 1999; its competitiveness was increased through diversification into non-quota items and niche-markets and through the adoption of new technology and plant modernization.

Although garment exports accounted for two thirds of total industrial exports, products such as leather, porcelain, wood products and other industrial products are also becoming significant. Total exports as a percentage of GDP rose from 24 per cent in 1990 to 34 per cent in 2000.

The Export Processing Zones (EPZ) set up at Katunayake (1979) Biyagama (1984), Koggala (1990) and 5 export processing parks have contributed substantially to export growth. By 1999, 1,070 enterprises were in commercial operation employing nearly 300,000 workers when at full capacity. Altogether Board of Investment approved companies accounted for 60 per cent of exports in 1999. The expansion of the garment industry has been the corner-stone of export-oriented industrialization and about 90 per cent of the jobs in the garment sector and about 80 per cent in the EPZ's overall are held by women.

The increasing burden of the war and the repeated destruction of vital economic assets in the southern part of the country have greatly restricted the funds available for the public provision of services, leading to serious inadequacies in basic infrastructure. Electricity supply has not kept up with demand; the performance of port and aviation services is poor; and the roads and transport services are congested. Inadequately developed infrastructure has undoubtedly reduced productivity and competitiveness.

Although the service sector averaged growth of 5.6 per cent per annum much of that came from the liberalized financial sector, transport, telecommunications and external trade. The state continues to play a major role in the service sector with its ownership of a large share of the banking system, insurance, utilities, rail and bus services, the port, airport, food marketing, etc.

While public investment in social infrastructure has been relatively broad-based, investment in economic infrastructure during the nineties has been heavily biased towards the Western Province, which contains 25 per cent of the total population. Consequently the Western Province, with its better infrastructure, has reaped the fruits of liberalization and associated growth during the nineties, while other provinces have lagged far behind. These shortfalls affect the welfare of households directly and also indirectly, by limiting economic growth in the poorer areas of Sri Lanka.

The telecommunications sector has expanded rapidly after it was opened up to private operators. While telephone density (per 1,000 persons) fell from 7.3 in 1990 to 2.3 in 1998 for Sri Lanka Telecom, private sector providers (Cellular phones, WLL telephones and phone booths) have gone from a density of 7.3 to 37.4 for the same years.

2. Salient features in labour market functioning

2.1 Introduction

Sri Lanka witnessed an extraordinary fall in the level of unemployment in the 1990s, see box. The pace of decline in the unemployment rate accelerated during the decade; i.e. the rate fell from 15.9 per cent in 1990 to 12.3 per cent in 1995 and to 8.0 per cent in (the first quarter of) 2000. The acceleration in the decline is, however, partly statistical in nature. From 1998 labour force surveys turned up more (unpaid family) workers and fewer non-labour force members. A change in the way the surveys were managed may also have transferred some people from the unemployed to the (unpaid family) worker category. The acceleration in the rate of decline did, however, affect both men and women, although the change was far more pronounced for the latter. Women were more obviously affected by the change in labour force survey procedures and their labour force participation rate jumped up more markedly between 1996 and 1998. This does introduce, most obviously for women, a problem of non-comparability of data between the early and late 1990s.³

However, the fall in the unemployment rate for both men and women is uncontested. The more educated have come to be a larger share of all unemployed since unemployment rates fell fastest for those least educated (unemployed persons with 'O' level and above were 42 per cent of all unemployed in 1990 and 52 per cent a decade later). However, even so the unemployment rate of those with 'O' level and above was halved from 26 per cent to 13 per cent.

For the fall in unemployment there are perhaps two main reasons: that macroeconomic performance was good and liberalization policies broadly achieved what was expected of them, i.e. bringing both growth and labour absorption; and that over and above good macroeconomic performance, the fiscal operations of the government stimulated employment growth.

Indeed government employment is a matter of some importance. It has long been considered that the terms of public sector employment create incentives for some job seekers to refuse, or neglect to look for, jobs elsewhere. This is certainly one reason for the phenomenon of educated unemployment. Of course, there may also be an overall shortage of jobs which the educated consider suitable for them. But public sector work is likely to be seen as a desirable norm, which other jobs may not reach. In fact, while public sector jobs are desirable for many reasons, such as generous leave entitlements, pensions, etc., the wage premium they provide is greatest for those educated to below 'A' level.⁴ Furthermore, the public sector provides teaching jobs for graduates; in some areas these are the only suitable jobs which the highly educated are likely to find.

Despite many attempts to make government recruitment more transparent, and indeed to limit it, it remains apparently arbitrary: "Apart from military recruitment, there were also bouts of recruitment into the State cadre from time to time, particularly after the change of government in 1994. Much of this new recruitment was into white-collar grades. These included the recruitment of 35,000 teachers in 1995 and a further 12,000 in 1998. Another deviation [from announced policy] was the recruitment of a cadre of *Samurdhi* animators (24,000) to man the new Social Safety Net Programme – *Samurdhi* – launched by the new government in June 1995. In May 1999, 8,000 university graduates were recruited outside the

³ It is, however, possible that the rise in female labour force participation recorded in the late 1990s was only compensating for a gradual fall over the years, also caused essentially by changing labour force survey procedures.

⁴ On average, however, the wage premium is as high as 24 per cent, see Lubyova, 2001

Table 2.1. Sri Lanka Distribution of total population by main activity 1971, 1996/97 and 2000

	Less than 14 years old	Employed	Unempl- oyed	(Labour force)	Student (over 14)	House work	Retired	“Other”
All ages								
1971 Urban	36.6	25.7	8.2	(33.9)	5.5	17.6	4.7	(1.7)
1996/97 Urban	22.7	32.2	5.0	(37.2)	9.8	17.3	6.5	(7.5)
14+ only								
1971 Urban	-	40.5	12.9	(53.4)	8.7	27.8	7.4	(2.7)
1981 Urban	-	40.3	9.9	(50.2)	10.2	27.7	7.3	(4.6)
1996/97 Urban	-	45.5	6.5	(52.0)	11.4	22.4	8.4	(5.8)
1971 Rural	-	47.9	9.0	(56.9)	6.5	26.0	7.5	(3.1)
1981 Rural	-	43.1	8.7	(51.8)	8.9	28.9	7.4	(3.0)
1996/97 Rural	-	47.5	5.3	(52.8)	13.0	19.9	7.2	(7.1)
2000 quarter	1 st -	52.6	4.8	(57.4)	n.a.	n.a	n.a	n.a
Urban + Rural								

Source: *Census of 1971 and 1981, Consumer Finance Survey 1996/97, Labour Force Survey 2000 1st Quarter.*

Note: The first panel, “all ages”, shows the demographic change between 1971 and 1996/97 with the fall in the share of children below 14 and the slight rise in that of retired people. Dependency rates fell considerably, i.e. either the population per person employed or per person employed and unemployed.

The second panel, “14 + only”, shows one or two anomalies between the 1971 and 1981 censuses, especially in rural areas where the share employed fell and that in housework rose. Nonetheless the trend over the longer period was for the share of unemployed and of houseworkers to fall and that of students to rise. Beyond that there have apparently been differences between behaviour in urban and rural areas (the latter here including the estate sector). In urban areas the share employed rose considerably whereas in rural areas it seems to have been always high. The fall in the unemployed share was not in any way a compensation for a rise in the share employed.

By early 2000 the share employed over the whole country had apparently reached 52.6 per cent. Unfortunately this figure may be exaggerated compared to the earlier estimates because of the apparent rise in female labour force participation. This should have had less effect on the share unemployed which fell to below 5 per cent of the age group.

established cadre on a directive from the President. These moves reflected among other things the sensitivity of the government to problems of educated youth.”⁵ There have also been government attempts to encourage the private sector to recruit graduates (R. Salih, 2001) such as the *Tharuna Aruna* programme. However, the large majority are usually found unsuitable.

On the other hand many ordinary workers in public corporations lost their jobs in the late 1980s and early 1990s. Some 50,000 workers apparently retired from the Ceylon Transport Board. By the end of 1991, ten public enterprises had been divested and by the end of 1999 the number had increased to 75 (of which 39 only partially). No precise estimate is available of the number of workers terminated. In the privatized estate sector all workers were continued.

Estimates of public sector employment vary. Rodrigo (2001) gives estimates of central and provincial government employment of 507,000 in 1990 and 616,000 in 1998, an annual

⁵ C. Rodrigo, *Labour market developments: Sri Lanka country profile in the '90s*, mimeo, 2001.

rise of around 2.4 per cent. These figures indicate that fully 10 per cent of all employment is basically in public administration. The Central Bank gives a figure for employment in “Government institutions” of 650,000 in 1990 and 856,000 in 2000 (790,000 in 1998). These figures apparently include defence personnel, although their security of tenure is much less than that of public sector workers generally, with short period contracts. The increase in workers in “Government institutions” over the decade was an average of 2.8 per cent. The rate of increase in private sector employment, including the effects of privatization, was identical. Thus increased military employment offset the effects of divestment of public enterprises on the government share of employment.

The Central Bank also presents data in employment in semi-government institutions (including estates in 1990) which fell considerably over the decade. Putting all the numbers together the Central Bank suggests that all public sector employment fell over the decade by 200,000. The Labour Force Survey, which simply asks people whether they work in the public or private sector, shows a similar fall. (Note that it cannot cover defence personnel, estimated at 240,000 by Keligama in 1998, although that number may be slightly high.) However, all the figures show that public administration is an important element in the labour market.

Furthermore the immediate influence which the government has over the wages of so many public sector workers gives it a lever to use in designing an incomes policy more generally. Rodrigo (2001) has shown how public sector wage settlements, or more usually one time, across the board increases, have been passed on to minimum wage levels through government influence on wages boards. However, in the 1990s this influence was largely used to check the growth of real wages of government workers, see table 2.2. Particularly after 1995 these fell in real terms. Real minimum wages followed government wages downwards. While this government wage restraint may have been partially meant as a signal to the private sector it was probably not very powerful. Minimum wages appear to be too low to influence wage setting in establishments employing over 25 people, although they may well set a floor to wages in smaller establishments. But in smaller establishments enforcement mechanisms are unlikely to be effective so that wages are in fact set by supply and demand.

2.2 Labour earnings⁶

In looking at the 1990s from the point of view of labour earnings one can start with the finding that private consumption (from the national income accounts) per employed worker rose during the 1990s in real terms by nearly 3 per cent annually. Since the employment to population ratio was rising the rate of increase of private consumption per capita was higher.⁷ This is a benchmark number, i.e. some 3 per cent. It does not represent the average rate of productivity growth since private consumption fell as a share of GDP. But it represents the annual rise in wages which could have occurred if all workers had benefited equally from economic growth. The next basic issue then is the extent to which earnings in general matched this rate of growth.

⁶ Labour market developments are discussed in greater detail in C. Rodrigo, *op.cit.* This section looks at labour earnings through time. Lubyova (2001) looks at some structural determinants of earnings at a point of time (1998). Thus, as noted, the public sector wage premium is high (24 per cent); one year of education yields on average an 8 per cent increase in earnings and one year of vocational education a 5.5. per cent increase, for otherwise similar people (see Chapter 6 of this study). Women generally earn 25 per cent less than men. Every year of job tenure and every year of experience add about one per cent to earnings and having at least one year of tenure, compared to less than one year, adds 39 per cent.

⁷ A part of private consumption is financed by migrants’ remittances. These rose from 8.3 per cent of private consumption in 1995 to 8.9 per cent in 1999. Their share of cash income is 11-12 per cent.

It is striking that wage levels are an unexpectedly low fraction of the average level of private consumption per worker.⁸ In fact in 1998 the average daily wage in manufacturing for men (Rs.176) was 40 per cent of private consumption per worker in crude terms and 60 per cent in adjusted terms. (The ratio for Indonesia in 1999 was very close). A ratio at this level points to a very major gap between workers' wages and the amount of consumption which some families can enjoy, i.e. basically the gap between the level of wages for (probably semi-skilled) workers and that of earnings by skilled and professional labour and those derived from trade, rents, profits and other such activities. A similarly estimated ratio for the USA in 1998 was 75 per cent purely in crude unadjusted terms. This represents partly the higher skill level of US production workers and partly simply a higher level of demand for labour given by the larger stock of capital. In Sri Lanka it also appears that the ratio, for manufacturing wages, at least, fell during the 1990s. If this was indicative of the behaviour of all wages then it would suggest a worsening distribution of income and the existence of some disequalizing mechanism.

Table 2.2 shows some wage behaviour and wage differentials. The bottom line shows private consumption per worker in Rs, and its increase in each following period. It can be seen that in 1991-95 women's wages in manufacturing rose a lot faster than private consumption per worker (70 per cent compared to 41 per cent). This presumably reflects new investment in garment manufacturing and new hiring. Men's wages in manufacturing rose by much less. However, in the next period, 1995-97, women's wages fell in real terms, especially in garments (i.e. they rose by 4 per cent while prices rose by 23 per cent). In fact in that sector daily earnings are low, particularly in the smaller-scale segment, i.e. enterprises with less than 25 people (89 Rs. in 1997). Earnings in that segment, in 1997 were slightly lower even than those recorded (by the Central Bank) for tea plucking, similarly a year-round activity.

The distinction of a year-round activity is that earnings will usually be below those from a peak period activity, such as transplanting or land preparation. However, the table shows that the earnings recorded for unskilled construction workers or skilled carpenters in 1995 and after behaved similarly to those for land preparation. They kept pace with the figures for private consumption per worker over the 1991-98 period, showing that their labour, remunerated presumably at prices fixed by supply and demand, was neither unduly scarce nor unduly abundant. *This is, of course, a finding of considerable importance which suggests that the benefits of growth were reaching unorganized workers.*

Public sector wages (i.e. for school teachers and "minor" employees) rose in real terms in 1992-95 but then fell.

A word is perhaps in order on the differences in earnings between enterprises with less or more than 25 workers. First the overall data on earnings in manufacturing collected by the Labour Ministry are closer to the numbers for the larger enterprises. Second the earnings numbers of the larger enterprises are themselves not out of line with the data for construction labour. This could be partly a gender issue showing that women earn less than men, i.e. unskilled construction workers are mainly male and workers in all enterprises are often female. Third earnings in smaller enterprises are around the minimum legislated. In turn this suggests that the minimum wage has no effect on the earnings levels of workers in larger enterprises.

⁸ It should be noted that wages are in fact around 66 per cent of personal consumption of lower paid workers so that it is incorrect simply to compare wages to average consumption. There are other sources of income to consider. In the text an adjustment is made, i.e. one half is added to wages in order to allow for their being only some two-thirds of individual consumption.

Table 2.2: Average daily earnings, Rs. (and increase to next recorded year, per cent)

	1991	1995	1997	1998
Average in manufacturing	104 (39)	145 (14)	166 (5)	174
(Women	79 (72)	136 (4)	142 (3)	146
(Men	106 (43)	152 (11)	168 (5)	176
Garments lowest grade	n.a.	127 (2)	130 (-3)	126
Garments highest grade	n.a.	235 (-4)	225 (-8)	208
Garment cutter, women	95 (84)	-	-	175
Wearing apparel 25+	n.a.	n.a.	152	n.a.
25	n.a.	n.a.	89	n.a.
Grain milling 25+			199	
25			138	
Average of 8 largest industries 25+			146	
less than 25			90	
School teachers*	n.a. (65)	n.a. (2)	n.a. (3)	n.a.
All government* "minor" employees	n.a. (36)	n.a. (17)	n.a. (6)	n.a.
Transplanting, women	74 (41)*	104 (24)	129 (12)	144
Tea plucking, women	61 (38)*	84 (8)	91 (25)	114
Land preparation, men	96 (40)*	134 (21)	162 (15)	186
Construction, unskilled	77 (70)	131 (27)	166 (8)	180
Bus conductor	137 (73)	-	-	237
Carpentry, skilled	102 (66)	169 (27)	214 (9)	233
Private consumption, per employed worker, per day	200 (41)	282 (43)	403 (10)	445
Increase in consumer prices per cent, 1991-95 = 30.0 : 1995-97 = 23.0 : 1997-98 = 7.0				
* 1992				

In terms of the distribution of earnings reported by the consumer finance survey (1996/97) a household receiving the minimum wage of around Rs.2,000 per month was usually composed of only two members, i.e. the worker and one other and such a household would be situated at just above the 20th percentile from the bottom of the income distribution. Most households, of course, have more than one worker.

The consumer finance survey gives the average individual income received (including all sources of income) at almost exactly the same level as the Labour Department's average earnings in manufacturing. Average monthly consumption per income receiver reported in the survey is slightly higher than average income (Rs.5,900 compared to Rs.5,760, and is about 75 per cent of what would be calculated from the national income accounts. That is, on average, reported figures from the consumer finance survey should be raised by one third to be consistent with the data in the national accounts. Such undercounting is common and applies, probably, mainly to income from capital and thus to higher incomes (so the average would be less undercounted). However, it does suggest that reported manufacturing wages are somewhere between median and average incomes. Probably at least around 40 per cent of Sri Lankan workers earn more than the average wage in manufacturing.

Some commentators consider that average monthly earnings in the 25+ enterprise size category, at around Rs.4,200 in 1998 (the same as the Labour Department's average for manufacturing) include an artificial element determined by over-protective labour legislation. It is claimed effectively that a solely market determined wage rate would be lower and that this would stimulate employment absorption. In fact, if the unemployed were totally absorbed in employment, and the employment rate rose to 38 per cent of the population in consequence from some 34 per cent, then workers around the 5th income decile currently

supporting 2.5 dependants might only need to support 1.6 dependants each. Reading from the consumer finance survey, that might put them at a wage some 75 per cent of the actual manufacturing average earnings. The effect of such a mathematical exercise is to both eliminate the unemployed and the capacity of many working households to support unemployed members. But it assumes that there is currently no downward flexibility in the real wages of workers, which is obviously incorrect.

In fact there is considerable real wage flexibility imposed by both the interaction of urban and rural labour markets and by the openness of the economy and the need to respond to changing export prices.

One aspect of labour market behaviour in Sri Lanka which is often neglected is in fact the interaction of the urban and rural sectors. Sri Lanka is an economy in transition which effectively means that the share of the labour force in agriculture is in decline. Indeed for men the share recorded in agriculture in the labour force surveys in the 1990s fell from 30 per cent to 20 per cent over the decade. However, this is not a simple transition of old men on the farm and young men increasingly working elsewhere. First, workers who are principally involved in agricultural work also commonly work elsewhere, and much of western Sri Lanka is semi-urbanized. Second, employment in agriculture is obviously seasonal. The labour force survey reports a 30 per cent fall in male workers in agriculture between the first and fourth quarters and a 35 per cent fall in the number of female workers. Much of this fall then shows up in a rise in the absolute numbers counted as in "elementary occupations". To that extent there is no hard and fast boundary between working in agriculture and elsewhere, although the complementary job to agriculture may not be skilled and is obviously not a full time occupation. The question then is whether this labour exerts pressure on recorded wages, especially in manufacturing, either, or both, for men and, or, women.

Interactions between rural and urban labour markets can then take the following forms:

- (a) a gradual shift of full time labour out of agriculture, probably following better education in rural areas;
- (b) seasonal and part time shifting between sectors.

These flows, especially the second, will be affected by the general situation of agriculture from year to year. When this is favourable more labour is kept in agriculture and, furthermore agricultural prices will be moderated. Thus urban labour faces less competition on the one hand and pays lower prices for domestically produced food stuffs on the other. If food imports are unrestricted or untaxed then this second consideration is not important, but usually and in many countries domestic and foreign food prices are not aligned and importing is not free.

When agricultural conditions are unfavourable then urban labour faces both more competition and higher food prices. However, at that stage the import regime may change and additional and cheap imports be allowed. This, of course, reduces the real incomes of the food producers where otherwise lower output might be compensated by higher unit prices which benefit farm owners, if not farm workers.

It would appear that in Sri Lanka in the 1990s first the trade regime did occasionally change from one favouring farmers to one favouring consumers, and second that manufacturing wages could not improve in real terms in years of unfavourable agricultural conditions. Whether this was because of higher food prices or greater labour market competition is unknown.

Looking at real hourly earnings in manufacturing (Table 2.3) suggests an inability for them to rise on a sustained basis in 1990-93; a large jump in 1994-95, a fall thereafter nearly

to the 1990 level by 1998, but a rise in 1999 and 2000. These are generally amazingly weak figures given the rise in per capita consumption. There is a weighting issue here in that the share of garment workers in the total was rising and their wages are, as noted, low. But the changing composition of the manufacturing labour force makes only a slight difference to the results. The good years for real wages were precisely the years of high agriculture output and relatively low real paddy farmers' income per ton, i.e. when agricultural labour was needed on the farm but the internal terms of trade were not in favour of agriculture.

