



Labour and Social Trends in Sri Lanka 2011

**Ministry of Labour & Labour Relations
Central Bank of Sri Lanka
Department of Census and Statistics**

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W.J.L.U. Wijayaweera
Secretary, Ministry of Labour and Labour Relations
Chairman, Tripartite Steering Committee



Forward

It is with great pleasure that the Ministry of Labour and Labour Relations presents the second labour and social trend report prepared with the support of the International Labour Organization in response to the need of labour and socio-economic information and its trend.

This report is intended as a practical information source for policy makers, researches and other individuals and organizations working in the arena of labour and socio-economic in Sri Lanka. It looks ahead with informed projections, likely scenarios and policy implications.

Reforming labour market policies for the benefits of works and employers, reduce informality, promote competitiveness, productivity, expand employment opportunities to all, enhance social protection and promote effective dialogue between workers employers and the overnment are some of the key policy issues that have been highlighted in the report in order to assure decent work for all. To promote these various dimensions and move them forward putting people's needs, including decent and productive employment at the centre of economic and social policies will be essential for inclusive growth and sustainable development.

I greatly appreciate the technical and financial support extended by the ILO in particular Colombo Office and comments and suggestions made by the experts from Geneva and New Delhi for the development of this report. Further I appreciate the contribution made by the steering committee, drafting committee, and all stakeholders including Trade Unions and Employers and all other parties involved, to make this report a success.

I hope that this report will contribute to strengthen the process of planning and implementing policies that will expand employment opportunities, reduce inequalities and pave the way for inclusive and sustainable growth in Sri Lanka that will meet the aspirations of the working people in the coming years.

Gamini Lokuge

Minister of Labour and Labour Relations

Executive Summary

Sri Lanka has now entered into new era of rapid socioeconomic development subsequent to ending the three-decade long war and achieving sustainable peace in 2009. As spelled out in the main government policy framework titled “Mahinda Chinthan – Vision for the Future” the central development strategy is to focus on five specific sectors (Naval, Aviation, Commercial, Energy and Knowledge) as regional hubs. This approach is based on strategic location of the island nation and her strengths as well as emerging opportunities in the global and regional scenario. The economic performance achieved in 2010 was encouraging and demonstrating the prospects of fast growth.

The purpose of this report is to discuss key socioeconomic and labour market trends as well as emerging opportunities and challenges. It is also intended to identify key policy areas for consideration to conquer challenges and to exploit emerging opportunities.

Chapter 1: Recent Economic, Labour Market and Social Developments

Macroeconomic development

- Sri Lanka’s economic growth was accelerated with the dawn of permanent peace in 2009 to record two consecutive years of over 8 percent growth in 2010 and 2011. The structure of the economy remained in favour of services sector followed by industry and agricultural sectors.
- External trade recovered fully from the global economic crisis in 2011 with a widened trade deficit due to higher imports growth in the economy. The relative importance of commodity exports continued to be overshadowed by value added industrial exports which have become the predominant foreign export earner.
- National savings as a percentage of GDP declined to 22.1 percent in 2011 from 25.4 percent the previous year despite the improvement in net foreign transfers which was superceded by expansion in consumption. Private sector and public sector investments stood at 23.7 percent and 6.3 percent of GDP respectively in 2011.

Labour market trends

- Out of the estimated 20.9 million mid-year population of Sri Lanka in 2011, population in working age (15 years and above, according to Sri Lankan standards) was 15.4 million (73.7 percent). Sri Lankan labour force exceeded 8.2 million in 2011 with 65.2 percent of males and 34.8 percent of females. Economic inactivity is as high as 68.2 percent for females.
- Sectoral labour composition has changed along with the movement of labour from agriculture

sector to service sector. Service sector with 43.1 percent of employment contributed to GDP by 59.3 percent in 2011. However, service sector employment in urban areas is as high as 69.4 percent.

- Gender disparity in employment has declined moderately over the last decade. Still female to male ration is around 0.5 (public sector 0.7 and private sector 0.4). However, corresponding ratio for unpaid family workers is as high as 2.87.
- In considering the trends over past decade, it can be inferred that the Sri Lankan labour force has gradually moved from less educated towards a moderately educated level whereas the employment share of those with primary education or less has declined sharply from 29.2 percent in year 2000 to 19.5 percent in 2011.
- Sri Lanka has succeeded in managing the rate of unemployment at a single digit throughout the last decade. Moreover, consequent to the 8.8 percent peak in 2002, the unemployment rate has declined sharply to 4.9 percent in 2010 and 4.2 percent in 2011

Key labour and social issues- industrial relations, occupational safety and health, and poverty

- During the last decade, number of industrial disputes has declined significantly. The number of Industrial Disputes reported in 2010 was 3948 whereas corresponding figure for 2011 was 3756.
- During the last five years the number of occupational accidents was declining. However, reporting of accidents is rather poor in small and medium scale industries.
- The highest drop of overall poverty level ever witnessed in the country reported in 2009/2010. The Gini coefficient for Sri Lanka declined from 0.4 to 0.36, in a three-year period from 2006/07 to 2009/10

Chapter 2: Impact of Demographic Changes on the Sri Lankan Labour Market

Population trends

- Sri Lankan population doubled over periods of 54 years, 35 years and 43 years starting from 2.4 million in 1871, the year of first national census. As projected, Sri Lanka's population will reach its peak in 2031, 21.9 million.

