

Labour Market Recovery and Transformation Strategy



**Placing jobs at the heart of an inclusive economic recovery
in Sri Lanka**



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► Context

Sri Lanka's economy is retreating from several unprecedented crises¹ thanks to the Government's determined stabilization efforts, which have been reinforced with an External Fund Facility that the International Monetary Fund established. However, the multiple crises and stabilization measures have impacted jobs and earnings in a labour market long constrained by skills deficits, widespread informality, labour migration, youth unemployment and women's lacklustre workforce engagement.

To help place jobs at the heart of an economic recovery, the International Labour Organization's (ILOs) tripartite constituents developed the Labour Market Recovery and Transformation Strategy, at the request of the Government of Sri Lanka. The strategy is based on dialogue among the stakeholders and recent research, particularly the results of a rapid assessment of the impact of the multiple crises on micro, small and medium-sized enterprises (MSMEs).² A tripartite subcommittee was formed in March 2023, and the Ministry of Labour and Foreign Employment led tripartite discussions with representatives from other ministries, the Employers' Federation of Ceylon and trade unions.³ In July 2023, the Presidential Secretariat also formed an interministerial action committee,⁴ under the leadership of the President's Secretary and the Minister of Labour and Foreign Employment and comprising secretaries from various ministries, including Education, Finance, Tourism

1 Following on the heels of the COVID-19 pandemic, mass protests, power cuts and dire shortages of basics, such as fuel. Although the pandemic exacerbated the depths of the economic crisis with unprecedented levels of inflation and the near-depletion of foreign exchange reserves, its origins predate the COVID-19 crisis.

2 ILO, *Impact of the Multiple Crises on Sri Lanka's Micro, Small and Medium-sized Sectors*, 2023.

3 The Ministry of Labour and Foreign Employment convened the tripartite subcommittee on 29 March, 25 April, 12 May, 2 June, 13 July and 19 September of 2023.

4 The President's Committee involves the Senior Economic Advisor to the President, the Ministry of Labour and Foreign Employment, the Ministry of Finance, Economic Stabilization and National Policies, the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government, the Ministry of Education, the Ministry of Plantation Industries, the Ministry of Tourism and Land, the Ministry of Fisheries and the Ministry of Transport and Highways.

and Land, Fisheries, Transport and Plantation Industries, to help grow resilient businesses and decent jobs through strategic interventions. The strategy is an important component of the ILO's ongoing technical support to the Ministry of Labour and Foreign Employment and social partners.

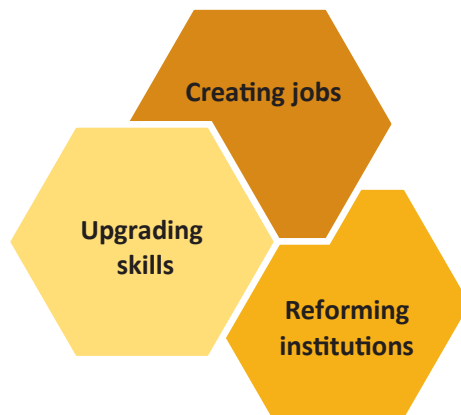
The strategy offers general guidelines for job growth through the recovery of businesses, skills development and institutional reforms, all of which is particularly inclusive of MSMEs, women and young people. The guidelines are motivated by the following features of the current context:

- ▶ The ongoing stabilization and reform measures can intensify the lingering effects of the crises on the labour market through: (a) the consequences of fiscal adjustment and debt consolidation on jobs and incomes; and (b) the impact of growth-enhancing structural reforms on enterprises, job creation and workers. These impacts can be severe for MSMEs, women and young people who have already been badly hit by the crises, as well as for workers retrenched by impending State-owned enterprise reforms.
- ▶ Labour market recovery will depend critically on how businesses recover, transform and expand and how workers' employability and productivity improve. Labour market transformation for decent job growth also needs institutional reforms that support export-led growth and that technologically upgrade and diversify production structures.
- ▶ As Sri Lanka's population ages and the crises continue to push youth to migrate out of the country, policies need to double down on efforts to help transition women and young people into decent and productive employment. Workers retrenched from State-owned enterprises will need income support, reskilling and help in finding new jobs. These workers can become labour assets, especially in sectors with the potential to grow through appropriate trade and investment measures. To ensure increased numbers of women entering and remaining in the labour force, efforts are needed to support workers to balance work and care responsibilities, in particular the sharing of unpaid care duties, in light of an aging population and women's disproportionate share of care responsibilities.