It is also interesting that the manufacturing (factory industry) price deflator has generally lagged behind the consumer price index (in 6 years out of 10) see Table 2.3. This results from the export orientation of the economy. Thus, unless labour productivity is rising substantially, there will be considerable employer pressure to resist wage increases fully reflecting the cost of living. The years when the manufacturing deflator rose faster than the CPI - 1991, 1994, 1995 and 2000 were the years of real increases in the consumer wage. Since the manufacturing price deflator rose less than the CPI over the decade the "producer wage", i.e. earnings divided by the price deflator, did rise slightly. The profit share in manufacturing would have remained constant if productivity rose at the same rate as the producer wage, and would have risen if productivity grew faster than the producer wage. The rate of increase of manufacturing labour productivity is then a crucial issue. The volume of factory industry production doubled in the 1990s, almost exactly, i.e. rose at about 7 per cent annually. According to the LFS manufacturing employment may be rising at 4 per cent annually. The resulting rate of productivity increase, under 3 per cent, is not large and given great sectoral differences no doubt is only 1-2 per cent in some industries, very possibly leading to severe pressure on wages if the profit share is to be maintained.

Table 2.3: Price movements, annual charges from previous year (per cent)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Consumer prices ¹	11.5	9.4	8.4	4.7	3.9	14.6	7.8	6.9	3.8	3.3
Manufacturing ²	13.0	8.8	5.7	6.2	5.8	8.9	5.7	6.0	3.4	6.0
Earnings per hour ³	9.8	-8.9	0.0	11.3	6.4	-4.4	-5.1	-6.2	12.6	9.9
Producer wage ⁴	8.2	-8.5	3.0	9.6	4.5	0.6	-3.3	-5.4	12.5	7.3

¹Greater Colombo consumer price index.
²Price deflator for factory industry within manufacturing.
³Average earnings in manufacturing deflated by an index of hours worked and by the Greater Colombo consumer price index.
⁴ as ³ deflated by the series in ².

One reason why real wages rose in 1999 and 2000 is because of the real devaluation, see next chapter. Another reason is the liberalization of rice imports and fall in food prices in 1999. For the future what is necessary is to raise productivity in export industry and keep prices increases low.

It would thus appear that generally the situation of factory labour in Sri Lanka is weak. Their wages have not been rising at the same rate as consumption in general and there is real competition in the labour market. Factory workers are furthermore unfavourably placed in the income distribution. However, by what process some so-called informal sector wages have been both higher and rising faster than manufacturing wages is unclear. A "reverse segmentation" hypothesis has been suggested by which labour supply is actually greater for factory work than for unskilled labour. Some such hypothesis might apply to young female labour but not perhaps to male. The answer is presumably at least in part that the high rates of private investment were generating many more but fairly low productivity wage jobs. At any rate raising productivity levels is an essential next step.

2.3 Educated unemployment

The concentration of unemployment among the educated, and the length of time such educated unemployed people apparently take to find jobs (or to leave the labour force) are features that set Sri Lanka apart from other South Asian countries. (Although Kerala has traditionally experienced unemployment in much the same form.)

In a separate paper and in order to shed light on this issue Lubyova examined individual data from the Labour Force Survey (LFS) 1999. An earlier analysis based on 1995 LFS had been performed by the World Bank. Lubyova re-estimated some of their results and arrived at slightly different factual findings and conclusions.

From a sample of more than 4,000 currently unemployed a probit regression was estimated to show which factors influence the probability that an individual is unemployed rather than employed. The overall probability of being unemployed declines significantly with age and more so in urban than in rural areas. 'O' level or 'A' level educational attainment increases the chances of being unemployed. The effect is stronger in urban areas, where also a university degree or postgraduate education significantly increases the chance of being unemployed. In contrast in urban areas each year of vocational training decreases the probability of being unemployed. The chance of being unemployed is higher for females, more so in rural than urban areas, and it is higher for sons or daughters of household heads, the effect being roughly equal in urban and rural sector.

The World Bank (1999) suggested that one reason for unemployment in Sri Lanka is its "waiting" nature. The unemployed are not willing to take available jobs and they prefer to wait for "better" jobs. There is nothing wrong with this behaviour, as long as the prolonged search leads to a better matching of seekers to jobs. However, in reality the job search is subject to all kinds of informational imperfections. For example, the unemployed may begin with unrealistic expectations, which prolong their search excessively.

According to the ILO definition used in the LFS, a person is considered to be currently unemployed, if she did not work during the previous week for pay or profit or as an unpaid family helper, and she had been available and actively looking for a job. Many would argue that this definition is too broad, as working for a single hour during the preceding week would lead to classifying the person as employed. However, it is under this definition that the unemployment rate is extremely high for young people (15-24 years), and for more educated people. The LFS also asks the question whether the unemployed would accept "any" work. Those replying positively can be called the unemployed under a "narrow" definition.

Using this definition, overall the unemployment rate was reduced from 9.1 to 2.3 per cent, i.e. by 75 per cent. The degree of reduction was similar for many groups. The only clear-cut pattern can be observed in the educational breakdown, where the size of the reduction of the unemployment rate tends to increase with education. These results closely resemble those obtained by the World Bank for the 1995 data.

If so-called "waiting" behaviour of the unemployed is captured by the contrast of a broad versus narrow definition of unemployment, *there is a substantial waiting behaviour of the unemployed population.*⁹ It cannot be inferred that prime-age cohorts or children of household heads are more prone to wait for better jobs than other unemployed. However, the results seem to imply that *education slightly increases the chances that the unemployed*

⁹ This reduction is expressed in terms of unemployment rates rather than in terms of absolute numbers of unemployed. The correspondence between the two depends on the treatment of those unemployed who are "removed" from unemployment under the narrow definition. If they become employed, then the elasticity of unemployment rate with respect to the total number of unemployed is a unity. If they are treated as, some other status but not employed, then the elasticity is positive and smaller than 1 (for any positive values of unemployment and unemployment rate).

become more “choosy” in their job search. However, this is a supply side consideration, which may not fully explain the high unemployment rate of these groups.

A further point is that unemployment may serve to reduce the reservation wage¹⁰, i.e. the unemployed begin their job search with an inflated notion of what they are worth to an employer but revise the estimate downwards through time, or possibly quit the labour force altogether. The LFS asks the unemployed respondents what wage they would be prepared to work for. This is usually somewhat above the average wage paid to those with the same age and education at lower levels of education but below it at higher levels. It does not follow however, that if jobseekers all had perfectly reasonable wage expectations that the labour market would immediately clear. Employers do not view all skills and education levels as substitutes and the demand for workers with certain education levels is not sufficiently strong to absorb them all. An attempt to test whether the unemployed had realistic expectations about their future wage was made by the World Bank using 1995 data, which concluded that “*there is little evidence of a theoretical skills mismatch to explain Sri Lanka’s unemployment rate, i.e. education is not equipping job seekers with the wrong skills*”.¹¹ This conclusion is based on two findings related to the behaviour of wages:

- (i) the presence of increasing returns to education in terms of actual wages and the absence of increasing returns in the behaviour of reservation wages, and
- (ii) the fact that the ratio of reservation wages to actual wages decreases with increasing educational attainment.

These two findings are mutually consistent; (i) should imply that the labour market does reward education; and (ii) should imply that education does not create unrealistic wage expectations among the unemployed.

Lubyova tested these propositions using data from 1999. Her findings corroborated those of the World Bank with respect to point (ii). However, as regards point (i) she found a very different pattern, namely that reservation wages are significantly related to education levels, the higher the level of education of the unemployed the higher the wage they expect. In line with the World Bank she also found that it was the most educated who had the least exaggerated expectations of the wage they would receive, possibly because the labour market for the more educated is more transparent. That the World Bank was able to assert that reservation wages were not related to education levels seems to have been caused by a misinterpretation of their data. A close look at their results shows that the education coefficients in the regressions relating reservation wages to education status were indeed close to zero but that none was statistically significant even at a 10 per cent level.

These findings cannot be taken to suggest that the unemployment problem in Sri Lanka is in some way not real or is “voluntary”. It needs only to be pointed out that the group with least unrealistic expectations is that of the most highly educated and that that group has the highest unemployment rate.

Education is significantly related to the actual wages of the employed, as well as to the reservation wages of the unemployed. In both cases the coefficients capturing returns to education are significant, positive and increasing with increasing educational attainment, see table 2.4. However, *the wage gap between the group with no schooling and other groups with higher educational attainments is much higher for reservation wages than for actual wages*. For example, an employed person with 1 to 5 years of schooling earns about 16 per cent more than a similar person with no education (see table 3, coefficient .157). At the same time, an unemployed person with 1 to 5 years of schooling expects to get more than twice the wage of

¹⁰ The reservation wage is the lowest wage at which an unemployed person will accept a job.

¹¹ World Bank.

otherwise similar person with no education. Similarly, an employed person with graduate or postgraduate education would get about 1.5-times more, but an unemployed person would expect to earn about 3-times more than someone with no education. Therefore, *we cannot conclude that education does not create unrealistic expectations about wages*, suggesting in turn a role for better labour market information in reducing educated unemployment.

Returns to education in actual wages seem to increase more steeply than the unemployed expect in terms of reservation wages.¹² At the same time, the relative mark-up over the uneducated group is much higher in the expectations of the unemployed than in the actual market wages. It is also noteworthy that although the educational variables are highly significant in both regressions, the overall goodness of fit for the specification for actual wages is much lower than for the reservation wages.

Table 2.4: Wage determinants

OLS regressions, dependent variable ln wage from main job (employed), ln reservation wage (unemployed)

	Employed		Unemployed		All	
	Coeff.	t-stat.	Coeff.	t-stat.	Coeff.	t-stat.
Independent variables						
Educational groups:						
1 to 5 years	0.157	3.443	2.219	6.887	0.188	4.266
6 to 8 years	0.356	7.765	2.364	7.455	0.389	8.835
9 to 10 years	0.478	10.606	2.476	7.884	0.526	12.279
GC O-level	0.775	16.718	2.519	8.019	0.77	17.621
GC A-level	0.954	19.484	2.647	8.415	0.932	20.498
Grad/Postgrad	1.402	21.832	3.049	9.074	1.403	23.158
Const	7.477	183.681	5.625	17.998	7.458	189.47
Adj R ²	0.087		0.472		0.082	
N	12 853		2 314		15 154	

Notes: Reference category for educational groups: no education or less than 1 completed year of schooling. Wages in Rs / month

3. Economic problems and choices

The day-to-day choices in economic policy behind Sri Lanka's successful growth rate have been very difficult ones. Above all increased military spending has affected all parts of the economy. In 2000 recurrent defence expenditures were about 50 per cent of all expenditure on goods and services and defence capital spending was about 60 per cent of all expenditure on fixed capital assets. Other expenditures have had to take a back seat. Transfers to households, for example, were double current defence spending in 1991 but some 60 per cent of it a decade later. All social programmes and anti-poverty programmes have been affected. So a first point is that very many important items of expenditure have been neglected. A second point is that real wages and salaries of government employees, which were rising in the early 1990s, were cut back drastically in the mid 1990s. The cut was by as much as one third for school teachers. Since then public sector wages have been more or less

¹² In the regression based on reservation wages the coefficients do not increase as steeply with increasing education as in the regression based on actual wages.

stable in real terms. This did not reflect a lack of prosperity in the economy, only the government's inability to mobilize resources to pay its staff.

A third point concerns financing. Table 3.1 shows how the overall government financing burden has jerkily, but nonetheless apparently inexorably, risen. In the last three years 1998-2000 it averaged over 8 per cent, compared to a more normal 4-5 per cent. The measure used is the deficit shown in the government accounts minus foreign grants and loans and also minus domestic interest payments, since the latter are simply paid out and then borrowed back. It has been possible to support a deficit, thus defined, of around 5 per cent without overly stimulating inflation. This has been because the government has borrowed all the forced savings of the employees' provident fund, albeit apparently at a market rate.

Table 3.1: Components of growth

	Increase in US\$ value of exports manufactures (per cent)	Increase in rice output (per cent)	Fiscal operations ¹ (per cent of GNP)	Business investment (per cent of GNP)	GDP growth (per cent)	Real exchange rate
1990	31.1	23.5	2.7	6.7	6.4	100
1991	19.4	-6.0	4.2	7.8	4.6	106
1992	42.6	-2.1	4.9	8.9	4.4	108
1993	19.0	9.8	4.9	9.1	7.7	104
1994	14.3	5.0	4.4	11.6	5.3	105
1995	19.5	4.7	5.4	10.3	6.0	106
1996	5.0	-27.0	5.4	9.7	3.2	116
1997	14.3	8.6	1.2	9.9	6.8	116
1998	5.0	33.3	8.3	10.4	4.6	116
1999	-1.8	6.6	5.8	12.7	3.8	105
2000	20.7	neg.	11.2	13.8	5.8	94

¹Government deficit after foreign grants and loans and domestic interest payments.

Tapping the employees' provident fund has perhaps given the government a prejudice in favour of expanding formal sector employment, rather than improving the conditions of informal sector employment. An urge towards removing legislation on job protection, demonstrated by the Ministry of Finance, in the hope this would lead to increased employment no doubt follows from this financing need. Clearly without a fast growth of wage employment the financial bicycle would simply fall over.

The reliance on captive sources of funds has negative consequences spilling over onto employment which can be laid at the door of the ethnic conflict. First, it is an expensive way of paying for the war as the Government is paying a real interest rate of some 3 per cent. The Government meanwhile is using the resources it borrows to consume and not invest. The war is not being financed by taxation. Second, it is depriving the private sector of funds with presumably the effects of raising interest rates paid by small-scale enterprises, which cannot borrow from abroad while encouraging those which can borrow from abroad to do so. Around 20 per cent of business investment is anyway FDI but the contribution of foreign savings to investment is higher than that. No doubt it has often been pointed out that the government should tax and save more; that certainly seems to be true. Finally, of course, the government may one day be tempted to reduce the real value of the debt outstanding through allowing higher inflation. If so it would be the contributors to the employees' provident fund who suffer.

A consequence of relatively high levels of foreign financing for investment has been a fairly strong exchange rate. For simplicity the table shows the real exchange rate calculated as the nominal exchange rate with the US dollar adjusted for the difference between the behaviour of wholesale prices in Sri Lanka and producer prices in the USA. On this calculation the real exchange rate was fairly constant in the early 1990s. However the nominal devaluation in 1996, at a time when much investment finance was coming in, was insufficient to compensate for the rise in wholesale prices and the real exchange rate appreciated considerably. It remained at that level for 3 years. This put pressure on the profitability of exports in 1998 and 1999, especially given the real devaluations experienced at that time in Thailand and Indonesia. In 1999 the unit price in US dollars of Sri Lankan manufactured exports fell. However, in that year the real exchange rate reversed itself; wholesale prices fell slightly and a real devaluation occurred. Indeed this continued into 2000. Manufactured exports responded very well in 2000 growing by over 20 per cent. The fall in the real exchange rate put Sri Lanka in a good position to face the global slow down of 2001-2002.

One reason why wholesale prices fell in 1999 was because many consumer prices also fell. Given the good rice harvests of 1998 and 1999 there were surprisingly high imports of rice in 1999. The tap was turned off by government order in 2000 when there were next to no rice imports. At the same time the unit value of imported rice in US dollars fell in both 1998 and 1999 (the latter in line with Thai export prices, the former not). With much increased rice availability in 1999 Sri Lankan prices continued a fall begun earlier after the effects of the drought in 1996/97 had been overcome. Rice imports are controlled directly by licence and less directly by waiving the usual 35 per cent import duty. In 1999 both restrictions were lifted. The Central Bank has commented that “the Government needs to define clearly the degree of protection that should be afforded to the domestic agricultural sector through tariffs”, and that “sudden policy changes have become a constraint to efficient functioning of markets, weakening policy credibility and harming producers as well as consumers in the long run” (*Central Bank Report, 2000* p. 36). In the short run, however, a change in import policy, taken with an eye on the behaviour of world prices could produce significant downward pressure on prices, although the effect would naturally be reversed later. Meanwhile a genuine and decided shift in trade policy away from supporting food producers, which can only assist those who produce a surplus for sale, would be welcome. Lower food prices help the poor directly, higher prices only help the poor who might be hired as farm labour. Lower prices might also encourage agricultural diversification.

It is worth noting that despite claims that stable food production is stagnant, total rice output has fluctuated very considerably as have prices. Rice remains the food staple with per capita consumption around 8 or 9 kilograms per month, compared to around 3.5 kg for wheat flour and bread. On average it provides 44 per cent of calories. Furthermore among the poor rice accounts for around 25 per cent of all food expenditure. As a consumer item it is thus very important.

Table 3.1 also shows business investment as a share of GNP. This reached an early peak in 1994 which was surpassed in 1999 and 2000. Levels of business investment have been remarkably high given the large fiscal deficit which might have been expected to reduce investors' confidence. However, there is a suspicion that much of the investment being undertaken incorporated fairly simple manufactured processes. Some support for this suspicion comes from comparing the growth rate of business investment (here taken as investment in plant and machinery, transport equipment and land development by the private sector and public corporations) with that of output.

As already noted Sri Lanka's growth of GDP during the 1990s averaged 5.1 per cent annually. Employment was growing at a rate probably between 1.5 and 1.9 per cent. The higher rate reflects a different and more inclusive approach to measurement and a higher level

of female participation in the labour force. Wage employment was growing faster at 2.4 per cent annually.¹³ What is needed is to look at the stylized inputs into economic growth, i.e. capital, a higher quality of labour and a better organization of the economy. The last is generally subsumed under “total factor productivity” and is believed to measure the efficiency with which resources are used. That is to say that the effect of the interaction of inputs of capital and labour is usually more than the sum of the parts.

But a first problem is that the rate of increase of the capital stock cannot be calculated; however, it was probably high. Annual rates of business investment started the decade at some 7 per cent of GNP and ended it at nearly 13 per cent (Table 3.1). As an example, if in 1990 the value of the business capital stock was equal to GDP then during the decade gross new additions amounted to 15 per cent annually. This is a very fast rate of increase. How much of the stock was being discarded, however, is unknown, perhaps not a great deal. On the labour side the quality of the labour force was continuing to rise as workers who had joined the labour market in the 1960s were replaced. The number of years of education of the Sri Lankan labour force has been estimated at 4.7 in 1960 and 5.2 in 1970; giving perhaps an average of 5 years in the “1960s”. By 1990 the figure would certainly have reached 6 years. During the 1990s the figure might have risen from e.g. 6.2 to 6.7 (an annual increase of 0.8 per cent or about one half of the rate of growth of employment). This would give an increase in “years of education embodied in the employed” of at least 2.3 per cent during the 1990s (using the lower estimate of employment growth and perhaps of 2.7 per cent using the higher rate). (However, to the extent that employment expanded by taking workers out of unemployment this in fact benefited mainly the least educated and would have slightly reduced the education level of the employed.)

During the whole of the 1970s and 1980s it has been estimated by World Bank researchers¹⁴ that total factor productivity growth in Sri Lanka was more or less zero. For the period from 1978-89 they calculated that the capital stock grew at 8.5 per cent p.a. and labour inputs at 2.7 per cent p.a. while GDP grew at 5.1 per cent. The 1990s may have seen an even faster growth rate of capital stock and, probably, since this estimates does not include an allowance for higher education levels, a lower growth rate of labour inputs. It is thus quite possible that as earlier the bulk of the GDP increase was caused by the growth of the capital stock and that total factor productivity growth in Sri Lanka continued to be negligible. This is unlike experience in most other Asian countries where total factor productivity contributed positively to growth, often substantially. *That is to say that a rate of investment of the level experienced ought to have led to faster GDP growth than in fact occurred.* Why this was so remains to be explained, although a probable answer is that the new capital investment was adapted to a low skilled labour force and that the higher levels of education of the labour force were not properly made good use of. It is also more than likely that poor infrastructure was reducing the profitability of investment.

Absence of growth in total factor productivity would be another factor explaining sluggish growth in real wages.

A word here is in order on the implications of this chapter and the previous one for trends in absolute poverty. Since the mid-1980s absolute poverty must have fallen and Gunawardena puts the fall from 1985/86 to the mid-1990s at between 6 and 11 percentage points starting from a figure of 31 per cent in poverty. However, the mid-1990s was a period of drought and fast price increases which complicated data collection and analysis.

¹³ Private sector wage employment grew at nearly 2.8 per cent. Some of this, however, represented a shift in employer from the public to the private sector through privatization.

¹⁴ S.Ahmed and P. Ranjan, Promoting growth in Sri Lanka, World Bank Policy Research Working Paper, No. 1478, Washington DC, 1995. In their, and others', calculations labour is given a weight of 0.6 and capital 0.4.

Gunawardena in fact suggests a rise in absolute poverty in the early 1990s which in turn implies a massive fall in the late 1980s. For income distribution the Central Bank suggests a fall in the Gini coefficient from the mid-1980s to the mid-1990s (0.46 to 0.43) and the Department of Census and Statistics suggests that exact opposite (0.43 to 0.46) but the figures are very similar. No data after the mid-1990s are available. The data are therefore somewhat ambiguous. It is likely that if income distribution has been worsening it is not by much, so that per capita income growth must necessarily be significantly reducing poverty and possibly by so doing making it more concentrated in some areas and social groups. Taken together a fall in unemployment and a sustained rise in informal sector wages suggest that as a rule low-skilled and semi-skilled workers have benefited from growth as much as the average for all workers, even if some urban workers in manufacturing have not been able to do so. In turn this suggests, first that a worsening of income distribution over the whole period of the 1990s seems improbable. And second that the poor are disadvantaged in some further way, increasingly perhaps by location. The issue of the characteristics of the poor is taken up in the following chapter.