Major features of future population

- Sex ratio of the population is in favour of females over the last five decades and same trend will continue due to health facilities including high quality maternity care and higher life expectancy at birth for females.
- The child population of 4.9 million enumerated in 2001 remained more or less unchanged by 2011 and it is projected to be 4.2 million in 2021.

- Sri Lankan population will cause a reduction in the total dependency ratio from 55.0 in 2001 to its lowest of 53.6 in 2006. Thereafter, dependency ratio will increase to 55.9 in the year 2016 and to 58.3 by the year 2031.

Demographic dividend

- Demographic dividend or window of opportunity is the period of demographic transition in which working age population is greater than old and child population. Sri Lanka is now in this period from 1991 for 26 years until 2017.

Growth of the labour force

- Labour force increased from 4.5 million in 1971 to 7.0 million in 1990 and then to 8.6 million by 2011 and of the total labour force, 5.6 million were males and 3.0 million were females
- Labour force participation has been declining during the last decade mainly for females.

Projected labour force

- Total size of the labour force in 2016 and 2021 is expected to be 9.0 million and 9.3 million respectively if projected on constant basis, whereas corresponding figures would be 9.1 million and 9.5 million respectively if projected on increasing basis.
- The median age of the labour force is expected to increase from 38.7 years in 2011 to 40.4 years in 2021.

International Migration: supply of labour to foreign markets

- It is estimated that 1.8 million Sri Lankans work in the Middle-Eastern and other countries. There has been an increasing trend for both males and females with few fluctuations over the last two decades. In 2010, 135,502 males and 130,943 females have migrated to work abroad.

Chapter 3: Potential Impact of Emerging Economy on Labour Market in Sri Lanka

Peace dividend on Sri Lankan economy and labour market

- As a result of achieving sustainable peace in 2009, Sri Lanka could achieve an economic growth above 8 in 2010 and 2011, much above the average for the decade.
- The labour force in service and industry sectors shows an increase although there was a slight decrease in agriculture sector due to movement of labour between sectors.

Emerging opportunities at the dawn of peace

- Business confidence rebounded after achieving peace and gross official reserves, reached US \$ 8.4 billion in August and declined thereafter to US \$ 6 billion by end 2011.

- Exports grew by 22.4 percent in 2011 and the earnings reached US \$ 10,559 million. Foreign remittance inflows from Sri Lankans working abroad increased to US \$ 5,145 million in 2011 from US \$ 4,116 million in 2010.
- Reflecting positive investor confidence, Sri Lanka recorded its highest ever gross inflows of FDI in 2011. FDI, including loans, increased to a record level of US dollars 1.1 billion in 2011 compared to US dollars 516 million in 2010.

Present main development strategies

- The government's main development strategy is focussing on five (naval, aviation, commercial, energy and knowledge) to develop as regional hubs considering strategic location of Sri Lanka.
- Main shipping routes connecting the East and the West falls about 10 nautical miles away from Sri Lanka. Being located in between the destinations, there is a great potential to attract vessels to Sri Lanka for their needs and transhipments.
- Local demand for energy has been increasing. Already oil explorations have commenced and progress achieved so far is encouraging. Special attention is now paid by the government to produce renewable energy with the participation of private sector.
- Although there is a skill mismatch, level of education is high in Sri Lanka when compared with many countries in the region. Special projects and programmes are being implemented by the government to make optimum use of human resources through enhancement of knowledge and skills in the new technological areas.

Chapter 4: Conclusions and key policy areas

- It is essential to promote both local and foreign investment by providing incentives as well as setting the climate for investment. Enhancing public service efficiency is essential to cater to the needs of private sector institutions to encourage investors.
- Providing facilities and encouraging private sector to launch employment led industries and to create more value added employment is important to maintain a productive labour force.
- Youth skill development is a solution to skill mismatch observed in the labour market.
- Enhancing productivity in all sectors and maintaining a productive labour force is needed to attract investment and to achieve expected economic growth.
- Attempts should be made to expand the labour market by absorbing economically in active population, particularly females.
- Multi-skilling would be necessary considering the possible labour movement between industries and firms along with the economic development.

- Strengthening industrial relations should be given priority by promoting decent work concepts in all sectors.
 - Introduction of new technology, mechanization and automation of industries should be promoted to enhance productivity and to create value added employment.
 - Foreign employment policies should be revisited and revised to export value added labour rather than unskilled domestic labour.
-