The strategy proposes policy priorities to help grow resilient businesses and create decent jobs through interventions in three areas:

- A. Creating jobs through resilient and inclusive businesses
- B. Upgrading skills and improving job matching
- C. Reforming institutions for better and more inclusive service delivery

Labour Market Recovery and Transformation Strategy three focus areas



This note expands on each of these areas. See the concluding table for time-specific interventions under each focus area.

► Focus A: Creating jobs through resilient businesses

The multiple crises and prolonged delays in policy reforms have impacted enterprises in many ways, catching them in a vice of reduced sales turnover, soaring production costs and deepening indebtedness. Whether enterprises survive has depended on how they have responded and coped.

MSMEs that laid off workers, reduced working hours, borrowed money from other sources and/or liquidated assets found it difficult to survive the crises. In contrast, those that cut costs, eliminated waste, sourced from new suppliers, introduced flexible work practices, adjusted the product or service mix to the labour that was available, used online sales and

social media to market products and/or services and rescheduled their bank loans proved resilient and survived.⁵

But enterprises remain vulnerable and face binding constraints to their survival and expansion:

- ▶ The cost of utility services, particularly the price of electricity, is the most widely felt constraint affecting the survival of enterprises.
- ▶ Factors related to the policy and regulatory system, such as high tax rates, macroeconomic and regulatory policy uncertainty and customs and trade regulations, are the second-most binding set of constraints.
- ▶ Access to financing and the cost of financing are the third-most widely felt strains.
- ▶ Labour-related constraints, such as the inability to raise wages despite cost-of-living increases and skills shortages, are the fourth set of constraints to business recovery.

Priority areas for policies to create resilient businesses for employment growth at the enterprise level:

- ▶ Facilitating access to business development services to encourage adaptive behaviours, resilient businesses and women entrepreneurs.
- ▶ Digitalization of businesses operations, including investing in supportive infrastructure.
- ▶ Facilitating access to export markets.
- ▶ Sector-specific interventions looking to accelerate the recovery and growth of already identified⁶ high-priority sectors, such as tourism.
- ▶ A recovery package designed and implemented, especially for MSMEs to increase their resilience. For example, increasing digital access to trade and regulatory information, enhancing existing online resources available to MSMEs, facilitating knowledge-sharing programmes to increase access to digital technologies and climate change resilient supports can enable MSMEs to find new clients and generate more business. Promote dedicated programmes for women entrepreneurs that address their key constraints.

⁵ ILO, *Impact of the Multiple Crises on Sri Lanka's Micro, Small and Medium-sized Sectors*, 2023.

⁶ Board of Investment Sri Lanka, Export Development Board and Harvard Center for International Development, *Targeting Sectors for Investment and Export Promotion*, 2017.

► Focus B: Upgrading skills and improving job matching

Sri Lanka's population is ageing, and young skilled and unskilled workers are emigrating due to the crises. Also, women's labour force participation is constrained, in spite of high levels of education, due to gender-based discrimination and unpaid care responsibilities. Enterprise recovery and growth are constrained by shortages of high-, medium- and low-skilled workers. Adopting new technologies and productivity growth will depend crucially on developing the skills that employers want.

The skills shortages held back decent job growth even before the crises hit, as reflected across several dimensions:

- Learning outcomes, such as competency in the use of visual clues and contextual clues in vocabulary, and achievements in the cognitive and content domains of knowing, applying and reasoning had been declining.⁷
- The general and vocational education and training systems had not produced enough graduates with the skills that employers want.
- Employers experienced skills deficits among workers in middle-level occupations, particularly in English language skills, capacity to learn and problem-solving.⁸
- The COVID-19 pandemic-related lockdowns along with the political and economic crises likely worsened the capacity of the general education and the tertiary and vocational education and training (TVET) systems to deliver.
- The crises withered enterprises' own investment in training.

Policies should prioritize skills development, upgrading workers' skills and job matching:

- Designing demand-driven education and skills development programmes in consultation with industry is essential. Imparting digital and climate change resilience skills should be a high priority.
- Developing and testing required competencies should be the overarching objectives of the skills training system.

7 Ramani Gunatilaka and Sunil Chandrasiri, *The Labour Market Implications of Sri Lanka's Multiple Crises* (ILO, 2022).

8 Ramani Gunatilaka and Sunil Chandrasiri, *Gender Disparities and Labour Market Challenges: The Demand for Women Workers in Sri Lanka* (UN Women, 2022).