4. Poverty¹²

4.1 Who are the poor?

Poverty among those at work or who are seeking work is incompatible with a successful employment strategy and with the achievement of decent work. Poverty forces people to take on uncongenial tasks, often to unwillingly neglect other responsibilities and endanger or worsen their health. At worst it may lead to child labour. Thus while the decision whether or not to seek work is probably a straightforward one for most of the potential labour force it can be complex and influenced by many factors for those who are old, unwell or have multiple time-consuming responsibilities outside the labour market. Work will not always be the solution to poverty.

Poverty furthermore has social as well as economic dimensions. While “consumption poverty” (principally a level of consumption incompatible with adequate food intake) captures the economic dimension, it does not properly capture the social dimension. This includes other measures of well-being, of which health is usually the most important, and perceptions by the poor of their status in society, degree of participation in work and political decisions etc. Economic analysis of poverty therefore needs to be supplemented by other indicators that capture its multi-faceted nature; and both sets of indicators need to “filled out” by the perceptions of the poor themselves.

The poor in Sri Lanka can be first divided into two main groups:

1. Individuals and households scattered among the non-poor. Here the poor are landless labour in rural areas, those working in small scale enterprises in the informal sector, particularly in textiles, wood products, food and tobacco processing, and as domestic servants. Another group are self-employed micro-entrepreneurs, including small farmers cultivating food crops (land owners or tenants, using mainly family labour); small-scale traders, weavers, artisans and providers of services such as barbers. (Department of National Planning, 2000). These people at least have a potential

¹² Taken from Alailima, P.J. (2001) *Sri Lanka: Growth, Distribution and Redistribution*, mimeo, Colombo.

market of non-poor people around them. Government pensioners are increasingly entering the poverty group, because of the failure to maintain pensions in real terms.

2. Groups who are poor; there are marginalized groups and communities forming pockets of poverty in every district, which have been categorized by Silva (1998) as:
 - Urban communities of slum and shanty dwellers;
 - Village expansion colonies;
 - Social outcasts (from minority ‘depressed’ castes);
 - Squatter settlements;
 - Marginal irrigation settlements, especially in frontier areas;
 - Fishing communities in the coastal belt and around inland water bodies;
 - Plantation communities;
 - Hill farming communities cultivating on steep slopes;
 - Displaced persons and refugee settlements

Many people are marginalized by their location in remote or resource-poor areas and the increase in regional dispersion of welfare is a cause for concern. The regional pattern of human development in Sri Lanka exhibits a high degree of disparity. Kalutara district came highest (0.893) on the Human Development Index in 1994, with Kurunegala second (0.883) and Polonnaruwa third (0.865). At the lower end of the scale, Kandy had made the least progress (0.649), Moneragala was second lowest (0.692) and Matara third lowest (0.705). (UNDP, 1999). Correcting these disparities will never be simple since little investment is forthcoming in resource poor areas while educated people are apt to migrate away. A large number of outside supported regional development projects appear to have achieved little.

A favourable feature is that on the whole, poverty appears not to be confined to a particular ethnic group. The Sinhalese and the Tamils have roughly equivalent levels, as measured by the head-count index, for 1985/86, 1990/91 and 1995/96; however these surveys did not cover the north-east, where there is a high proportion of ethnic minorities.

Poor households lack productive assets or training and are therefore dependent on the availability of unskilled or semi-skilled work, which is temporary, has low productivity, confines incomes at or below subsistence level and does not provide the basis for economic security or self respect. In addition they usually have fewer earners in the household: female-headed households with only small children and one or two elderly people are especially vulnerable, since female earnings are lower than those of males.

The labour force status of members of poor households is very unfavourable as Table 4.1 shows.

Table 4.1: Population of working age, 1995-96

	Very poor	Poor	Non-poor
Employed	33	38	45
Unemployed	10	8	7
Outside the labour force	57	54	48

To some extent these data reflect the larger number of children in poorer households and thus the need for adults to take care of them. They may reflect a larger number of sick, elderly or disabled persons in poor households. The higher share of the unemployed may also contribute to poverty. However, it seems likely that the large share of adults outside the labour force is a more crucial determinant of poverty than the members unemployed. Additionally there is a strong likelihood that poverty is partly a life-cycle phenomenon that many households pass through. Clearly more analysis is required, especially as concerns the availability for employment and the employability of those outside the labour force.

In terms of the development of poverty, malnutrition, though not associated exclusively with poverty, is generally regarded as a good indicator of the health status of the poor. There has been a marked reduction between 1973 and 2000 in the percentage of children (under 5 years) suffering from stunting (from 24 to 14), wasting (from 15 to 14) and underweight (from 38 to 29) with improvements taking place in urban, rural and estate areas (Demographic and Health Survey 2000). The percentage of children born with low birth weight (an indicators of maternal nutrition) also fell from 18.7 to 16.7. Rural and estate areas have higher prevalence of under nutrition than urban areas, but a faster rate of decline.

In terms of education status in 1995/96, 89 per cent of poor males were literate and had 6.6 years of schooling on average; there was hardly any difference for females. Probably because education is provided free, poor families are not forced to choose between educating either their boys or their girls. The improvement in education which took place in the 'seventies' and 'eighties' is also reflected in the improved education status of poor income receivers. Those with primary or no schooling fell from 55 per cent in 1985/86 to 46 per cent in 1995/96, while those with upper secondary schooling increased from 19 per cent to 27 per cent.

In rural and estate areas 16 per cent of poor households were landless, while another 53 per cent had less than 1 acre of land. Low size of holding can be compensated for by off-farm wage income, livestock, home gardening and handicraft production, all of which account for 15-20 per cent of total income for the lowest quintile. These sources also diversify risk and reduce vulnerability. In some rural areas there can be weeks at a stretch when there is no water for cultivation and even migrant workers obtain employment only for short periods of time. The lack of good land and assured water have been and continue to be key factors in rural poverty.

The incidence of poverty in the mid-1980s was about the same in male-headed and female-headed households (39 per cent and 38 per cent respectively). Of the total number of poor households, 80 per cent are male-headed and 17 per cent female-headed. Women in poor households tend to work longer hours than men and receive lower rates of pay. Their access to credit and extension and training systems is more limited than for men and they tend to earn their livelihood in the weaker sectors of the economy e.g. domestic help, handloom production and coir processing. Hence migration (to the Middle East mainly) emerged as a compensatory mechanism in the nineteen eighties and nineties. Between 1995-1999, some 164,000 migrated annually on average for work abroad, 80 per cent of whom were first-time job seekers. The average length of stay abroad is about 4 years since the numbers abroad are estimated at some 700,000. About 60 per cent go as housemaids, i.e. young women (married and unmarried) who were earlier on the margin of the production system. These women are vulnerable to exploitation by recruiters as well as employers as their contracts are not protected by bilateral agreements with recipient countries. Various adverse changes in family relationships e.g. increased dependence of parents and husbands on inward remittances, misuse of money and neglect of young children, appear to have accompanied the transformation of the women into the breadwinner. Less discrimination in the domestic labour market might keep more young women in the country.

Wages for household work in the Middle East are apparently only around US dollars 4 per day, somewhat more than double garment sector earnings. But since all expenses are found the scope for savings is much greater.

In general, in the better-off villages, people's portfolio of survival strategies is relatively well-diversified. While employment in the army and in garment factories are standard income sources for many families, the range of agricultural or small-scale industrial activity has ensured opportunities to diversify income sources and provided openings for casual labour, according to the season. Small, self-employment ventures too have a better chance of survival: markets are relatively more accessible due to better infrastructure and transport facilities, demand is relatively buoyant, and diversification has ensured that not too many poor people were producing the same type of good. (Gunatilaka et al, 1997b).

In very poor villages, basic infrastructure such as roads, a post office, health clinic etc. are non-existent. There is generally a primary school, but in remote areas parents are often nervous to send their children along jungle paths to school. Education levels tend to be far below the national average and there is a noticeable gender gap in educational attainment. Over two thirds of household expenditure is on food while state funded welfare schemes e.g. food stamps, school midday meal and Janasaviya are often important in supporting a minimum consumption level and can sometimes amount to about 16 per cent of income (CENWOR, Centre for Women's Research, 1992a, 1992b).

However, the general, and average, picture for the poor is that their sources of income are the least diversified of all income groups. Individuals earning under 2000 Rs in 1995/96 from all sources (a little below the minimum wage usually in force) on average received under 6 per cent of their disposable income from government transfers. The next highest group received 10 per cent from that source (the difference is mainly in pension receipts, which the poor do not have). The absolute value of home produced food is by far the lowest for the lowest income groups and their dependence on their principal occupation for their income is the highest. This underlines what was said earlier about the poor often finding themselves in an unfavourable geographical and social environment. It also suggests that migration may be a natural and increasing response to poverty.

While farmers with very little land probably did not participate in the increases in rice crop yields in the past, they can benefit now from higher wages generated by the improved demand for labour – if they are living close by other, more substantial farmers. This would apply in the dry zone colonization schemes, where many smallholders have *de facto* lost their land through indebtedness, lack of irrigation water for tailenders and sporadic crop failure. In fact, landlessness itself need not be a source of rural poverty in areas where farmers need to hire labour. Paddy labourers can be better off than small farmers and their real daily wage rates increased some 16 per cent over the decade. Indeed the mean monthly consumption of the rural landless in 1995/96 was 11 per cent *higher* than that of those who owned less than one acre of paddy land. But these figures are averages for the whole country and local situations can vary widely.

In coconut cultivation, which is to the extent of 98 per cent a smallholder crop depending on village labour, there was an increase in average yield, production and prices over the decade. While the indices for labour wages in paddy and coconut cultivation were similar in 1990, by 1999 coconut had pulled ahead, reflecting the faster growth in production and yields. The performance of the coconut sector has also been a factor benefiting the Southwestern part of the country.

4.2 Coping with poverty: Strengthening the social protection system

Sri Lanka has a long history of assisting vulnerable groups by providing income support and nearly 18 per cent of government expenditure was spent on transfers to households in 1999 (down from 29 per cent in 1990). The oldest welfare programme, Public Assistance, provides grants to the destitute i.e. 2 per cent of the population in 1999; this is a well-targeted and supervised programme but is severely under-funded and the nominal value of benefits is not adjusted for inflation. The Department of Social Services also provides assistance (a per capita monthly allowance) to NGO-run homes caring for orphans, the disabled and the elderly. Victims of natural disasters e.g. floods, droughts, landslides, cyclones are provided with food rations till they can re-establish their normal lives.

Because of the conflict in the North and East around 176,000 persons were in camps and a further 530,000 persons displaced were staying with friends or relatives in 2000. The government provides a range of relief, rehabilitation and resettlement grants and services; the value of rations alone, for the displaced will come to Rs. 2 billion in 2001. Compensation is paid to those who have lost lives or property due to the conflict. Donor agencies have provided some assistance but large-scale development work is precluded by the shifting nature of the war zone and has to await the end of the conflict. The restoration of essential services and economic opportunities to conflict victims, especially those in camps, is an urgent necessity.

The single largest welfare programme, with an expenditure of nearly 1 per cent of GDP and a beneficiary group of 2 million households, is the Samurdhi programme. It has three main components: (1) income transfers, which provide consumption support and contributions to a compulsory social insurance scheme to deal with expenditure related to marriages, deaths, etc.; (2) community development, i.e. investment in economic and social infrastructure; and (3) savings and credit programmes which provide capital to the poor. Gunatilaka et.al. pointed out that as a result of the continuous accretion of programme objectives and the large target population, resources have been spread too thinly and this has reduced overall programme impact. The programme also does not provide an adequate response to the causes of poverty in several areas, because it has a standard programme for all villages and recipients (possibly because of equity considerations).

There is large-scale dissatisfaction among the poor as to who benefits from this programme, in terms of the choice of both beneficiaries and administrators (22,000 animators and 1,780 managers at end 2000). The programme covers about half the population of Sri Lanka, although only around 20-25 per cent are estimated to be poor. Using household expenditure surveys as an indicator of poverty, Gunawardena (2000) shows that 40 per cent of the lowest income quintile does not receive benefits, while 27 per cent of the non-poor are included. Gunatilaka et.al. point out that the harmful effects of this maldistribution are seen in the aggravation of conflict in village communities already rife with socio-economic divisions further undermining the cohesion of poor communities. Household survey measurement techniques, and their form of analysis, need not coincide with popular perceptions of who is or is not poor. The decisions of the Samurdhi administrators may not be arbitrary, although no doubt there are many examples of prejudice, targeting grants to particular families, etc.

Sometimes the grant component becomes a lever which is used to force people to save and provide labour for community projects, thereby reducing all elements of voluntary participation. Samurdhi community projects are furthermore ad hoc and lack integration and co-ordination with projects at a higher level. Financial allocation is the key determinant of project selection and often pressing needs in the village, that have the unanimous approval of the villagers, are ruled out and smaller projects considered of lower priority are implemented.

For instance, when it may be necessary to build up a network of roads linking up a village or villages, only a part of a road may be developed. There are thus ways in which the community development role of Samurdhi can be improved.

A review of the main elements of the Samurdhi savings and credit programme (Gunatilaka, 1999) found this to be more effective in poverty alleviation in rural than in urban areas. However, while loans have assisted very small-scale enterprises they have been insufficient to promote such activities beyond survival strategies. Loans have a protecting rather than a promotion role. Furthermore the programme might not be sustainable if it were separated from the income transfer programme.

A more comprehensive social insurance programme is necessary to help poor families and communities better manage the major, unexpected, shocks, that plunge them into severe deprivation. For example, after the 1996 drought there was a huge increase in borrowing at punitive rates by the poor from money lenders. There are several institutions that help the poor cope with catastrophic risk, e.g. Death Donation Societies are present in every village; Samurdhi provides a compulsory insurance programme for a Rs. 25 monthly contribution, the 8000 SANASA thrift and credit co-operative societies under Samurdhi have developed the All Lanka Mutual Assurance Organisation Ltd., to make insurance cover available to the near-poor; and there are several public voluntary pension schemes available for the self-employed, farmers, fishermen, etc., in addition to the compulsory payments made to the Employees' Provident Fund and Employees' Trust Fund. However, public support will be necessary to establish a wider range of insurance programmes for the poor offered by Samurdhi as well as by publicly regulated NGO's and private insurance agencies.

The social protection system overall is in a transitional state and would benefit from further review and analysis. The principal question is whether grants can be more targeted and a secondary question is whether the same programme should fund both grants and community development. As was mentioned there is an element of moral hazard involved in linking the two. Finally, there is a need to review all insurance programmes and consider their expansion.

An important issue in relation to grant programmes is whether such programmes affect wage setting by providing a social floor, or effectively a reservation wage. In 1995 only 12,043 families were receiving the highest grant of Rs.1,000 per month. The other beneficiary families, very nearly 2 million, received either Rs.500 or less. This was raised to Rs.700 in August 2000. Receiving Rs.500 or Rs.700 per month would probably make very little difference to decisions on job seeking.

4.3 Conclusions

For decades, and in addition to grants of income and food, the principal anti-poverty approach in Sri Lanka focused on providing access to land and to a lesser extent on the terms of that access. The vast expansion of irrigation schemes was often associated with the settlement of relatively poor farmers and the landless. In addition grants of government land for village expansion together with the regularization of encroachments probably benefited 200,000 families over the years. (Some of this was fictitious in that the circumstances in which the State initially assumed ownership of land which at a certain time was not obviously being cultivated were themselves questionable.) In addition limits were set on land rents and amounts due under share cropping contracts while the ownership of distributed government land was protected by a ban on its subsequent sale.

As has been seen above overcoming landlessness is not the universal key to poverty alleviation. Land owned may be of a poor quality and paid employment may be a better avenue out of poverty. Earlier perceptions of rural poverty are less relevant than before while

in urban areas poverty is linked increasingly to, and manifested as, social problems such as drug and alcohol abuse.

While it is obvious that open unemployment is poorly correlated with poverty it is very much the case that some members of poor households are educated up to secondary level and are looking for good jobs. Once they find them and set up separate households they will not be counted among the poor. However, as job seekers they are a liability to whoever is supporting them and once employed they will be a source of support to household member who are, or would otherwise be, poor. Educated children from poor households are very probably disadvantaged in job seeking, especially outside the public sector. This is quite likely to be because they are not in the right information sharing network. Public support for better systems of labour market information collection and dissemination should be helpful. However, the educated unemployed members of poor households may also be living in areas with next to no good quality jobs and away from good roads.

Some of these areas are unfortunately also at peril from environmental degradation. Deforestation leads to water loss and soil erosion as well as removing supplies of firewood. Coastal erosion is affecting the housing conditions of thousands of low income fishing families.

Specific anti-poverty programmes run by government departments of NGOs have been successful in “empowering” the poor both psychologically and socially (Gunatilaka, 1997b). Successful examples managed to mobilize not just a specific interest group but the community at large. Vulnerability can be reduced by group savings and credit schemes. However it is rarely feasible for joint savings schemes to go to the next step of creating viable micro enterprises. The village poor are rarely entrepreneurs and even if they were the overall environment, including training and infrastructure, is not conducive to enterprise development. Joint credit schemes are above all good for overcoming emergencies by encouraging the pooling of resources. The scope for the poor, in a disadvantaged environment, to “pull themselves up by their bootstraps” is very limited and it is from the effects of growth on labour demand and from better labour market functioning that large scale poverty alleviation will come.

5. A labour market in transition¹⁵

5.1 Introduction

The context in which the country's labour market parameters assume shape in the years ahead is one of increasing integration into the global market.

The labour force will continue to rise but at a declining rate. The share of the working age population (15-59 years) in total population is projected to decline gradually from close upon two-thirds in 2000 to 63 per cent by 2021. Its growth is projected to fall below 1 per cent per annum within the current decade and also lag behind the rate of growth of the overall population.

The labour market will no doubt continue to be segmented into formal, protected jobs and informal sector positions. Preference for white-collar jobs in the public sector is still strong despite wage stagnation, particularly among educated women. The public sector is still the major employment avenue for professionals. Relative to demand, formal protected jobs will continue to remain in short supply in the next decade. Austerity measures announced by

¹⁵This chapter is taken from C. Rodrigo, *Labour market developments: Sri Lanka country profile in the 1990s*.

the Government in mid-2001 included instructions to Departments and Ministries not to fill existing vacancies.

Meanwhile, shortages are being reported in several technical, professional and managerial categories leading to a fast pay rises. The golden handshakes of the 1990s and the reduction of the mandatory retirement age to 55 increased the drain of experienced personnel from the government to positions in the private and NGO sectors. Also political victimization and interference is affecting morale in the higher ranks of public service. Shortages at the skilled levels and a high turnover of labour reported in the EPZs are other indications of imbalances in the market.

5.2 Future direction for wages

Since two-thirds of the employed work for a wage, wage levels are an important parameter shaping the performance of the country's macro variables and their interaction. Sri Lanka has sought to exploit her competitive advantage with the offer of factory labour at a wage of US\$2-3 a day.¹⁶ This 'low-wage' approach has attracted, labour-intensive, assembly-type industry with a heavy female concentration. Many of the jobs generated over the globalization phase have been of a transitory nature (EPZ employment, employment in the Middle-east) fitting into the description of a 'job', not a 'career'.

The critical issue to be raised is the direction for the future - whether the country is to proceed on the present strategy or to move on to a high-wage path graduating into more skill intensive production and high value-added or up-market products.

The issue is a complex one. Although Sri Lankan wage levels lie substantially below those of the developed and NIC countries, the country's ranking within the Asian region is in the middle. In Majumdar's computations for the garments sector (for 1993) Bangladesh's hourly labour cost is less than half of Sri Lanka's while those of China, Vietnam, India, Pakistan and Indonesia stood at between 71-80 per cent of the Sri Lankan figure. The prospect of multinational investors moving to lower labour cost locations is something that competitors for overseas investment have to contend with. Disproportionate labour cost increases, with no compensatory adjustments in labour productivity, risk eroding Sri Lanka's comparative advantage in industries with a high labour to capital ratio like Vietnam, China etc. where labour costs are even lower.

In the garments industry, the IPS (2000) study finds Sri Lanka progressively losing its advantage on labour (p. 48). Low productivity is a key concern here. Problems of absenteeism compounded by a large number of public holidays, inefficient use of both machinery and labour, and a general lack of modern technology are among the causes identified. Small-sized firms currently operating in a quota-protected environment may be unable to compete with large producers from countries such as India and China. There is also a broader challenge arising from technological developments within the industry. Computer-aided design and computer-aided embroidery etc. are reducing human labour use and the competitive advantage enjoyed by labour surplus countries.

The importance of raising productivity as a precondition for higher wages is recognized in domestic policy circles. Government's Vision 21 Statement notes:

¹⁶ Although the wage is at \$2-3 a day, there are additions to labour costs coming from mandatory holidays and leave provisions (e.g. 26 public holidays, 52 week ends, 14-21 days of leave etc.) and from retirement benefits (EPF, ETF and gratuity which raise the wage bill by 20 per cent).

"A wave of wage increases across the economy, without a corresponding increase in production, will stimulate inflation until such increases are nullified. The only way for wage increases to improve the quality of life is by increasing productivity, i.e. to increase output in relation to capital and labour employed." (Ministry of Finance and Planning, 2000: p. 3).

A high-wage approach is expected to boost workers' morale and physical capacity but whether a high wage by itself will stimulate higher productivity is another area of debate. Besides, higher productivity can be also achieved through a cut back in labour use, and this raises further dilemmas in a labour surplus setting.¹⁷

There are factors militating against a productivity-centered approach being adopted in pay matters. Firstly, the demonstrated tendency from past experience is for *across-industry* bargaining rather than in-plant or industry-wise bargaining. This makes it difficult for productivity considerations to be brought into the negotiations in a meaningful way. Secondly, the tendency has generally been for cost-of-living related pay adjustment. (e.g. adjustments tied to changes in the Colombo Consumer Price Index), which similarly precludes a productivity-related approach. A third constraint is the ambiguity of the concept itself, which leads to problems of measurement.

On the wage-productivity nexus there are also insights provided by experience elsewhere. The 'high-wage' policy of 1979-81 in Singapore, for instance, was a bold attempt to improve labour productivity. It also reduced income differentials (since low-wage workers received the biggest recommended wage increase); and had an equitable effect. The high-wage approach forced employers to economize on labour use; labour productivity did increase and investments became more capital-intensive. Labour market adjustment took place through responses such as expatriate labour returning home, women leaving the labour force and retraining for the displaced, which enabled them to move into areas of growing demand. Sri Lanka does not have the same flexibility for coping with redundancies (without paying a heavy social cost). Furthermore, there is still a substantial surplus of open unemployed to be absorbed into productive employment.

The phase which followed Singapore's high-wage policy era of 1979-81 was one in which increase in real wages and total labour costs exceeded productivity growth, causing an erosion of Singapore's competitiveness.

If real wages in the Sri Lankan economy are to be pushed up substantially in the coming years, the room for such a 'high' road option will depend essentially on how productivity can be raised. It will also depend on the product-mix in the country's output structure. Contemporary productivity growth in the economy at 2-3 per cent per annum is far below the levels attained by the NICs (5-10 per cent) at a similar per capita income level.

The NICs changed to more value-added activities at their corresponding phase of development. This moved their manpower requirements from unskilled labour to particularly those with science and technology training and led to higher wages. A move to the 'high road' would call for changing the economy's "product mix" towards higher value-added items. There is also room for raising labour income through a change in the skill mix for foreign employment away from its present concentration in low-paid household service.

5.3 Wage administration: Some dilemmas

As noted, wage setting in the Sri Lankan economy has in most circumstances functioned as a reactive and *ad hoc* process. Wage administration has many challenges to contend with.

¹⁷ For e.g. automation of tea plucking.

The context for wage determination is one of wide disparity in paying capacity - between big and small establishments, the formal and informal sectors, local and foreign enterprises etc. For the government, the practical bounds imposed by budgetary 'housekeeping', and the possible repercussions of public pay adjustments on private sector pay are constraints which cannot be overlooked. In the private sector, enterprises sell products in different markets. In the export sectors, the enterprise is a 'price taker' and wage adjustments have to be programmed within the bounds of productivity gains and the exogenously determined price levels. Where world market prices fall or stagnate, pressure shifts to the exchange rate. The scope for higher wages is constrained. In production for the domestic market too, the availability of cheaper imports affects the producer's ability to recoup cost increases. Liberalized imports of finished products led to dumping at below-cost prices against which small-scale units could not compete (ARTEP, 1986: iii).

Faced with rising production costs and or stagnant world markets the exchange value of the Rupee takes the strain. Devaluation in turn sets in motion a process of inflationary pressure which usually reduces the real wage.

Evidence shows a general tendency for money wage levels to rise over time. This follows from tying administered wages to the cost of living, from the sensitivity of reservation wages to inflation, from local social safety net programmes, and from employment prospects in the Middle East etc. Money wages hardly ever fall; the adjustment is typically through the real wage. One mechanism for achieving real wage restraint is a less than 100 per cent compensation for price inflation. The phenomenon of currency depreciation compressing real wages has been a conspicuous development in the liberalized economy.

Overruns on the budget deficit from defence spending and continued pressure on the external reserves are real challenges as the economy moves into the new century. Higher inflation will also progressively erode the competitive advantage of any real exchange rate devaluation

From a short-term perspective, the current composition of exports restricts the country's choice on the wages front. Given a concentration at the low-price end of the market (common beverages, mass production items of wearing apparel, manpower for domestic service etc.) the potential for a substantial real wage leap (i.e. 'high road') in the export sector is limited. Diversifying the product range towards higher value-added items and technologically superior product lines is a prerequisite for any significant real wage increase. This would entail some time lag.

5.4 Wage policy approaches: Insights from past experience

Past experience points to two alternative approaches adopted by the government to remuneration: the "*price route*" and the "*wage route*". The "*price route*" was the stance pursued until the late 1970s. Price stability (or inflation control) was a priority objective of macro economic policy under successive governments. From the 1950s the State intervened through an armoury of consumer subsidies, administered prices and the rationed distribution of essential items in an effort to contain the rise in the cost of living. With domestic price stability, the need for frequent intervention to defend the money wage did not arise; real wages could be protected without nominal wages having to be revised on a regular basis (i.e. the path of *price stability cum money wage stability*).

In the 1970s when the policy of repressing inflation through subsidies and administered prices seemed unsustainable in the face of the world food, energy and exchange rate crises and the extensive mounting pressure on the budget, a major policy change occurred on both fronts. A stance of *stable prices cum stable money wages* was no longer feasible. As prices were allowed to find their market level, compensatory action was required on the

money wage front (the '*wage route*' approach) and the response became one of State-sanctioned wage adjustments coming in quick succession for both public sector employees and the private sector¹⁸.

As the 1970s drew to a close, the State, while leaving prices to be determined by market forces, withdrew from its earlier interventionist policy of decreeing wage adjustments in the private sector. Private sector wages were left to find their own levels in the next two decades through the available mechanisms of Wages Boards, collective bargaining and individual negotiation. The 1990s were a decade of real wage stagnation or decline for much of the workforce.

Between the price route and the wage route, the price stability route presents certain advantages. High inflation breeds worker discontent, initiates a wage-price spiral and has implications for external competitiveness. Besides its benefits for the paid workforce, containing inflation also helps the mass of self employed workers.

5.5 Human resource development policy

The NICs were able to change their development strategy to more value-added production activities. In Sri Lanka, going for higher value-added items will need quality upgrading and that will need an upgrading of human skills. In its human resource base Sri Lanka has certain advantages facilitating a take-off on to an advanced path on the skill and technology spectrum. While a number of her counterparts had to start virtually from scratch, Sri Lanka has a base of educated manpower on which the economy can build up its technological capacities.

As technological change unfolds, action is necessary to avoid being caught in a skills trap -- i.e. uncompetitive in labour intensive industries and at the same time not having the required skills level and mix to compete successfully in high-tech and skill intensive industries.

To generate the right skills to manage a successful transition to higher value-added production, imaginative reform is needed on the training and education fronts. Vocational schools and industry should work closely together in this exercise. Current moves for expanding IT education and training are commendable.

For the future, the economy should pass the stage of supplying cheap labour, sooner or later. Among the changes envisaged in the *Vision for 21* document of the Ministry of Finance and Planning are the diversification of agriculture from export crops into technology-based agribusiness, the adoption of information technology to create high value added products in services, and pushing the garment industry into up-market products.

In the emerging world market for IT products, possibilities are opening up fast. India's IT professionals enjoy a ready market overseas, particularly in the USA. Sri Lankan enterprises have been able to break into the export market for computer software, albeit in a limited way. Likewise, there has been an expression of interest by overseas organizations for training medical professionals in collaboration with Sri Lankan institutions. These are illustrative of the possibilities ahead. Developing technological capacities and skills should be explored as a way of attracting foreign direct investment.

¹⁸ See Rodrigo, 1991.

6. Vocational training

6.1 Introduction

Sri Lanka has a very extensive system of institutional vocational training and such training is often believed to play a major role in reducing unemployment. As a measure of the extent of training the Central Banks=Survey of Consumer Finances in 1996/97 discovered that nearly 11 per cent of both men and women employed had received some, off-the-job, training, usually for a period of seven months (the median length of training). After a certain age, probably early 20s, younger workers were more likely to have had some training than others, i.e. of all women trained, 37 per cent were in the 26-35 age group (and 31 per cent of men) compared to 16 per cent and 17 per cent in the 46-55 age group respectively. Among occupational categories the longest period of training was for professional workers, around half of whom had been trained for a period of at least two years. Agricultural, sales and workers Anot elsewhere classified@ had negligible numbers and lengths of institutional training. Among production workers some 22 per cent of men and 11 per cent of women had been formally trained, usually for around 6 months. Of course, on-the-job training, which is not included in these numbers, is common and most of the employed labour force has learnt on-the-job, whether formally or informally. As will be seen, some employers prefer this method of skill acquisition.

To some extent these findings of most training for professional workers and least for unskilled workers suggest that vocational training is complementary to education. Production workers, however, are likely to be an exception to this; their education levels are medium to low but they need more than everyday experience to do their job properly.

At the same time as some 11 per cent of the employed had been trained so apparently had 22 per cent of the unemployed. These data are not easy to interpret as they include both those who had previously worked and those who had never worked. Of the unemployed nearly 4 per cent had a technical skill in professional work and 11 per cent a technical skill in production work. Going back to the survey=s raw data this suggests the following breakdown:

		Professional and related workers	Production workers (per cent)
At work	trained	53.3	18.9
	untrained	46.7	81.1
Total		100.0	100.0
Trained unemployed ¹⁹		(6.4)	(4.8)

These data obviously raise the question of why the trained unemployed do not replace the untrained employed. In this respect the quality of the training is probably crucial. However, as a stock of potential workers the trained unemployed are not very high.

Similar and more detailed data were obtained from the Quarterly Labour Force Surveys of 1999. These showed that 24 per cent of the unemployed had received vocational training. The data show which fields of training appeared most effective in securing employment for their graduates. With an average success rate of 82 per cent the highest rates were for plumbing and for gem cutting (where it is believed that links with employers are particularly close). The lowest were for computer and data entry and clerical work. Training

¹⁹ As a share of employed workers.

in these areas appeared to be dominated by small, fee levying schools with poor equipment and instructor skills. In between, painting had a success rate of 92 per cent and heavy vehicle driving 93 per cent. Some forms of training are clearly highly effective in helping in job search.

A more recent analysis of survey results (Lubyova, 2001) also sheds some light on vocational training. It suggests that the returns to a year of vocational training are substantial, and nearly as high as the returns to a year of education. However, such high levels of return appear to apply only to those with \geq level education and above. Analysis also shows that vocational training does in fact reduce the likelihood of being unemployed and does so much more in urban than in rural areas. This suggest either that rural based vocational training is less effective than urban or that rural based training is building skills for jobs which don't exist. Finally the analysis suggests that occupations and education levels are to some extent Atwinned@, i.e. high education levels increase earnings significantly in professional occupations and low education levels decrease earnings among production workers.

6.2 The training system²⁰

Early in 2000 an *Institutional audit* of the Sri Lankan official training system was completed. This included a wealth of information on the various training providers and many recommendations for improving their relevance and efficiency. It suggested that skills provided did not meet market demand, that the training system suffered from duplication and weak management and that curricula and teaching methods could be improved. It discussed the strengths and the weaknesses of the Department of Technical Education and Training (29 technical colleges and 7 affiliated institutions); the Vocational Training Authority (programmes varying from 1.5 to 12 months, a strong presence in rural areas, 33,600 applicants in 1998, 18,000 enrolled, recent expansion has been rapid, some courses seem ill adapted to the rural labour market); the National Apprentice and Industrial Training Authority (strong links with industry, a trainee intake of around 20,000 annually and a generally good record of trainees ending up in jobs for which they were trained); and the National Youth Service Council (some 5,000 young people trained annually but an inflexible and partly out of date course system with some of its output hardly employable).

In fact it appeared that several agencies were claiming (in their mission statements, corporate plans, etc.) to be doing more or less the same thing, namely to provide pre-employment training in craft skills. Under these circumstances the audit considered that it was extremely difficult for a potential employer to know what he is getting or for a trainee to feel confident in the wider acceptability of the certificate he has been awarded.

So long as different training institutions and agencies offer programmes with similar titles but with widely varying durations (in extreme cases, as short as four months and as long as eighteen), the confusion is likely to remain. Some institutions are very likely to be more efficient than others (and therefore their trainees reach a predetermined skill level quicker) but common sense would suggest that different agencies are training to different standards. Unfortunately, there is currently no objective measure of standard reached and only a detailed examination of the various curricula in use would confirm this suggestion.

The problem of which agency should best provide what level of training for which target group is also compounded by differences within the same agency. Several agencies were found to have national centres, district centres and local (rural) centres offering a different level of programme but with few if any linkages between them. Thus there seems to

²⁰Taken from D. Bowland et.al., *Institutional audit: Technical education and vocational training*, Colombo 2000.

be a problem of vertical integration within the same agency, with no progression ladder to enable graduates from a lower-level institution to develop further the skill they have acquired at one level by attending a high-level institution.

Generally the key to understanding what training institutions do (i.e. the level to which they train) is the existence of a nationally recognized set of skill standards. This is clearly understood in Sri Lanka, as evidenced by the introduction to the skill standards produced by NAITA, which states that: 'National Skill Standards will establish the criteria for certification of different levels of skill and guide institutes and individuals to prepare curricula and training materials for training of skills to meet requirements of technical knowledge and practical skills to be performed on an established level of craftsmanship'. At the time of the audit skill standards had been prepared for 59 trades and training standards or orders for 133 trades. More were under preparation; however the process is time-consuming, involving as it does the setting up of employer-led advisory committees for each occupational area.

But unfortunately the skill standards are apparently perceived by other delivery agencies not as national standards but as NAITA standards (applicable mainly to that agency's apprenticeship programme). Other agencies have developed their own standards.

In the absence of a comprehensive set of skill standards (and general acceptance of those that do exist) most of the major training providers undertake curriculum development themselves, on an ad-hoc basis resulting in wide disparities in course content, duration, and standards of training, negatively affecting the quality of training and the eventual employability of trainees.

A more universal criticism made by the audit is that many teachers have no recent industrial exposure and require technological (and pedagogical) upgrading. Some training agencies operate with a high proportion of contract teachers, some of whom lack the necessary educational background to be eligible for regular government employment, even if that were considered desirable.

At the level of the training institute linkages with the labour market are rarely formalized. VTA institutes were supposed to have advisory boards, but these were either never constituted or quickly became inactive. Certain informal linkages exist at the local level, with contacts made for the placement of trainees for industrial experience, for possible job placement after training, to give occasional opportunities for instructors to upgrade their skills in industry, and to involve of employers in career guidance activities. An exception to this is NAITA, where the principal training mode is apprenticeship, and instances where training institutions organize programmes specifically to meet the needs of a particular sector (e.g. garments) or other fee paying courses responding to a perceived demand.

The main issues in this respect are how well this array of contacts with industry (at least in urban areas) actually works and what steps could be taken to improve such linkages. A key question concerns indeed the utility of closer training provider-industry contacts if the agency or institution lack the authority, resources, capability or will to introduce new programmes or to modify existing ones. The rapid demise of the VTA advisory boards suggests that they were unable to influence what the centre could offer. Industry would then rapidly lose interest in any dialogue on training needs.

This issue is linked to the form of management information operating within the training system. This works largely, it appears, as a bottom up administrative support mechanism for the managing agency of the training institution. It facilitates the management control function, largely by indicating that activities are proceeding according to the training plan, but it does not, for example, signal the need for changes in courses provided or course content. While there are opportunities for discussions on new courses or dropping some of the existing programmes, such topics do not seem to receive much attention. It sometimes seems that existing reporting systems in training agencies are more concerned with pinpointing

errors or non-performance against plans than they are with the constructive aspects of proactive management.

The institutional audit went on to discuss how to avoid duplication among agencies, how to raise quality - better curricula, better instruction - and improve management. It also stressed the need to know more about the progress of graduates of training schemes (including liaison with employers to help in job search) and to have closer links with employers - and for institutes to have the flexibility to react to the insights they gain from those links.

6.3 Training and employment²¹

What has so far emerged is that while it is essential for the grant of a training qualification to send a clear message to an employer the training system at present is not fulfilling this task. But in this signalling educational qualifications also play a role and may be uniquely linked to training. Furthermore it will be seen that training qualifications have not replaced education levels as a signalling device.

First of all, all public sector training institutes insist on educational qualifications for admission to their training courses. The standard educational qualification for admissions to long-term (3-4 years) courses leading to higher national or national diplomas and preparing for technician or associate professional level occupations is the GCE (A/L). The standard educational qualification prescribed for courses of 1-3 year duration leading to certificates as craftsmen is the GCE (O/L). Studying up to school year 9 is the standard educational qualification accepted by public sector training agencies for admission to courses of a shorter duration (6-12 months) for different technical trades. Studying up to year 9 is the entry qualification to six-month courses leading to certificates awarded by the Rural Vocational Training Centres of the VTA and 12 months courses at technical colleges.

Very few courses are available in public sector agencies for those who have studied up to year 8 and most of these are opportunities to enrol in industry-based apprenticeships arranged with employers by the NAITA. Admission requirements for the courses run by private proprietary training institutes seem to follow the practice in the public sector. The only training institutes that adopt more flexible entry requirements are NGOs. Generally, there is thus a direct and rigid relationship between education qualifications and admission requirements to vocational training. The public training system seems to be underpinned by the assumption that all those with a given educational qualification can acquire further skills at the same pace.

Many employers clearly place a strong reliance on acquired education in recruitment decisions. Furthermore as the general education level rises some firms are shifting from an >O= level to an >A= level basic requirement.

Two leading private banks have recently dropped the practice of recruiting GCE (O/L) qualified youth and raised the entry level to GCE (A/L). The Seylan Bank, with about 3,500 employees, earlier recruited GCE (O/L) qualified youths with 5 credit passes including English and mathematics. Recently they have raised the entry qualification to GCE (A/L) with three credit passes. In April 2000 the Bank examined about 700 applicants with the required GCE (A/L) qualifications and short listed 100 applicants for interviews. The examination tested knowledge of English, mathematics, general knowledge and the candidates=IQ. About 35 candidates were finally selected. The Hatton National Bank has also done away with the earlier practice of recruiting youths with GCE (O/L) qualifications recommended by the senior staff. The bank has raised the entry qualification to GCE (A/L) and recruits bank clerks

²¹ This section draws on P.M. Leelaratne, 'The relationship between education, training and employment', Colombo, 2001, mimeo.

by competitive examination. But both banks acknowledge that raising educational qualifications for entry into banking jobs is simply a screening device and a cost saving measure, not a recognition that a higher education level raises productivity.

A similar shift from >O= level to >A= level as an entry requirement is taking place for laboratory assistants in the rubber industry. There, however, some workers already have >A= level grades and the shift to all >A= level recruitment implies gaining higher levels of qualification and productivity.

It is interesting that the garment industry, or at least the larger firms in that industry, have very settled ideas about their preferred recruits. A survey of 121 firms in 1998 showed that while some shop floor workers, e.g. checkers, had >A= level qualifications and others, e.g. Ahelpers@ had schooling up to grade 8, the universal preference seemed to be for >O= level educated workers, which the vast majority of shop floor workers were. In contrast junior managers, quality controllers, etc. were expected to have >A= level qualifications. Given the availability of female labour it seems that these firms can select the qualification they want. Furthermore, the same survey showed that the vast majority of shop floor workers had received training on the job. Mechanics, whose skills are presumably not specific to the industry, formed the only shop floor occupation with a sizeable minority (21 per cent) trained at a public sector institution.

The garments industry is, however, an exception in its clear reliance on educational qualifications and on-the-job training. A survey of 300 firms working in car repair and maintenance showed that currently 65 per cent of Acraft and operational workers@ had less than >O= level schooling (up to 11 years schooling but insufficient, if any, >O= level passes) and that, by and large, employers were happy with that. Possibly a few large-scale operators were anxious to recruit workers with higher education levels, and indeed, one third of craft workers in these surveyed firms did have >O= level qualifications.

That educational qualifications should be important in recruiting first time job seekers may be understandable. However, even where the possible labour force also includes experienced workers education is also given a high ranking. Thus a small survey of 29 firms showed that, given a choice of using education, vocational training certificates, acquired experience or recommendation by others as a recruitment criterion, employers= first choice for a selection criteria was nearly always education. Certainly vocational training was the preferred criterion for technicians, and experience the first choice for unskilled workers. However, only in that last category did employers overwhelmingly put experience first. The contribution of experience to a worker=s productivity is no doubt hard to judge but correspondingly it is hard to believe that educational levels remain a good guide to a worker=s performance long into his career. A review of advertisements in newspapers, however, showed that in some 540 advertisements for craft and related workers and plant and machine operators slightly more than half specified experience only.

Despite employers= repeated return to educational qualifications as a sign post to workers= performance and to a worker=s potential for benefiting from on-the-job training, institutional vocational training has had a lot of success. The survey of 29 firms showed that a sizeable minority (41 per cent of respondents) considered that the skill levels of the trainees of vocational training institutions were as good as those of the school leavers who had obtained skills on-the-job in the firm. But only 21 per cent of respondents believed the skill levels of trainees were better. The firms that rated the vocational trainees as better are those using modern technology. The implication is that firms with relatively advanced technology obtain a better performance from trainees of vocational training institutions. Thus the leading automobile repair and maintenance firms recruit only from the Ceylon German Technical Training Institute (4-year course) and the Automobile Engineering Training Institute (3-year

course), the two leading public sector training institutes. Perhaps as a corollary to this, in a large survey of 75 Board of Investment (BOI) firms a large minority thought that the graduates of vocational training institutes had adequate qualifications but were not prepared to settle down and work. Other employers, however, thought that what is taught in many vocational training institutes was obsolete or at best inadequate. There is obviously room for a wide range of views, probably reflecting the wide range of training institutions and courses.

In summary, it appears that the linkages between the training system and the labour market in Sri Lanka are in a state of flux. Employers cannot be sure what the potential performance of new recruits is likely to be and thus sometimes fall back on educational qualifications as a recruitment device. It can be recalled that on average workers with over one year of tenure are paid some 40 per cent more than those with less than one year. Some training institutes, however, clearly have a good reputation so that a high road of training and work exists. This high road is not necessarily monopolized by the better educated who may indeed find themselves poorly served by the vocational training options open to them.

Last but not least, another training issue which requires further investigation is the retraining of displaced workers. Liberalization and privatization has brought about job losses particularly in the public enterprise sector. Without programmes providing social safety nets for displaced workers, there is a need to establish a fund for such workers in order to facilitate their placement through retraining. Overall it is essential to move towards giving workers employment security by preserving their employability.

6.4 Recommendations

The institutional audit recommended many specific steps which individual parts of the training system could follow. More generally its recommendations were grouped around the themes of developing standards, ensuring a better management of the overall training system and forging closer links with the consumer.

Under the first heading it recommended rationalizing and improving the curricula which are currently in use, primarily for occupations for which there is obvious demand in the labour market. It also suggested a training needs assessment directed at instructors in order to upgrade their skills. A programme for acquiring equipment should also be drawn up.

Under the heading of better management it recognized the importance of good labour market information in order to plan the training system's response to changing demand. However, it also stressed the need for greater managerial autonomy at the level of the training institution and hence for a better system of collection and use of management information. This would contribute to improving the internal efficiency of various elements in the training system.

Under the heading of closer links with the consumer the audit recommended reactivating training institutes' advisory councils, provided that greater independence was given to training institutes to respond to identified demand. It also recommended that employers' groups should be encouraged to contribute constructively to planning skill development and identifying training needs.

7. Small and medium enterprises²²

7.1 Introduction

Small and Medium Enterprises (SMEs) play a critical role in economic development. They contribute to the reduction of poverty through employment creation and income generation. Their sustainability depends on a conducive and enabling policy environment. Targeted policies can to some degree influence the demand for their products and services and facilitate their access to markets.

There are several definitions of Small and Medium Scale Enterprises (SMEs). Some organizations adopt the criterion of numbers employed while others use the value of fixed assets. The National Development Bank (NDB), the Export Development Board (EDB), and Industrial Development Board (IDB) use the latter definition, whereas the Department of Census and Statistics (DCS), Small and Medium Enterprise development (SMED), and the Federation of Chambers of Commerce and Industry (FDCCI) use the former definition.²³

In analyzing the contribution of SMEs to economic development, one major constraint is non-availability of data. Although several surveys have been undertaken on the SME sector and data have been collected, all such studies and surveys have been project specific. The data collected have been tabulated and stored to serve a particular purpose. Given this an additional survey was undertaken for this study.²⁴

7.2 Employment in SMEs

No accurate picture of employment in SMEs can be drawn. Certainly the Labour Force Survey records approximately one million people working in the manufacturing sector while the Survey of Industries finds around 400,000 working in establishments employing 25 or more workers. And, of course, SMEs exist in virtually all sectors of activity (although agriculture, by convention, is not usually seen as an SME sector). Another clue is that the Labour Force Survey records approximately 130,000 people calling themselves “employers” rather than “own account workers”, i.e. they are employing someone, presumably full time and not seasonally. Again these employers are in all sectors. This number can be compared to the around 2,200 establishments employing over 25 people. These numbers suggest that SMEs contribute substantially to employment and income generation.

However, when it comes to wages and value added the SME contribution appears weaker. The Survey of Industries gives wage and value added data per worker for establishments employing less and more than 25 people. Crudely, value added per worker in the smaller establishments was some 15 per cent of that in the larger and wages 30 per cent. But that crude figure is very influenced by the composition of the total with highly capital-intensive establishments in the 25+ sector. Industry by industry smaller establishments generate about one-third the value added per worker and pay about one half the wage.

²² This chapter was extracted from the background study and survey by Anton Fernando (2001) “Challenges of Growth, Employment and Decent Work. Country Profile: Sri Lanka. Small and Medium Enterprise Component”.

²³ For details of the different definitions, see Fernando (2001). The term “micro enterprises” is increasingly used but it has no specific definition. World Bank loan programmes have been directed at “small and medium industries” rather than enterprises. This seems to be a distinction without a difference.

²⁴ The survey covered 250 enterprises in both Kandy and Hambantota. The survey concentrated on the perceptions of SME owners and managers concerning the problems they faced and the assistance they received from various institutions.

Furthermore the employment relationship in many SMEs is far more informal than in larger enterprises, often to the workers' disadvantage.

Employment numbers given by SMEs themselves are highly unreliable. Employers are either reluctant to provide information, for a number of reasons, such as an attempt to evade labour laws and income tax regulations, or find it difficult to provide accurate details. SMEs often do not keep records of their employees as they are mostly hired in an informal manner. Usually workers are not given appointment letters and contributions to the Employees' Trust Fund (ETF) and the Employees' Provident Fund (EPF) are not paid. And when such contributions are made the sums shown as total salaries are less than the workers actually receive. In addition dates of appointment are not properly reported and in a number of ways employers avoid paying correct salaries. For these reasons finding good employment data for SMEs is difficult.

Even where coherent data are collected they differ drastically depending on survey methodologies, the methods of the individual investigator and the type of SME units selected. However, SMEs that opt to obtain bank loans and other assistance from public organizations are compelled to provide some information. Usually only relatively established SMEs request assistance through such facilities. Hence these data do not reflect the full picture of the SME activities.

Given these constraints, the only systematic employment data available are those gathered through the disbursement of the loan facility extended by the World Bank and ADB to the SMI sector (Table 7.1). Although there is a predominance of enterprises in the Colombo, Gampaha and Kandy districts, a significant dispersion of enterprises to other areas emphasize the impact SMEs have on rural industrialization.

Table 7.1: SMI loan schemes

Project	New projects	Expansion projects	Total projects	Employment generation (27 March 1998)	Average employment
SMI I	853	888	1,741	17,528	10
SMI II	955	1,536	2,491	25,060	10
SMI III	795	1,644	2,439	36,379	15
SMI IV	2,058	6,782	8,840	59,020	7
SMAP	1,466	2,378	3,824	12,329	3
SMILE	2,371	3,746	6,117	15,793	3
Total	8,498	16,974	25,472	166,107	7

Source: NDB

The average size of SMEs by employment generated has clearly varied very considerably over the life of the programme.

7.3 Where are the SMEs?

According to the Industrial Survey of 1998 small enterprises employing 5 to 10 persons accounted for 61.4 percent of the total number of firms surveyed. Enterprises employing between 10 and 100 workers constitute 33.5 percent of the total surveyed. Industries employing between 5 and 10 persons are concentrated in food, beverages and tobacco, textiles, wearing apparel and leather products and non-metallic mineral industries. The Survey of Industries, however, has the shortcoming of relying on the 1983 Industrial Census to draw up its sample. Given that many SMEs do not last for long, there is no doubt that the survey severely undercounts their numbers.

In many sectors there is a predominance of women in employment. In garments and food processing there is indeed often a preference for female workers. But, in general, according to the survey carried out in Kandy and Hambantota, there is a preference for male workers as they are thought to have a higher levels of skills, and need to be given only basic amenities. Furthermore, male workers are considered to be more able than women to take independent decisions. A further indicator for the degree of gender discrimination is that although female workers do their jobs well they are paid less.

Table 7.2: Establishments classified by persons engaged, manufacturing, 1998

	5-10	5-10	11-39	40-99	100+	
Food, beverages, etc.	39.2	64.2	24.3	3.7	7.8	100.0
Textiles, garments, leather	16.2	37.6	44.9	6.7	10.8	100.0
Wood, wood products	10.9	71.1	25.0	2.3	3.7	100.0
Paper, paper products	2.5	52.8	34.6	6.2	6.4	100.0
Chemicals, rubber, plastics	8.2	57.8	21.0	11.8	9.4	100.0
Non-metallic minerals	16.9	72.3	25.2	0.1	2.4	100.0
Machinery, and transport equipment	6.1	64.8	22.0	4.6	8.6	100.0
	100.0					

Source: Survey of Industries

Table 7.2 is taken from the Survey of Industries. As noted it probably understates the share of SMEs in each sector. However, it may be more reliable in indicating that e.g. nearly 40 per cent of very small enterprises are in food and beverages, followed by nearly 17 per cent in non-metallic minerals (including gems). In addition the last sector is the most small enterprise intensive (72.3 per cent) followed by wood and wood products. Textiles and garments is the least very small enterprise-intensive sector (only 37.6 per cent of enterprises in the 5-10 category) but has many establishments in the next category of 11-39 workers.

The pattern of disbursement of World Bank SMI loans confirms that food, beverages, etc. is the manufacturing sub-sector with the largest share of SMEs. World Bank loans were not restricted to manufacturing. Nonetheless, even including transport where many loans were given for bus purchase, the share of manufacturing in all SMI loans ranged from 34 per cent to 47 per cent (SMAP, small and micro enterprise assistance programme, and SMILE programme respectively) fisheries and animal husbandry from 7 per cent to 9 per cent and transport from 43 to 19 per cent. "Services" ranged from 13 per cent to 24 per cent.

7.4 SMEs and exports

While the domestic market is the main outlet for small and medium enterprises they sometimes make a significant contribution towards exports. Although direct exports from this sector may not be large, SMEs play an important role as indirect exporters. There are a large number of small entrepreneurs who manufacture export products or parts, with larger entrepreneurs coordinating such arrangements and handling the direct exports. Coir based products; wood, handicrafts, leather products; plants and foliage are examples of such arrangements involving SMEs which are sub-contracted by large-scale exporters.

Using the value of exports as a criterion, the export development board (EDB) categorized those firms with export earnings up to Rs. 25 million as SMEs. Those enterprises are eligible to obtain various incentive packages offered by the EDB. As indicated in table 7.3, in value terms the contribution of the SME sector to total exports was 3.6 per cent in

1998, 3.7 per cent in 1999 and 3.2 per cent in 2000. Despite this low average contribution of SMEs to exports, most exporting firms are SMEs. As a percentage of the total number of exporters, some 74 per cent are SMEs. While the overall contributions are low, the share varies considerably. Thus in 1998 as much as 47 per cent of the value of gems exported came from SMEs. However, the share of SMEs in all exports of manufactures was only 1.3 per cent.

Table 7.3: SME exports, 1998, per cent of total exports by sector

Product	Percentage
Tea	1.6
Rubber	2.5
Coconut	10.7
Other export crops	7.5
Gems and jewelry	47.2
Textiles and garments	2.0
All manufactures	1.3

Source: Fernando (2001)

7.5 The policy environment

SMEs are inherently constrained by their size, start up instability, highly competitive environment, limited access to technology and services, a low level of entrepreneurial skills and by poor policy instruments and institutions. The problems SMEs face were highlighted by the survey in Hambantota and Kandy districts undertaken for this study.

Table 7.4. The type of assistance SMEs require, per cent of enterprises

Type of assistance	Kandy	Hambantota
01. Credit and subsidies	74	67
02. Training related to their field	31	24
03. Market facilities	28	26
04. Raw materials and equipment at cheaper rates	32	29
05. Lower bank interest rates and government taxes	40	46
06. Introduction of new production technology	25	23
07. Supportive labour rules and regulations	18	24
08. Expand extension services	12	22

Data are not available to assess analytically the mortality rate of SMEs. However, it can be deduced that the mortality rate is fairly high especially among the smaller SMEs. A survey carried out in the southern part of the country in 1994 by an NGO involved with SME development revealed that the survival rate of SMEs after 5 years was as low as 4.9 per cent.

In this survey entrepreneurs in Kandy and Hambantota identified the factors listed in table 7.5 as major reasons for the failure of SMEs. The survey also revealed that a considerable number of SMEs had shifted from manufacturing to trading. This is not uncommon in a liberalizing economy. A changing economic environment and socio-

economic pressures have reduced the effectiveness of the traditional services provided to SMEs by organizations such as the Industrial Development Board. Such service organizations have not been able to change their approach to the development of SMEs to take account of a more market oriented business environment. Since a major constraint to the development of SMEs is the poor marketability of their products, it is critical to understand existing markets and to cater to market needs. The service organizations should be alert to identify weaknesses and opportunities, and the reasons behind the lack of demand for or supply of services, and the extent of market distortions.

Table 7.5: Reasons for enterprise collapse: Views of entrepreneurs, per cent of enterprises

Category	Kandy	Hambantota
Poor quality products	32	27
Lack of skilled training and other facilities	20	28
Government policies and lack of markets	34	30
Lack of financial facilities	51	37
Difficulties of finding raw material and high cost of finance	38	23
Poor management	12	15
High competition and existence of substitutes	18	24
Lack of relevant information on markets & technology	5	na
Labour problems	10	na

According to the above a lack of financial facilities is a major constraint to the development of SMEs. However, many studies undertaken as a preliminary to establishing district development funds have revealed that finding finance is not a major problem as there are a number of loan schemes provided by the state, NGOs and the private sector. The major constraint is the bankability of the projects of SME entrepreneurs. Another issue raised by SMEs is difficulties in finding raw materials. In addition, they have pointed to government policies and a lack of markets as major constraints. But the state will not change or alter all regulations and policies to suit the demands of SMEs. In fact, when SMEs claim that state policies pose difficulties, they always indicate that the open economic policies introduced in 1977 have negatively affected them and that they expect state intervention to assist in finding markets for their products. Clearly this is not possible.

However, the suspicion that some countries are effectively “dumping” products in Sri Lanka at below cost price should be investigated.

7.6 Support programmes

Recognizing the importance of the small and medium scale sector in the economic development of the country, successive governments have established an institutional framework to help it. Although some of these institutions such as the Sri Lanka Standards Institute (SLSI) and the Industrial and Technology Institute (ITI), have a wider area of responsibility than the small and medium scale sector, their activities are of direct relevance to it. In areas such as product testing all entrepreneurs make use of the services of ITI. However, many small entrepreneurs cannot utilize their services due to their cost or distance. The institutions are all situated in Colombo.

The coverage and scope of these institutions vary. The only organization which focuses directly on SMEs is the Industrial Development Board (IDB), which adopts a ‘total approach’ to development. Its activities vary from the development of technology to specialization on the export sector. Table 7.6 below summarizes the functions of ITI, SLSI, National Engineering Research & Development Centre (NERD), IDB and EDB.

Table 7. 6: Activities and accessibility – technology and trade

Activity	ITI	LSI	NERD	IDB	EDB
Process development	**				
Technology upgrading	**		**		
Testing & adaptation	**			*	
Product development	**	**	**	**	
Technical information	**	**		*	
SME access to tech. Inf.	*	*	*	*	
Extension services	**	**	**	**	
Quality & standards		**			
Machinery & equipment			**		
Engineering services			**	**	
Access to services by SMEs at Regional level	*	*	*	**	
Ease of access to SMEs	*	*	*	**	
Market identification-local				**	
Export market					**
SME access to information				*	*

** - Main area of activity * - Secondary area of activity

In addition to statutory institutions, there are the trade organizations such as Chambers and trade associations. Most of them represent members from all sectors except for the Sri Lanka Chamber of Small Industries²⁵.

7.7 Encouraging women entrepreneurs

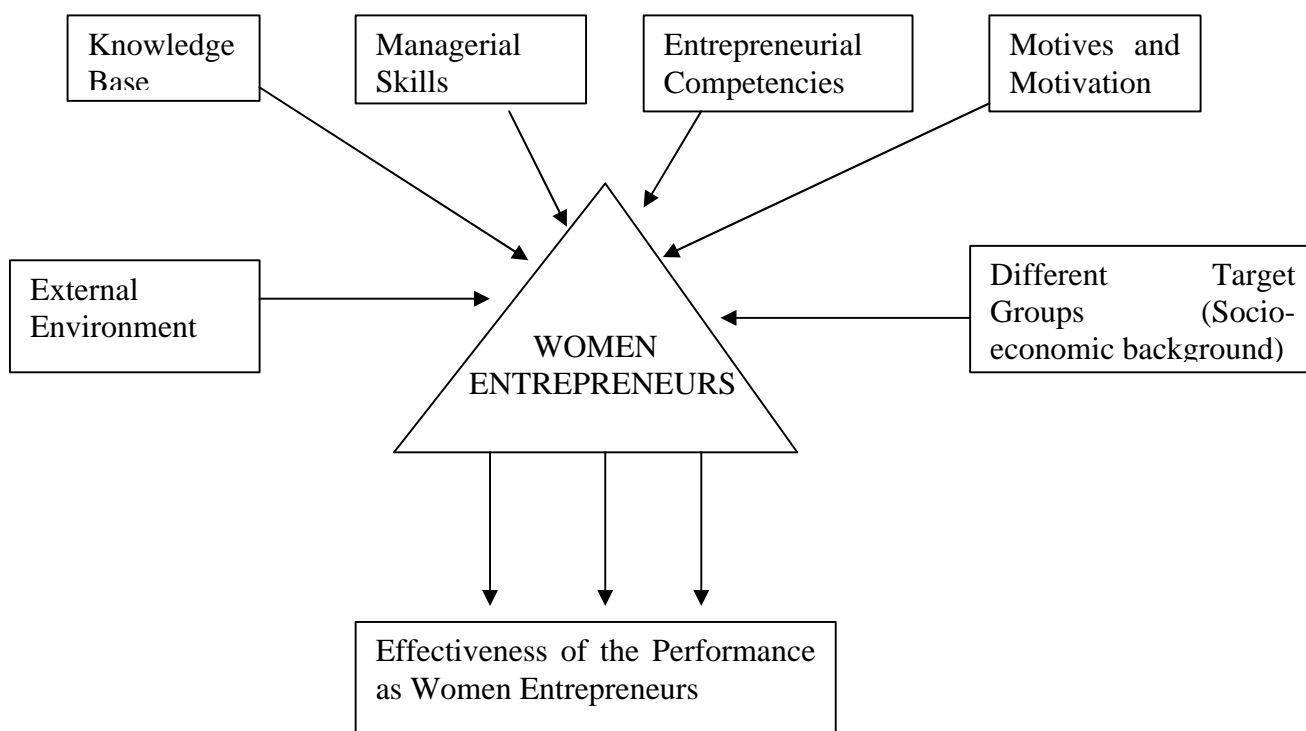
Micro and small enterprises enable women entrepreneurs to work from home. However, as many women have little or no experience in the organization and management of enterprises, it is important to build their knowledge, managerial skills and motivation. At the very small, micro enterprise level women entrepreneurs get opportunities to experiment and learn. But once they start employing others at the SME level, they rarely get such opportunities, as the risk factor at this level is so much higher.

The effectiveness of women entrepreneurs depends on a number of factors as illustrated below.

In order to promote more women entrepreneurs the establishment of women's Chambers of Commerce and Industry should be encouraged. Such organizations already exist in Colombo, Kandy and Hambantota and should be encouraged in other areas. The Women's Chambers should however be integrated into the main Chamber movement in the region and be active participants in both.

Younger, educated women are often more realistic in their search for viable projects. Economic programmes for women should respond to this challenge. The perception that women are not primary earners and thus should be channelled towards poorly remunerated activities should change. Women should be introduced on equal terms to enterprise development and the choice of the type of enterprise should be theirs. There are no enterprises that can be classified as being exclusively for women. What is important is to provide the enabling environment which ensures sustainability.

²⁵ For details for their functions, see Fernando (2001).



In order to promote gender equality, when the Provincial Administration invites the participation of entrepreneurs in various activities, women should be given equal consideration with men.

7.8 Recommendations

It is necessary to clarify what constitutes the SME sector and the role that the SME sector plays with regard to the development of the economy. The collection of basic data on units, employment, production, output and productivity at the provincial and national levels and the development of a data base on the SME sector are prerequisites. The sustainability of small enterprises in a highly competitive market environment necessitates an efficient information flow. For this purpose it is necessary that public organizations should work closely with the private sector and share available information.

A lack of training opportunities for SME entrepreneurs and workers has resulted in low survival rates for business as well as poor quality products. Curricula in public technical training institutes should accommodate the needs of the small-scale private sector in order to provide better skills development, catering for both entrepreneurs and workers.

Coordination among different support institutions can be improved. In this light, greater private sector involvement should be encouraged. The services of public organizations should be strengthened and a more effective professional service to SMEs provided.

Although the development of Chambers of Trade and Industry outside the metropolis has commenced, the growth of these organizations has been relatively slow. Thus SMEs operating in rural areas still do not have a forum to express and exchange their grievances or problems. The Chamber movement should be actively promoted and Chambers encouraged to take the lead in providing services to entrepreneurs. It is necessary to equip the Chambers better, through linkages between them and public institutions and to provide information

about e.g. the availability of land, local resources, skilled and unskilled labour, etc., in order to enable the entrepreneur community to identify investment opportunities.

8. Critical Issues in labour legislation and social dialogue²⁶

This chapter highlights some critical issues in industrial relations, labour laws and social dialogue. The globalization of trade and capital flows exerts pressure to increase the competitiveness of national economies and the flexibility of institutions. In the context of labour markets, this is manifested in pressures for greater flexibility in hiring and firing and in the adjustment of wage and non-wage costs. However, labour legislation in Sri Lanka, as in other South Asian countries, is regarded as overly protecting job tenure and as resistant to change. This chapter focuses on issues related to social dialogue and labour legislation (especially employment protection).

Social dialogue is a key institutional procedure in facilitating successful economic and labour market reforms. Constructive social dialogue is a prerequisite for achieving fair labour market reforms that allow for both flexibility and security.²⁷ Well-planned and managed economic and labour market reforms are essential to equitable economic and social development. The participation of the social partners in making and implementing labour market reforms is important for their success and sustainability. Such reforms may include, in a narrow sense, workers' representation and wage bargaining procedures, careful changes in labour legislation, and improvements in their enforcement, as well as monitoring mechanisms. In a broader sense: they can cover wider economic issues such as unemployment and economic growth, social protection policies related to unemployment benefits, health and education²⁸.

8.1 Industrial relations and social dialogue in Sri Lanka

As in many other countries in South Asia, industrial relations in Sri Lanka have traditionally been antagonistic. They are often characterized by mistrust among employers and unions, fragmented unions, a highly regulated legal framework, an ineffective dispute resolution system, weak tripartite arrangements and poorly implemented bi-partite arrangements. (Sivananthiran and Ratnam 1999). Gunatilaka (1999) pointed out that significant numbers of work days were lost as a result of strike action, which imposed considerable costs on the economy.

Enhancing cooperation and promoting social dialogue are some of the key challenges for industrial relations in Sri Lanka. Government, employers and trade unions need to work together towards building constructive dialogue. Collective agreements represent successful dialogue between employers and trade unions. They indicate that each party has recognized the other as a partner whose interests should be safeguarded. Dialogue promotes mutual understanding, reduces conflicts and encourages the establishment of an amicable atmosphere

²⁶ This chapter draws on U.B. Ekanayake "Study on the Impact of Labour Legislation on Labour Demand in Sri Lanka", Colombo, 2001, mimeo.

²⁷ This combination is not contradictory. The concept of "flexicurity" has been used widely among continental European countries. For details, see Auer (2000).

²⁸ This type of social partnership was attempted recently in many countries, such as Ireland, Netherlands and Barbados and produced very successful results.

at the workplace. Collective agreement is probably the best way to prevent disputes. However, only a handful of collective agreements have been signed so far. The average over the last ten years has been 25 per year, including those agreements that were renewed.

The small number of collective agreements may be due to the lack of proper representation of labour. A trade union must have a membership of not less than 40 per cent of the workforce to be recognized. To check if the 40 per cent membership threshold is reached the Commissioner of Labour can hold a secret ballot. This has to be based on a list of workers provided by the employer. The list should include the names of all permanent, temporary and casual employees who have served a minimum of 90 days prior to the date of the ballot. By law, the employer must recognize any union(s) that polled above 40 per cent of the workforce.

However, even if a trade union has a membership of over 40 per cent some employers apparently refuse to recognize it and to attend official industrial dispute inquiries on the basis of complaints the union makes. This obviously promotes distrust among social partners, detrimental to constructive industrial relations and social dialogue. The Industrial Disputes Act (amendment) no. 56 of 1999 aims to compel all employers to attend inquiries (2(g)). This enables the commissioner to order the employer in writing to accept the trade union, provided he is satisfied that it includes over 40 per cent of workers. In the trade unions' view these provisions on union recognition constitute a good start. However, they are not properly adhered to, as the Ministry of Labour has no power to enforce them.

If aiming for widespread collective agreements is too ambitious a target, it is better to encourage regular bipartite consultation at all levels of industrial relations, national, sectoral and enterprise. This may reduce conflicts and disputes, encourage a more cordial atmosphere and good relationships between management and workers. Again, it is important that trade unions are recognized properly as negotiating partners.

The unions' weak bargaining power has also to do with their multiplicity. In Sri Lanka almost all political parties have affiliated trade unions. In addition there are trade unions for different services and unions organized by individuals. In 1999, 1,532 trade unions were counted. Ranked by membership, the 15th ranking union had only 2,946 members. (Labour Department Administration Report 1999), indicating the low level of union membership, even though the total number of unions is high. Unions are divided along occupational, political, ethnic and ideological lines.

8.2 Employment protection legislation

Sri Lanka's industrial relations rely heavily on state intervention through statutory labour legislation rather than on social dialogue. The country has an extensive framework of labour legislation. It has been claimed that some labour legislation has constrained restructuring and the reorganization of industries²⁹. (It has also been argued that over-protective legislation has promoted subcontracting and substandard employment conditions – in an attempt to evade legal constraints).³⁰ Consequently there has been pressure from employers, and often from the Central Bank and Ministry of Finance, for a relaxation of employment protection legislation.

²⁹ Without proper data, rigorous analysis to test the exact impact of legislation on employment is not possible. Using a proxy variable, the World Bank (1999) argued that the TEWA has a negative impact on employment. However, the data are too weak to support any robust conclusion (see Lubyova, 2002). Certainly workers with under one year of tenure earn substantially less than those with over one year but that applies everywhere in the economy and not just in larger enterprises.

³⁰ For some evidences of increasing subcontracting, see Rodrigo (2001) "Contract Workers in Sri Lanka" mimeo. Study for ILO, Colombo; Centre for Women's Research in Sri Lanka (2000).

The legislation which is most contested is the termination of employment of workmen (Special provisions) act No.45 of 1971 (TEWA). Under the provisions of this act no employer with over fifteen persons employed on average during the six months prior to the month of termination can terminate the scheduled employment of any workman without: (a) the prior written consent of the workman or; (b) the prior written approval of the Commissioner of Labour, other than by reason of a punishment imposed by way of disciplinary action (section 4). The Commissioner is given absolute discretion in deciding to grant or refuse such approval and to decide the terms and conditions under which his approval is granted. His decision has to be given in writing to both parties and cannot be contested in a court of law or any court, tribunal or institution established under the Industrial Disputes Act. According to the original act the Commissioner had to convey his decision within 3 months of receipt of the application or the complaint, probably to facilitate an expeditious solution. However, the Supreme Court ruled that that was not mandatory. As a result procedures can take extremely long and there is huge backlog of cases as table 8.1 below illustrates.

Table 8.1 Termination Statistics

Year	Applications of employers		Complaints by workmen		Benefits awarded (Rs)
	Received	Disposed	Received	Disposed	
1991	65	50	156	83	20,544,532.00
1992	69	38	173	120	18,249,024.00
1993	68	34	132	97	39,857,037.20
1994	62	40	95	39	18,892,765.95
1995	80	30	179	53	32,903,321.00
1996	97	44	168	68	3,875,006.20
1997	59	35	162	124	90,198,079.00
1998	53	43	99	69	14,384,085.00
1999	37	19	81	49	47,448.659.00
2000	58	30	91	31	5,721,946.00

Source: Administration Reports of the Department of Labour 1991-1999

Consequently an employer is kept waiting for a long time with possible disruptive effects on industry. Despite criticism and opposition by investors, employers and industrialists this enactment has lasted for thirty years, with two amendments further tightening the loopholes.

The TEWA has prompted employers to circumvent its provisions. Some of the commonly used tactics are:

- (i) Contracting and subcontracting;
- (ii) Splitting the firm into parts employing less than 15 persons and rotating workers between these sections;
- (iii) Keeping workers as trainees or probationers for long periods in order to exclude them from the provisions of the act.

In the non-unionized sector it has been alleged that employers terminate workers' services regardless of the provisions of the act. Workers are often unable to pursue litigation and end up accepting compromise offers made by the employers in the form of compensation and other benefits.

Employers, employer organizations and private sector business interest groups maintain that the TEWA has discouraged investment in labor-intensive industries and has had

a negative impact on labour demand. However, these claims cannot be verified and rigorous testing is not possible. The critics demand that the act be repealed.

On the other hand trade unions feel the act compensates to some degree for their weak bargaining position and that the only change necessary is that the Labour Commissioner should be given more power to compel employers to attend inquiries and deal with inquiries and follow-up action speedily. Penalties for defaulting and delaying tactics should be raised.

Obviously there has to be a healthy balance between workers' job protection and the competitiveness of industry. But under the current circumstance and with weak capacity within the Ministry of Labour, it is quite likely that TEWA mainly promotes subcontracting and other evasive tactics by employers, thus giving little benefit to most workers. Alone, however, this is not a sufficient argument for repeal and it is more important to investigate ways in which job protection can be replaced by means of assisting the employability of redundant workers. Meanwhile part of employers' concern is with a lack of transparency in the administration of the act which could be overcome by fixing and following clearer guidelines.

8.3 Capacity of labour administration and law enforcement

Without well-functioning monitoring and law enforcement, the real impact of labour legislation can be extremely limited. The capacity of the labour administration and the effectiveness of labour law enforcement are a crucial determinant of labour market functioning.

It is the responsibility of the Ministry of Labour to enforce labour laws. Non-compliance with regulations can be due to either ignorance or deliberate evasion by employers. Sri Lanka has a large number of complex labour laws requiring a certain technical knowledge to be understood and correctly used. It is the responsibility of the Ministry of Labour to guide the social partners and direct them towards proper compliance.

The rapid growth in the number and size of commercial establishments has not been matched by an adequate growth of the Ministry of Labour, which faces an increase in coverage and functions over and above its capacity. For example, from 1971 establishments having even only one worker were brought under the Employees' Provident Fund Act. Despite some recent improvements, no corresponding increase in human and capital resources was allocated to the Ministry. Consequently, the workload of officials has become unrealistic. For example, to ensure satisfactory compliance with regulations an establishment should be checked at least once a year. In reality, it is not possible even once in two or three years. The lack of proper monitoring and enforcement has resulted in large-scale non-compliance.

As mentioned, delays in the settlement of disputes are a major allegation made against the Ministry. Since there is no special conciliation service within the Ministry, conciliation work is dealt with among other functions like inspections, investigations, court work, educational work, etc. The simplification of labour tribunal procedure by introducing informal inquiries may be a way to avoid delays, and to reduce expenses and complications. The Ministry has been attempting to establish a simplified dispute-settlements mechanism, in particular regarding conciliation and mediation.

The lack of proper training in the Ministry of Labour is an additional factor limiting its capacity. New recruits to the Ministry are inadequately trained before being sent out to the field. Until recently, they received hardly any training in service. Consequently, officers often feel insecure when dealing with larger establishments where their judgment could be challenged. Due to a lack of knowledge and experience, the prosecution of errant employers has been restricted to areas related to the EPF, non-compliance with labour tribunal orders

and gratuity payments. There has to be more effort to update the skills of labour officers, labour tribunal presidents, arbitrators, etc. Training facilities have to be improved and more resources to be provided.

The application of labour laws does not seem to cover the EPZs although the authorities consider it does. Legally, labour inspectors have the same powers within the EPZs as elsewhere because establishments within the zones also must comply with regulations. However, they cannot enter the free trade zones without prior appointment or identity cards issued by the Board of Investment. Within the EPZs unions claim that workers are frightened to make representations because of a fear of victimization. Employers in the EPZs claim that workers are given the opportunity to present their grievances to the management to be sorted out internally. The adequacy of welfare facilities in the zone, such as hostels, is also a contentious issue. Freedom of association and collective bargaining in line with ILO conventions does not seem to be met by all establishments within the EPZs. It is important to ensure the necessary compliance with trade union rights by all employers in these zones.

8.4 Recent developments

A National Labour Advisory Council (NLAC) was established in 1994 under the Ministry of Labour comprising Ministry officials and employers' and workers' representatives. Its function is to discuss issues related to labour legislation and reforms. After some delay it resumed meeting in April 2001. Issues regarding the introduction of the Employment and Industrial Relations Bill and several amendments to legislation are due to be discussed.

In order to improve coordination and develop amicable relations between the social partners, the NLAC will discuss a National Workers Charter (NWC). The NWC was initially adopted through the NLAC and publicized by the Government, but it has never materialized in the form of concrete proposals or programmes. The major issues it includes are: gender equality; employment of young persons; employment of females at night; employment on temporary, casual, fixed-term contracts or on probationary contracts, apprenticeship; grievance procedures; freedom of association; unfair labour practices; collective bargaining; settlement of disputes and procedures of direct trade union action. Some amendments to the existing legislation have been proposed, but currently there is no indication of any relaxation of present legislation.

Issues under discussion

The government, employer organizations and trade union representatives have made several proposals for the repeal of, or amendments to, existing legislation affecting the functioning of labour markets. Among many proposals, the main ones focus on the improvement of the process of social dialogue and on an overall structure of labour legislation as follows.

The Ceylon Employers' Federation (CEF) has suggested establishing a mediation centre for the parties involved in a dispute to meet, discuss and attempt to settle, before turning to the department of labour. Such a body is now in operation for (CEF) members. A well functioning mediation centre would help by facilitating constructive bipartite negotiations and social dialogue between employers and workers.

A proposal was made to establish a single labour ordinance for all forms of employment. At the moment there are about 48 labour ordinances and many amendments. This can be very confusing for the users and some legislation may require updating. However, that has to be approached very carefully. The whole exercise should be done with the overall balance of social justice and economic competitiveness in mind.

8.5 Conclusion

Better social dialogue and a corresponding consensual review of labour legislation could contribute substantially to improving the Sri Lankan economy. What is most important is to build cooperative relationships as well as a sustainable institutional forum where consensus can be built up among the social partners. This has been attempted through the establishment of the NLAC. Further effort is needed to find consensus on a set of labour market reforms, which compromise neither social justice nor economic efficiency.

Another but related and pressing task is to enhance the capacity of the Ministry of Labour to implement and monitor labour legislation and ensure fair labour market functioning. Particularly important is the enforcement of proper respect for trade union rights, a prerequisite for promoting constructive negotiation through collective bargaining.

9. Conclusions and recommendations

In many ways, the recent employment experience of Sri Lanka has been a great success. The unemployment rate halved during the 1990s and for decades the unemployment rate was the focus of national attention. It may be argued that policy planners paid relatively less heed to labour market functioning, or to the relation of employment and unemployment to poverty, but credit should nonetheless be given where it is due. In terms of international comparisons, Sri Lanka's unemployment rate at 8 per cent is below that of Chile, a much vaunted example of a high response rate of employment growth to output growth. Although the growth of the Sri Lankan economy has been constrained by several domestic and external factors, it has attained a satisfactory average growth over the recent period. An important feature of this growth has been its employment content, such that the unemployment has declined considerably.

Of course, there remains a myriad of employment problems. Different commentators will no doubt summarize them differently, although all manifestations of an employment problem are linked together. One starting point could be that while the unemployment rates have fallen, unemployment is now more concentrated among the educated than before, i.e. the unemployment issue is more of an educated unemployment problem than ever. A second starting point is the weak bargaining strength of factory labour. This reflects again many factors such as an ample labour supply, and probably increasing rural-urban mobility (or creeping urbanization), and a low skills level. Higher skill levels are perhaps not being demanded, but the issue is one of chicken and eggs, and there is no doubt that the training system could become a better skills delivery mechanism.

Labour's weak bargaining power is linked to the educated unemployment issue, simply because the jobs that are available are not well-paid and are thus unattractive to the educated. Solve one problem and no doubt the other will be solved as well. *Poverty alleviation also depends very largely on job creation although more attention should be given to all forms of insurance programmes.*

Weak bargaining power is almost by definition worsened by the type of price behaviour experienced during much of the 1990s. Consumer prices generally rose faster than producer prices. Real consumer wages could only be sustained by faster productivity growth and falling unit labour costs. Employers were under competitive pressure because their output prices were increasing little. This experience has *three implications for policy: minimize the rate of increase in consumer prices*, which might involve greater liberalization of food imports; *keep the exchange rate competitive*; and *raise productivity*. The danger is that consumer price behaviour may not be allowed to reflect the benefits of falling world food prices, because of

concerns for protecting the incomes of domestic producers, and that capital inflows keep the exchange rate at an uncompetitive level.

Raising productivity is, of course, the crucial concern. On the one hand, this requires new capital investment on a major scale and this in turn is unlikely to be achieved without first peace, and second major investment in infrastructure.

Productivity increases also depend on worker commitment and on good industrial relations. There are a number of points to raise in this context. First, some commentators see the continuing attachment of many workers to the land and to what is essentially part time farming as an obstacle to developing a committed labour force. One suggestion in this respect is abolishing current land tenure provisions in respect of State land allotted under various colonization and village expansion schemes which prevent land sales. This, it is felt, would be an incentive to leave part time agriculture as very small holdings could be sold to other farmers, once for all. However, other considerations come into play in this respect.

A second point is that much industrial labour is effectively casual and is employed in small enterprises. Employment is often casual because the work is intermittent and, since skill requirements are often low, one worker can replace another. Not too much should be made of this last consideration, however, since once workers have been employed for a year or so, their wages jump up considerably and then reflect their seniority and experience in the establishment. However, it is obvious that in order to achieve seniority and experience in an establishment, the mortality rate of small enterprises must be reduced to reasonable levels. Effective programmes and institutions contributing to the sustainability of small and medium enterprises are crucial (see chapter 7).

But while it is in the nature of the development process that casual labour should gradually become more regular, it is important to check whether aspects of labour regulation are not artificially contributing to the continuation of casual labour. The question is always whether legislation on job protection, which is meant to encourage longer term and productive employment relations, and to concentrate an employer's mind before recruiting a new worker, is having its desired effect. If such legislation leads on balance to increased sub-contracting in order to keep staff levels below a threshold number, then its application clearly raises certain questions. Additionally, if there seems little transparency and predictability in the application of the legislation, which seems to be the case in Sri Lanka, then other questions, and solutions, arise. But it is not sufficient to show that some enterprises respond to employment protection legislation in ways which weaken the employment relationship of some workers. The legislation may nonetheless be working to the general benefit. *But it is essential that the administration of job protection legislation should become more transparent.*

One hypothesis behind employment protection legislation is that if an employer faces an apparently higher labour cost because of the difficulty inherent in making labour redundant (and that cost should be, in ideal circumstances, accurately quantifiable), the employer will take steps to raise the worker's productivity. Normally that would involve a process of skill acquisition. Conversely with a range of job seekers coming on to the labour market, the employer who knows that labour costs will be above average selects a job seeker whose likely work performance will be above average. One way to achieve this, which is by no means the worst, is to trust workers who are known to be above average performers to recommend others, thus giving an implicit guarantee. Another way, of course, is to rely on a job seeker's acquired qualifications. But too often it appears that training certificates, apart from those from already prestigious institutions, are a poor guide to whether a training graduate is trainable further. And training certificates probably rarely give clear signals about the level of a worker's motivation. *In any event the training system must give a guarantee to the future employer of the reliable qualities of a potential worker. Other recommendations for improving the especially public provision of training are given in chapter 6.*

This suggests that some of the concern about the adverse effects of the Termination of Employment of Workmen Act of 1971 might be allayed if a job seeker's potential performance were more easy to predict. However, the act may still be a constraint on restructuring at the firm level. A more effective training system could give employers a better idea of what to expect from a worker. In addition, specially targeted training, helped naturally by good labour market information, can contribute to easing the threat to potentially redundant workers arising from restructuring. This last seems a new and fruitful terrain to explore. *The public training system should establish pilot programmes aimed at ensuring the employability of redundant workers.*

In present circumstances in Sri Lanka, it may seem intuitively obvious that military employment is making an exceptional and positive contribution to employment. What is exceptional, however, is the high government fiscal deficit associated with military expenditures, amongst others. This deficit is a manifestation of a high risk strategy in that it can only be financed through government control of the social security system (Employer's Provident Fund). Fortunately, wage employment is increasing and thus contributions to the fund are rising. But government control of the fund virtually excludes its use for private and business investment. But what is important for an employment strategy is that if this process of resource mobilization is sustainable, then it can be applied to other expenditures. *From the point of view of employment creation, infrastructure provision would be an obvious candidate for continued deficit financing. Housing construction is another and possibly more labour-intensive option.*

The issue of protected land tenure was mentioned earlier in the context of part time farming. Part time farming seems to be a fairly neglected topic, although the phenomenon itself has no doubt been fairly widespread throughout the world. The notion that those with a very small landholding would continue to use it to produce staple crops and would work for cash outside if nearby work is acceptable, rather than attempt to cultivate higher value crops on a full-time basis, seems a likely one. Whether this counts for or against abolishing protected tenure is another issue. It probably removes one argument that is sometimes proposed in favour of abolition, i.e. come what may some people will prefer neither to leave agriculture completely nor to cultivate higher value crops. Quite apart from that it would seem that *land tenure protection is a useful even if uncertain safety net which should not be set aside.*

Social dialogue can naturally contribute to good labour market functioning at the firm level by collective bargaining. What also needs to be stressed, however, is the contribution which strong and well informed associations of employers and workers can make in non-bargaining and conflictual areas. The public system of training institutions, for example, would work better if employers' and workers' associations were able to give it good advice on skill needs. Employers' organizations can do much to contribute to a better environment for small enterprise development. More sustainable small enterprises and better working conditions in small enterprises would render redundant a lot of the minimum wage fixing machinery, which applies principally to such enterprises. *The recommendation of chapter 7 on promoting organizations of small-scale enterprises and of chapter 8 on social dialogue and on a better resourced labour ministry should be taken together.*

There is the issue of educated unemployment. Given that the labour market is not very transparent, it is, of course, not surprising that job matching should take time for those whose educational qualifications might suggest that they could be slotted in at a variety of income levels. Furthermore, there is a consideration not only of a reservation wage, but of a reservation occupation, let alone of a desire for a public sector job: other things being equal, a public sector job pays some 25 per cent more than the average private sector job, above all in the middle ranking grades. And the likelihood of getting a public sector job is in turn not

something which can be easily assessed, because government recruitment procedures are not transparent. And while secure public sector employment in general is now less important in the labour force than a decade or two earlier, public administration is as important, if not more important, as before. One first point is whether the educated unemployed are in fact more “choosy” in the type of job they would accept than are the unemployed with less education. A clue here is given by comparing the standard unemployment rate with an unemployment rate calculated only for those willing to accept “any” job. Under this narrow definition, the unemployment rate in 1999 was only 2.3 per cent. But it was still highest for the “A” level group. However, the gap between the standard unemployment rate and the more narrow definition did actually rise with education. All the unemployed are to some extent “choosy”, because at all levels some jobs are better than others. More educated job seekers are more “choosy”. They may also have fewer job opportunities.

Over the years, one explanation given for high levels of educated unemployment was that education itself created unrealistic expectations of jobs and wages. This suggested a possible skills mismatch, i.e. more job seekers had (relatively) high educational qualifications than the market could absorb. Job matching required a recognition that educational qualifications were not enough to land the preferred job. No doubt this is so and earlier research had suggested that the educated from poor households were more likely to be unemployed than the educated from wealthier households, another sign of a non-transparent labour market. *More effective public dissemination of labour market information and collection of data on vacancies will benefit job seekers from poorer households.*

Analysis of labour force survey data in fact shows that the wage gap between those with no schooling and other groups with higher educational attainments is much higher for reservation wages (i.e. the lowest wage level the unemployed say they would accept) than for actual wages. That is to say that more educated job seekers have a less realistic idea of where they stand in relation to the uneducated. This is not surprising, but is not the fault of the education system, but a reflection of the functioning of the labour market.

Regional disparities are increasingly an issue of concern in Sri Lanka because so much economic activity is concentrated in the Southwest. Partly this arises from the current conflict both directly and because large-scale infrastructure development has been neglected. But poverty is becoming more geographically concentrated as are job opportunities. *For the moment resource transfers to support consumption in poorer areas must be sustained.*

Sri Lanka has benefited from globalization and the country’s policy stance should remain open so that it can continue to do so. But the benefits have been largely extensive, i.e. absorbing more and more workers into not very high productivity jobs with little scope for learning by doing. It is essential for Sri Lanka to move beyond this as discussed in chapter 5. This requires good policies and well functioning institutions which will attract and stimulate more sophisticated forms of investment. *This will be helped by a breakthrough in social dialogue through an effective National Labour Advisory Council able to reach consensus on sensitive issues, and good labour market functioning based on a reactive training system and good collection and dissemination of labour market information.*

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Table 1: Annual growth rate of GDP, population, labour force, employment and productivity, 1959-63, 1963-71, 1971-80/81, 1980/81-90, 1990-99

	1959-63	1963-71	1971-80/81	1980/81-90	1990-99
GDP (constant prices)	4	4.4	4.5	3.6	5.1
Population	2.7	2.2	1.7	1.4	1.2
Labour force	1.8	3.4	2.5	2.2	1.2
Employment	0.6	1.7	2.9	2.3	2.1
Productivity	3.4	2.7	1.5	1.5	3.0

Notes: Labour force and employment data for 1990-99 are for seven provinces only. In this and other tables the change in labour force survey procedures which raised the labour force participation rate in the late 1990s, especially for women, must be borne in mind.

Sources: Department of Census & Statistics, *Population Census 1963, 1971, 1981*.
 Department of Census & Statistics (1982b) Table 2.
 Department of Census & Statistics, *Quarterly Labour Force Surveys 1990, 1999*.
 Central Bank of Sri Lanka, *Review of the Economy*, various issues.

Table 2 : Sectoral growth rates, 1990-1999

Sector	(Per cent)																			
	Annual growth rate											Contribution to growth of GDP								
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	1990- Prov. 1999	1993	1994	1995	1996	1997	1998	1999	1990- Prov. 1999	
Agriculture, forestry and fishing	8.5	1.9	-1.6	4.9	3.3	3.3	-4.6	3.1	2.5	4.5	1.9	14.9	12.2	12.3	-24.5	8.9	8.3	18.2	7.3	
Agriculture	10.4	0.8	-2.4	5.0	3.8	3.3	-5.1	3.0	1.8	4.4	1.6	13.0	11.8	10.4	-23.1	7.3	5.4	14.9	5.2	
Tea	12.6	3.2	-25.7	29.6	4.4	1.6	5.1	7.2	1.1	1.3	2.2	7.0	1.5	0.6	2.6	2.1	0.4	0.6	0.9	
Rubber	3.0	-8.8	2.1	1.8	1.0	0.9	6.3	-5.8	-9.0	1.0	-1.3	0.1	0.1	0.1	0.7	-0.4	-0.7	0.1	-0.1	
Coconuts	1.6	-13.3	5.1	-5.8	20.6	5.1	-7.6	3.0	-3.2	9.1	1.0	-1.8	6.8	2.0	-4.3	0.9	-1.2	3.6	0.4	
Paddy	21.3	-5.9	-2.0	9.6	4.7	4.7	-26.7	-8.6	18.3	6.6	-0.7	5.8	3.6	3.7	-29.9	-4.0	9.4	4.4	-0.6	
Other	7.8	8.0	1.0	1.4	-0.1	2.6	3.5	0.5	-1.5	3.4	2.1	1.9	-0.2	4.1	7.8	0.6	-2.4	5.8	3.4	
Forestry	2.3	3.8	2.0	0.1	-0.2	1.2	1.3	1.3	1.2	1.3	1.5	0.0	0.0	0.3	0.4	0.3	0.3	0.4	0.3	
Fishing	-5.0	12.0	4.1	7.1	1.4	4.9	-3.9	5.0	8.3	7.6	5.1	1.9	0.5	1.6	-1.8	1.3	2.7	3.0	1.7	
Mining and quarrying	9.1	-10.0	-6.0	11.9	6.0	3.4	8.9	3.4	-5.4	4.1	1.6	4.0	2.6	1.5	5.7	1.3	-2.7	2.1	0.8	
Manufacturing	9.5	6.8	8.8	10.5	9.1	9.2	6.5	9.3	6.3	4.4	7.9	28.1	30.8	33.1	35.5	30.5	29.1	22.4	29.9	
Tree crop processing	8.4	-5.6	-12.6	8.4	13.0	4.4	1.0	3.0	-1.2	3.8	1.3	2.5	4.8	1.8	0.6	1.0	-0.5	1.7	0.6	
Factory industry	10.2	9.5	13.0	11.3	8.8	10.0	7.3	10.3	7.6	4.5	9.1	24.4	24.4	29.5	32.5	27.8	27.6	19.3	27.7	
Small & other industry	4.7	5.4	5.1	5.6	6.2	7.1	6.3	7.0	6.5	4.8	6.0	1.2	1.5	1.8	2.4	1.6	2.0	1.7	1.7	
Construction	2.9	3.1	8.1	6.5	6.0	4.9	3.4	5.4	7.1	4.8	5.5	6.5	7.4	6.2	6.2	5.8	9.8	7.7	7.3	
Services	4.3	6.2	5.3	6.3	5.2	5.1	5.8	6.7	5.3	4.0	5.6	46.5	47.0	46.9	77.1	53.5	55.5	48.0	54.5	
Electricity, gas, water & sanitary services	10.2	7.1	5.4	12.0	9.9	10.2	-2.0	8.0	10.1	9.5	7.7	2.3	2.5	2.7	-0.8	1.8	3.0	3.4	2.2	
Transport, storage & communication	3.8	7.8	6.9	4.1	3.1	5.5	7.5	7.8	7.7	8.1	6.5	7.0	6.3	11.3	22.3	14.1	18.3	22.7	14.9	
Wholesale and retail trade	3.6	7.8	5.3	8.3	6.4	3.6	5.2	6.5	4.5	1.0	5.4	25.6	24.5	14.3	29.6	22.0	19.6	5.0	21.6	
Banking, insurance and real estate	6.3	4.2	6.0	10.8	9.5	10.5	10.1	9.8	6.4	4.6	8.0	8.0	9.0	10.6	15.5	9.4	8.1	6.9	8.8	
Ownership of dwellings	1.5	1.5	0.9	1.2	1.2	1.3	1.3	1.2	1.2	1.2	1.2	0.5	0.5	0.6	0.8	0.4	0.5	0.6	0.6	
Public administration & defence	3.5	-0.8	2.3	3.0	3.1	5.4	5.0	4.4	3.0	4.2	3.3	2.0	2.4	4.3	5.7	3.0	2.6	4.1	2.9	
Other services	9.1	8.4	6.7	2.0	2.5	4.5	4.0	5.8	3.7	9.8	5.2	1.2	1.7	3.1	4.0	3.4	2.7	8.3	3.9	
GDP	6.4	4.6	4.4	6.9	5.6	5.5	3.8	6.3	4.7	4.3	5.1	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
GNP	6.4	4.6	4.4	7.6	5.4	5.9	3.1	6.8	4.6	3.8	5.3									

Source: Central Bank of Sri Lanka

Table 3: Indicators of structural change

Sector as share of GDP, per cent	1980	1990	1999
Agriculture, forestry, fishing	28	26	21
Industry*	30	26	26
Services	43	48	53

*Industry includes mining, manufacturing, construction, electricity, gas & water.

Changing structural profile of agriculture, per cent

Agriculture	100	100	100
Export crops (tea, rubber & coconut)	34	23	20
Paddy	27	23	18
Other crops	39	53	62

Changing structural profile in manufacturing, per cent

Manufacturing	100	100	100
Processing of tea, rubber, coconut	34	20	15
Factory industry	54	72	77
Small & other	12	8	8

Exports, per cent

All exports	100	100	100
Ag'l exports	62	38	21
Mineral exports	5	4	1
Industrial exports	33	54	77

Shares of savings and investment in GDP, per cent

Domestic savings	11	14	20
Investment	34	22	27

Compiled from Central Bank: *Annual Reports* (various issues).

Table 4: General price level, 1981-1999

	CCPI		GCCPI		WPI		GDPD	
	(1952-100)	% Change	(1989-100) Jan.-June	% Change	(1974-100)	% Change	(1996-100)	% Change
1981	375.4	18.0	-	-	268.5	17.0	22.0	20.5
1982	416.1	10.8	-	-	283.3	5.5	25.0	13.6
1983	474.2	14.0	-	-	354.1	25.0	28.7	14.6
1984	553.1	16.6	-	-	444.7	25.6	33.6	17.1
1985	561.2	1.5	-	-	377.1	-15.2	33.9	0.9
1986	606.0	8.0	-	-	366.0	-2.9	35.9	5.8
1987	652.8	7.7	-	-	414.9	13.4	38.4	7.0
1988	744.1	14.0	100.0	-	488.7	17.8	42.8	11.5
1989	830.2	11.6	103.8	-	532.9	9.0	46.9	9.6
1990	1008.6	21.5	124.6	20.0	651.1	22.2	56.3	20.0
1991	1131.5	12.2	138.9	11.5	710.8	9.2	62.5	11.0
1992	1260.4	11.4	152.0	9.4	773.0	8.8	68.7	10.0
1993	1408.4	11.7	164.8	8.4	831.8	7.6	75.2	9.5
1994	1527.4	8.4	172.6	4.7	873.4	5.0	82.3	9.3
1995	1644.6	7.7	179.3	3.9	950.7	8.9	89.2	8.4
1996	1906.7	15.9	202.5	12.9	1145.1	20.4	100.0	12.1
1997	2089.1	9.6	220.1	8.7	1224.3	6.9	108.6	8.6
1998	2284.9	9.4	235.2	6.9	1298.7	6.1	117.8	8.4
1999	2392.1	4.7	244.1	3.8	1295.3	-0.3	123.1	4.4

Notes : CCPI : Colombo Consumers' Price Index
GCC : Greater Colombo Consumers' Price Index
WPI : Wholesale Price Index
GDPD : Gross Domestic Product Deflator

Source : Department of Census and Statistics, *Annual Reports*
Central Bank of Sri Lanka, *Annual Reports*, various issues
Taken from Institute of Policy Studies (2000) Table A12

Table 5: The labour market in the 1990s: Selected indicators

	All 9 provinces		7 provinces*		1999	Increase 91-99 ***
	1980 1 st 2 rounds	1990 1 st Quarter	1991	1995		
Household population 10 & above, 000s	12,036	13,071	11,796	12,736	13,170	1,374 (1.3% p.a.)
Labour force, 000s	5,595	6,969	5,877	6,106	6,674	797 (1.7% p.a.)
LFPR, %	46.5	53.3	49.8	47.9	50.7	
Male	66.8	67.4	64.8	64.4	67.7	
Female	25.8	39.5	35.0	31.7	34.1	
Employment **	4,738	5,964	5,016	5,357	6,083	2.6% p.a.

Notes: *No data available covering all 9 provinces after 1st Quarter of 1990.

**Employment figures exclude overseas employment

** Computed on OLS regression methods.

Table 6: Changing gender composition of the workforce (selected years)

Year	Share of females in		
	Labour force	Employed	Unemployed
All 9 provinces	25.5%	21.1 %	45.6
1981 Census of Population			
1980/81 LFSES	27.5%	24.9 %	41.3
1990 1 st Quarter	37.3%	33.3 %	60.6
7 Provinces			
1990 Quarters 1 - 4	35.8%	32.5 %	53.3
1991 "	35.3%	31.9 %	55.2
1995 "	33.4%	30.9 %	50.9
1999 "	34.0%	32.4 %	50.0

Source: Computed from *Population Census (1981)* and *Labour Force Survey* data of the Department of Census and Statistics as indicated.

Table 7: Age distribution of the labour force, per cent (selected years)

Survey & year	Age groups							
	10-14 years	15-19 years	20-24 years	25-29 years	30-39 years	40-49 years	50-59 years	60 &+ years
1981 Census, (9 provinces)	1.3	9.6	17.6	16.1	24.9	15.8	9.7	5.0
1991 (7 provinces)	0.7	7.5	17.0	14.1	25.1	19.3	10.2	6.1
1995 "	0.3	6.8	14.8	14.8	25.1	21.6	10.8	5.7
1999 "	0.8	7.4	14.3	12.6	24.9	21.5	12.5	5.9

Source: *Census of Population 1981; QLF Surveys, 1991, 1995 & 1999.*

Table 8: Changing age composition of the labour force, 1991-99

AGE group	Labour force, 1991 000s	Labour force, 1999 000s	Increase in labour force, 91-99	
			000s	as % of total increase
10 to 14 yrs	43.1	51.8	8.7	1.1
15-19	438.1	493.8	55.7	7.0
20-24	999.8	956.4	(-) 43.5	(-) 5.5
25-29	829.2	840.9	11.7	1.5
30-39	1,477.0	1,662.5	185.5	23.3
40-49	1,133.6	1,437.8	304.1	38.2
50-59	598.4	835.5	237.2	29.8
60 & +	358.0	394.1	36.0	4.5
Total	5,877.2	6,672.6	795.4	100.0

Source: *QLFS 1991 & 1999***Table 9: Trends in employment and unemployment**

	Employment 000s	Unemployment 000s	Rate of unemployment, per cent			Migration for employment overseas 000s *
			Male + Female	Male	Female	
LFSES, 1980	4,738	857	15.3	12.4	23.0	28,644 (1980) 57,447 (1981)
LFSES 85/86	5,175	786	13.2	9.8	20.3	
QLFS 1990 Qr 1	5,964	1,005	14.4	9.05	23.5	
QLFS 1990 (7 provinces)	5,030	935	15.7	11.4	23.4	75,406 (1990)
QLFS 1991	5,016	862	14.7	10.1	22.9	101,075 (1991)
QLFS 1995	5,357	749	12.3	9.0	18.7	170,131 (1995)
QLFS 1999	6,083	591	8.9	6.7	13.0	178,000 (1999)

* Migration data from the Bureau of Foreign Employment.

Source: *LFSES, 1985/86; QLFS various issues.***Table 10: Profile of the workforce by level of educational attainment, selected years, per cent**

Level of attainment	Employed			Unemployed		
	85/86	1990	1999	85/86	1990	1999
No schooling	10.9	7.0	4.1	3.6	1.3	0.2
Primary (years 1-5)	28.5	24.9	21.2	11.9	7.2	4.2
Secondary (years 6-10)	41.0	45.1	45.8	47.6	49.7	41.8
GCE 'O' level	14.6	16.0	18.0	26.2	26.5	29.2
GCE 'A' level & above	5.0	7.0	11.0	10.7	15.4	24.6
ALL	100	100	100	100	100	100

Source: *LFSES, 1985/86; QLFS 1990 & 1999.*

Table 11: Unemployment rates by age & gender, 1990, 1993, 1995, 1999, per cent

Age	Male				Female				Both sexes			
	1990	1993	1995	1999	1990	1993	1995	1999	1990	1993	1995	1999
15-19	34	34	31	25	48	44	48	34	39	38	38	28
20--24	32	27	26	20	50	40	41	34	39	32	31	25
25-29	14	10	12	8	32	31	26	19	21	17	17	12
30-39	5	5	5	2	15	15	13	8	8	8	7	4
40-49	3	2	3	1	6	5	3	2	4	3	3	2
50-59	4	2	1	1	2	2	0	1	3	2	0	1
60 +	1	0	0	0	1	0	-	0	1	0	0	0
All ages	12	10	9	7	24	22	19	13	16	14	12	9

Source : Department of Census & Statistics , *Quarterly Labour Force Surveys, 1990, 1993, 1995, 1999*

Table 12: Gender ratio (male to female) in employment by sector, selected sectors

Sectors	1980	1985	1991	1992	1993	1994	1995	1996	1997	1998	1999
Ag'clture, forestry,2.6 fishing etc.	2.1	2.1	n.a.	n.a.	2.00	1.92	2.07	1.91	1.93	1.57	1.62
Manufacturing	2.0	1.3	n.a.	n.a.	0.94	1.11	0.93	1.13	0.98	1.08	1.11
Personal services	2.0	1.5	n.a.	n.a.	1.65	1.87	1.59	1.80	1.74	1.61	1.73
All sectors	3.0	2.4	2.1	2.4	2.3	2.3	2.2	2.3	2.2	2.0	2.1

Source: QLFS several issues.

Table 13: Distribution of employment by major industrial groups, per cent, 1991-1999 (selected years)

SECTOR	1991	1995	1999
All Industries	100	100	100
Agriculture	42	37	36
Mining & quarrying	1	2	1
Manufacturing	15	15	15
Elec, gas & water	0.4	0.5	1
Construction	5	5	5
Trade & hotels	11	12	12
T'port, storage & communication	4	5	5
Insurance & real estate	1	2	2
Personal services	15	17	18
Not defined	4	5	5

Source: *QLF Surveys* various issues.

Table 14: Distribution of incremental employment by sector, 1991-1999

Industrial group	Share of total employment in 1991, %	Annual increase in employment 1991-99	Growth rate of employment, % per annum 1991-99	Growth rate of output, % p.a. 1991-99	
				1991-96	1996-99
Personal services	15	38,141	4.2	n.a.	n.a.
Manufacturing	15	31,328	4.0	9.0	6.6
Trade & hotels	11	24,586	4.0	5.9	3.9
Transport, storage & communication	4	13,290	5.4	5.0	8.1
Construction	5	13,211	5.0	5.8	5.9
Insurance & real estate	2	3,100	3.4	9.6	7.0
Mining & quarrying	1	2,574	3.9	5.3	0.1
Electricity, gas & water	0.4	1,650	6.6	8.0	9.3
Agriculture	42	14,993	0.7	1.8	3.2
Not defined	5				
ALL	100	143,369	2.6	5.5	5.0

Employment data from *Quarterly Labour Force Surveys 1991 & 1991*; Output data from Central Bank. Growth rates are computed using OLS techniques. For details, see Rodrigo (2001)

Table 15: Distribution of employment: Public and private sectors

	Total employment, 000s	Total paid employment, 000s	Public sector share (%) of	
			Total employment	Paid employment
1981 Population Census (9 provinces)	4,119	2,769	32.9	48.9
QLFS 2-4, 1990 (7 provinces)	5,047	2,784	21.5	38.9
QLFS 1-4, 1995 (7 provinces)	5,357	3,209	15.6	26.0
QLFS 1-4, 1999 (7 provinces)	6,083	3,504	14.5	25.2

Source: *Population Census, 1981 and QLF Surveys*, various issues.

Table 16: Direct employment in the EPZ/BOI sector

	End 1985	End 1990	End 1991	End 1995	End 1999
Total Employment	32,329	71,358	85,457	233,367	327,059

Source: Central Bank: Annual Reports

Table 17: Real value added per employee and wage share in value added, 1990-1999

Category	Real value added per employee (Rs.) *		Growth rate of real annual value added per employee*	Wage share in value added per cent		
	1990	1999		1990	1995	1998
1.Agriculture	29852	37997	2.7	38.4	38.4	37.7
2.Mining	55476	61257	1.1	29.9	30.1	32.5
3.Manufacturing	79487	113629	4.1	56.8	57.4	64.1
4.Electricity	170510	340600	8.0	19.9	20.4	16.5
5.Construc.	106131	109976	0.4	63.9	63.8	62.2
6.Trade	123297	133367	0.9	19.9	24.3	25.4
7.Transport	138878	144681	0.5	37.0	34.8	33.7
8.Insurance	267008	276732	0.4	61.3	69.3	69.2
9.Personal Services	38170	39017	0.2	89.6	67.9	67.5
Average/GDP	59389	77782	3.0	44.6	44.6	45.8

Note: Not classified category in the employed population has been distributed among other industrial categories on pro rata basis.

Employment figures exclude the North-East province, hence productivity figures are inflated, and only indicate trends.

Figures for employed population in 1990, 1993, 1996 are the average for 3 quarters and in 1998 for 2 quarters.

* At 1990 prices.

Source: *Quarterly Labour Force Survey 4th Quarter 1999* for employment.

Central Bank of Sri Lanka, *Annual Report*, various issues.

Department of Census & Statistics, National Accounts of Sri Lanka, *Annual Report*, various issues

Table 18: Average earnings in selected occupations, 1992 & 1999

Occupational category	Earnings per month, 1992, Rs	Earnings per month, 1999, Rs	Increase, 1992 – 1999 per cent	
			Total	Per annum
Administrative & managerial				
Directors & Chief Executives	6,088	15,811	+ 160	14.6
Finance & Administration Managers	5,870	12,957	+ 121	12.0
Accountants	4,652	10,354	+ 123	12.0
Lower and middle-end categories				
Tellers & counter clerks	2,956	5,969	+ 102	10.6
Hair dressers and barbers	1,598	3,463	+ 117	11.7
Textile machine operators	1,458	3,116	+ 114	11.4
Shop sales & demonstrators	1,788	3,450	+ 93	9.8
Market gardeners & crop growers	942	2,426	+ 158	14.5

Source: 1992 data from *QLFS 1992* as quoted in Kelly, 1993; 1999 figures from *QLFS 1999* (unpublished data.)

Table 19: Population in absolute poverty, 1969/70 – 1996/97 per cent

	1969/70	1973	1978/79	1980/81	1981/82	1985/86	1986/87	1990/91	1995/96	1996/97
1. Alailima (1978)	18.4									
2. Bhalla (1985)	11.2			24.1						
3. Marga (1978)		13.1								
4. Anand (1985)		27.6	22.7		21.9					
5. Gunaratne (A) (1985)			22.3		23.6					
6. Gunaratne (B) (1987)			19.5				27.4			
7. Edirisinghe (1990)							27.6			
8. Kahn (1989)		16.8	11.8	39.3	n.a.	28.6				
9. Nanayakkara & Premaratne (1987)				50.5		39.5				
10. Rouse (1990)						45.6				
11. Gunawardene (2000)						30.9		19.9	25.2	19.0

Notes :

1. 2,200 calories per day: monthly household income poverty line, urban Rs.200, rural Rs.150, no estate poverty.

2,4,5. Average per capita monthly food expenditure of bottom 40% of households who were ranked according to per capita food expenditure. Poverty line derived for 1978/79 was Rs.69, rounded to Rs. 0. It was inflated/deflated to arrive at per capita food expenditure poverty lines of Rs.21 for 1969/70 and Rs.106 for 1980/81.

3. 2,200 calories per person per day; poverty line was Rs.36.50 per capita monthly income to meet minimum calories requirement.

6. Households with food expenditures below a level required to meet nutritional requirements.

7. Recommended daily calorie allowance of 2,200 calories per capita, 2,750 calories per adult equivalent. Households whose food expenditure is insufficient to meet 90-100% of requirement.

8. Derived minimum cost food bundle; per capita income poverty lines of Rs.26.50 for 1973, Rs.50.80 for 1978/79, Rs.110 for 1980/81, Rs.112 for 1981/82 and Rs.175 for 1985/86.

9. Monthly household income required to purchase the minimum nutritional requirements based on age-sex distribution of the population i.e. Rs.148.55 in 1980/81 and Rs.202.49 in 1985/86, corresponding to a daily nutritional threshold of 2,500-2,550 calories and 50-57 grams protein per adult (aged 20-39 years) male equivalent. The poverty line was derived by inflating the marginal monthly per capita food expenditure by food to total expenditure ratio.

10. Those households whose calories consumption was less than the total daily calorie requirement of household members according to age and sex i.e. 2,570 calories adult equivalent.

11. Used reference food poverty line derived in (9) for 1985/86 and rounded off to Rs.200 per month. Non-food expenditure was estimated from a national Engels function. Spatial/temporal price indices constructed to derive poverty line i.e. Rs.471.20 monthly per capita consumption expenditure in 1990/91. Food poverty line is updated using a temporal food price index derived from unit values and expenditure weights from the 1985/86 LFSES, the 1990/91 HIES, the 1995/96 HIES. For 1995/96, this gives a national food poverty line of Rs.641.82 in 1995/96 prices and per capita monthly consumption poverty line of RS. 791.67.

Source: alailima (1997) Table 2.2, Gunawardene (2000) Table 6.1.

Table 20: Income distribution, 1953-1995/96

Decile	Monthly Income Received by Ranked Spending Units (%)							Total Household Income by Per Capita Income Decile (%)			
	Central Bank *							Dept. of Census and Statistics **			
	1953	1963	1973	1978/79	1981/82	1986/87	1996/97	1980/81	1985/86	1990/91	1995/96
Lowest	1.9	1.5	2.8	2.6	2.2	1.9	2.1	3.5	2.4	1.9	2.1
2nd	3.3	3.0	4.4	3.7	3.4	3.1	3.6	5.3	3.8	3.3	3.5
3rd	4.1	4.0	5.6	4.7	4.3	4.1	4.5	5.9	4.5	4.3	4.4
4th	5.2	5.2	6.5	5.7	5.2	5.0	5.5	6.7	5.3	5.3	5.3
5th	6.4	6.3	7.5	6.6	6.3	6.0	6.4	8.0	6.2	6.4	6.4
6th	6.9	7.5	8.8	7.2	7.0	7.4	7.7	8.6	6.9	7.5	7.4
7th	8.3	9.0	9.9	9.1	8.7	8.7	9.2	9.4	8.3	9.2	9.0
8th	10.1	11.2	11.7	11.4	10.7	11.4	11.5	10.9	10	10.8	11.4
9th	13.2	15.5	14.9	14.3	14.6	14.9	15.5	13.8	13.5	14.8	15.6
Highest	40.6	36.8	28	34.6	37.4	37.4	33.9	27.4	38.8	36.5	34.8
<i>Cumulative</i>											
Lowest 20%	5.2	4.5	7.2	6.3	5.5	5.1	5.7	8.8	6.2	5.2	5.6
Lowest 20%	9.3	8.5	12.8	10.9	9.9	9.2	10.3	14.7	10.7	9.5	10
Lowest 40%	14.5	13.7	19.3	16.6	15.1	14.1	15.7	21.4	16	14.8	15.3
Top 20%	53.8	52.3	43.0	48.9	52.0	52.3	49.4	41.2	52.3	51.3	50.4
Ratio top 20% Botton 40%	3.7	3.8	2.2	2.9	3.5	3.7	3.1	1.9	3.3	3.5	3.3
Gini Coefficient	0.46	0.45	0.35	0.43	0.45	0.46	0.43	0.31	0.43	0.44	0.46

Notes : Data for 1985/86, 1986/87, 1990/91, 1995/96, 1996/97 exclude the North-east Province

* 1980/81 and 1985/86 data refer to per capita household income

** 1990/91 and 1995/96 data refer to total household income

Source : Central Bank of Sri Lanka (1999), Department of Census & Statistics (1982b), Department of Census & Statistics (1987), Department of Census & Statistics (1993)

Table 21: Collective agreements signed 1991-2000

Year	Number signed
1991	15
1992	28
1993	23
1994	20
1995	27
1996	20
1997	19
1998	40
1999	24
2000	29

Source: Administrative Reports, Department of Labour

Table 22: Trade unions 1990-2000

Year	No. registered during the year	No. cancelled or dissolved during the year	No. functioning at the end of the year	Total member-ship	Total No. employed	Percentage unionized
1990	83	55	1,032	904,582	5,047,354	17.92
1991	86	140	1,083	113,440	5,015,517	22.65
1992	150	202	1,039	884,226	4,962,105	17.81
1993	154	29	1,059	987,883	5,201,474	18.99
1994	214	63	1,304	1,613,406	5,281,272	30.54
1995	243	110	1,364	1,441,149	5,357,117	26.90
1996	101	37	1,428	1,264,641	5,537,285	22.83
1997	136	96	1,465	8,833,107	5,607,881	15.74
1998	111	14	1,581	799,821	6,049,238	12.89
1999	70	120	1,532	693,513	6,159,059	11.26
2000	180	130	1,588	NA	6,307,770	-

Source: Labour statistics 1999, Labour force survey 2000 – Department of Labour.

Table 23: Trade unions classified by membership

Classification on number	No of unions	No. of employees
Less than 50	76	2,035
51-250	91	10,079
251-1000	52	26,064
1001-5000	25	69,266
Over 5000	15	580,069
	259	693,513

Source: Administrative Reports, Department of Labour 1999.

Table 24: Current holiday and leave entitlements of Sri Lankan workers in different sectors

Types of holiday & leave	Shop & office employees	Trades covered by the wages boards			Public sector
		Plantation trade (app. 83% of total)	Other trades (app. 13% of total)	Workers affected by 1972 extension order (app. 4% of the total)	
Holidays weekly	78	52	52	52	104
Statutory	8	3	8	8	13
Full moon poya	12	12	12	12	12
<i>Subtotal</i>	98	67	72	72	129
Leave annual	14	14	14	14	24
Sick/casual	7	0	0	28	21
<i>Subtotal</i>	21	14	14	42	45
Total non-working days per annum	119	81	86	114	174
Total working days per annum	246	284	279	251	191

Siripala 1995 – updated.

Note:

Tables 1, 2, 4, 11, 17, 19, 20 were taken from Alailima (2001).

Tables 3, 5, 6, 7, 8, 9, 10, 12, 13, 14, 15, 16, 18 were taken from Rodrigo (2001).

Tables 21 - 24 were taken from Ekanayake (2001).

Definitions may differ across years or tables.

Appendix: Labour market information

Monitoring labour market indicators through labour market surveys

The principal source of labour market information in Sri Lanka is the *Labour Force Survey*, which has been conducted by the DCS quarterly since 1990. Since 1996 the LFS sample includes around 16,000 households annually. Out of these, 4,000 (different) households are surveyed each quarter. Sample estimates are re-weighted to achieve population estimates. Annual joint results are generally representative at the level of provinces. Representativeness at the level of districts is achieved every five years by using a larger sample.

Unfortunately, LFS data does not have panel properties that would allow its use for analysing dynamic features of the Sri Lanka labour market. This is mainly because the LFS sample itself does not have a longitudinal dimension. One cannot link individual observations over time in order to observe labour market transitions, duration of employment and unemployment spells, etc. Some limited duration information can be derived from retrospective questions contained in LFS questionnaire. However, more rigorous dynamic analysis is not feasible. This is regrettable, because analysis of labour market dynamics could reveal many interesting facts. Once such an elaborate LFS was in place, it would be advisable to modify the questionnaire (if not the sampling procedure) in order to capture better its dynamic properties.

The *Employment Survey* has been undertaken annually since 1971 by the Department of Labour. The survey is demand-side oriented, collecting information from enterprises with 5 or more employees, active in productive or distributive business or commercial activities. In principle it should cover public and organised private sector. The main problem of the survey is the outdated sampling list, which dates back to 1971. It has been regularly updated on the basis of new additions to the register, but controlling the outflow of enterprises is rather weak. Thus it is difficult to distinguish between non-response and factual non-existence of the enterprise. Employment trends thus cannot be observed satisfactorily.

Nevertheless, an index of employment is constructed annually on the basis of matched samples. This means that only those enterprises that are in the sample between two consecutive years are used in the computation. This may lead to quite complex interactions between non-response and sample attrition, thus making the index difficult to interpret. For example, among the 5,728 enterprises that responded in the 1999 survey (non-response rate amounted to almost 30 per cent of the listed enterprises), only 3,429 could be used for the computation of the employment index. These enterprises represented only slightly more than 50 per cent of covered employees. The index reflects more public than private enterprises in the sample and more large than small firms. Adding up all the difficulties, the employment index can be viewed as a highly stylised indicator and the employment trends based on this indicator have to be interpreted with caution.

The Census of Public and Semi-Government Sector Employment provides information about employment in these sectors, educational background and earnings of workers, and an indicator of labour market mobility (commuting to work). The Census is organised once in every four years as a postal enquiry by the DCS. Questionnaires are mailed to institutions and individual workers. The overall response rate is slightly above 90 per cent.

The Annual Survey of Industries provides aggregate data about employment and salaries in establishments with 5 or more persons engaged in manufacturing, mining and

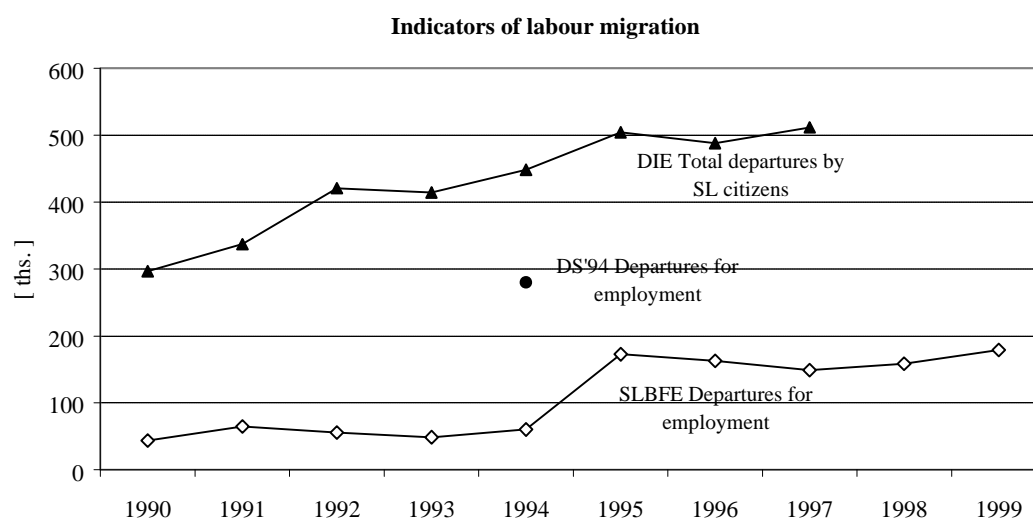
quarrying, and generation and distribution of electricity, gas and water, in both private and state sectors, as well as the establishments within the purview of BOI. The survey has been organised annually since 1984 by the DCS using mailed questionnaires supplemented by visits of statistical investigators.³¹ Published results are adjusted for non-response and inflated to population estimates. Shortcomings may come from the use of outdated sampling frame (originating reportedly from the Census of Industry in 1983) and likely under-representation of small establishments.

Migration

Migration data in Sri Lanka are in general available from four major sources: Population Census, Demographic Survey 1994, data by the Department for Immigration and Emigration (DIE), and data by the Sri Lanka Bureau of Foreign Employment (SLBFE).³² Most of the available information refers to international migration, however, some limited evidence relates to internal migration.

The Demographic Survey 1994 (Release 3) provides information about both internal and overseas migration, available at the level of districts (with the exception of the Northern and Eastern provinces). According to the survey, about 280 thousand persons were reported as going abroad, out of which more than 93 per cent went for employment and 3.5 per cent for education. Although the time dimension of this outflow was not directly specified, these figures indicate the relative importance of foreign employment for the Sri Lanka economy.³³

Figure 1



Notes: SLBFE – Sri Lanka Bureau for Foreign Employment

DIE - Department for Immigration and Emigration

D.S.94 – Demographic Survey 1994 by the Department of Census and Statistics

Alternative information about overseas migration is provided by the Department of Immigration and Emigration (DIE) and by the Sri Lanka Bureau for Foreign Employment

³¹ Previously there was Annual Survey of Manufacturing Industries from 1979.

³² A specific migration survey was undertaken by DCS in 1986.

³³ The absolute figure of 280 thousand emigrants should be interpreted with caution due to the vague definition of the emigration period and the nature of the household data (naturally, the households of emigrants might not be available for the survey).

(SLBFE). DIE monitors international arrivals and departures by nationality. Their data showed an inflow of almost 900 thousand persons in 1994 (of that 420 thousand Sri Lanka citizens), and a total outflow of 900 thousand persons (of that 450 thousand Sri Lanka citizens). These figures can be compared to those by SLBFE for the same year, 1994, when the SLBFE reported mere 60 thousand departures for employment abroad. Although the quality of SLBFE data was temporarily improved by the compulsory registration requirement during 1994-96, currently they probably largely underestimate the magnitude of overseas employment. For example, more recent data by SLBFE for the year 1997 record 149,000 departures for employment abroad, which can be compared to the DIE figure of 512 thousand total departures abroad by Sri Lanka citizens. If we maintain the assumption that the lion's share of these departures was for employment purposes (as indicated also by the 1994 Demographic Survey), the SLBFE data might actually capture as little as one third of the true employment outflow (Figure 7.1).

Very valuable information about internal labour mobility, can be derived from the *1994 Demographic Survey*. The Survey contains data about internal migration at the district level, distinguished by reasons of migration, such as seeking own housing, employment, or displacement due to disturbances related to the civil conflict. The survey captures stock figures as of 1994 indicating that, for example, about 15 per cent of the total covered population (6.8 million) has moved into their current district of residence for the sake of own housing, while 9.3 per cent moved in for the purposes of employment, and some 1.6 per cent moved due to the disturbances related to civil conflict. Although one cannot assess the time dimension of this migration, labour mobility of this magnitude could be viewed as quite substantial. The largest shares of labour immigrants were found in the districts of Nuwara Eliya (17.4 per cent), followed by Colombo (13.2 per cent) and Gampaha (11.1 per cent). Movement into Nuwara Eliya must be largely from conflict affected areas.

Information about labour mobility for a limited segment of labour market is provided by the *Census of Public and Semi-Government Sector*. The Census Report provides aggregated matrices cross-tabulating the district of permanent residence with the district of place of work by gender and sector (state, provincial public and semi-government).

Monitoring job vacancies

There are two main public sources of vacancy data: administrative data collected by Human Resources and Placement Service (HRPS) and the Newspaper Vacancy Survey by the Tertiary and Vocational Training Commission (TVEC). As in many other countries, information about vacancies represents a weak point of LMI in Sri Lanka.

HRPS of the Ministry of Labour collects information on vacancies from industry at the DSD level. This information is used for placements of registered job seekers. Between its inception in mid-1996 and the end of 1999, HRPS has registered more than 16,000 vacancies from various employers in the private sector and about 100,000 job seekers. Aggregate information about vacancies is compiled by the LMI Unit of HRPS and is published in the recently launched semi-annual Labour Market Review. Paradoxically, in some particular segments of labour market large volumes of notified vacancies remained unfilled, because it is difficult to find appropriate candidates for the jobs. This may be because of a skills mismatch, lack of know-how and technology at HRPS, low attractiveness of the jobs to the available group of job seekers, weak outreach to particular groups of job seekers, use of peculiar recruitment channels by individual job seekers and employers, etc.

TVEC commenced its Newspaper Vacancy Survey in 1998. The survey is based on job advertisements in two newspapers – The Sunday Observer (in English) and Silumina (in Sinhalese). The former is somewhat unrealistically supposed to provide information on the

employment opportunities in the formal sector, the latter should cover informal sector jobs. Although the data cannot provide an overall picture from the demand side of the labour market, under the current shortage of vacancy information they can serve as an indicator of various structural issues and also as recent trends in demand for various occupations. Survey results are published semi-annually in the Labour Market Information Bulletin by the LMI unit of TVEC. The published information includes breakdowns by sector, gender, educational end experience requirements, and main occupations. It also includes the identification of the most wanted jobs in local and foreign markets and a tentative information about remuneration in foreign jobs by occupation.

Despite all the deficiencies of the advertisement-based data, it is noteworthy that an overwhelming majority of advertised jobs (in the first half of 2000 more than 99 per cent) is in the private sector and a large majority (in the first half of 2000 almost 70 per cent) of jobs relate to the informal, or less formal sector. This source is thus very valuable by its coverage of the otherwise possibly unnoticed job creation in these two sectors. Last but not least, the published data provide a valuable orientation to job seekers, thus improving the effectiveness and shortening the length of their job search.

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