- ▶ Improving the accreditation and recognition of skills development programmes, especially online programmes, and promoting recognition of prior learning will boost the reskilling and upskilling of workers.
- ▶ Programmes should be implemented in a timely, gender-sensitive and inclusive manner and without the long delays that currently hobble the system.
- ▶ Workers retrenched from State-owned enterprises should be supported to acquire the skills that will enable their re-absorption into the workforce.
- ▶ Training and support programmes that encourage women’s entrepreneurship, ownership and management of enterprises and the retention of women workers in businesses, with more family-friendly policies and care services, will encourage more women to engage in business ventures and increase their supply of paid labour.
- ▶ Interventions, such as a well-functioning comprehensive labour market information system linked to career guidance, intermediation to help informal workers transition into formal jobs and linking access to social protection with training opportunities, should be considered.
- ▶ Training providers in public, private, non-government and foreign-affiliated training institutions should coordinate and collaborate to ease the skills constraints on business recovery and decent job growth.

▶ **Focus C: Reforming institutions for better service delivery**

Weaknesses in the design of appropriate policies and in the institutional architecture available to implement them have long held Sri Lanka back from achieving its development potential. They have also made the country vulnerable to the internal and external shocks that generated the current crises. There are five priority areas for institutional reforms necessary for labour market recovery and transformation:

- ▶ **Restructuring institutions, improving coordination and building up capacities:** Institutional weaknesses underlie the inadequate supply, high costs and inefficiency of critical infrastructure and utility services, such as transport and energy. At the same time, the quality of support services for MSMEs suffers from (a) unequal distribution of services; (b) coordination and communication gaps; (c) knowledge gaps among MSME development officers; and (d) capacity to serve MSMEs led by marginalised groups

of women, persons with disabilities, etc. The institutional architecture needs to be streamlined and rationalized for better coordination, cost-effectiveness of interventions, provision of specialized services, including for women entrepreneurs.

- ▶ **Cost of energy:** Sri Lanka has had some of the highest electricity tariff rates in the region. This has discouraged foreign direct investment and retarded economic growth and employment generation. High tariffs are due to the lack of transparency and accountability and rising inefficiency and operating costs of the Ceylon Electricity Board. Due to the multiple crises, the tariffs rose even higher. Institutions, such as the Ceylon Electricity Board, need structural reform to ensure greater transparency and accountability so that cheap energy can fuel enterprise recovery and expansion and job growth.
- ▶ **Social protection:** The Employees' Provident Fund has long been a captive fund to finance the Government's domestic debt. The interest paid, however, is not equivalent to market rates. The proposed domestic debt optimization will squeeze the retirement income funds of the poorest workers while creating windfall profits for private bondholders and equity holders of the banks.⁹ These measures are regressive. Institutional oversight of these funds needs representation of workers, employers and the Ministry of Labour and Foreign Employment. An unemployment benefit insurance scheme should be implemented to protect workers against the loss of employment due to retrenchment and the closure of businesses.
- ▶ **Legislative reform:** As ageing and emigration shrink the labour supply, policies need to encourage persons not in the workforce to engage in it: Legislative reforms to encourage women's entry into the paid workforce should be implemented. They need to facilitate policies that promote equal opportunities, more family-friendly workplaces and measures such as part-time work, flexible working hours and nightwork by women, with appropriate benefits and protections; to collectivize the cost of maternity benefits and extend to 14 weeks to meet minimal international standards; and to ensure decent work standards in new forms of employment. Many of these reforms can also increase the supply of students' labour while they earn and gain work experience and expand the networks that will increase their employability and ability to start their own businesses.

⁹ Charith Gunawardena, "DDO: Irresponsible, irrational, inequitable", in *Daily FT*, 18 July 2023.

- ▶ **Institutional reform to help reduce taxes:** Tax rates have been raised to achieve fiscal balance, but this has become a binding constraint to enterprise survival and growth. Because government revenues have declined and expenditures have increased due to policy inconsistencies and administrative issues, reforms to make institutions accountable for effective tax collection are urgently needed.

Time-specific interventions within the Labour Market Recovery and Transformation Strategy

	Priorities next 12 months	Priorities next 2-3 years
Job creation	Identify priority sectors for growth, such as tourism, food and beverages, ICT and business process outsourcing, care economy, electronics and electrical equipment and industrial and transport equipment.	Continue with the same subsectors and add a few more sectors, such as transportation and storage (logistics), rubber and plastic products, wearing apparel and textiles.
	Develop an MSME recovery support package: <ol style="list-style-type: none"> 1. Facilitate business development and business coaching services. 2. Facilitate access to export markets. 3. Provide support for product development. 4. Facilitate diversification of export markets. 5. Facilitate access to finance. 	Promote MSME development: <ol style="list-style-type: none"> 1. Enhance digital infrastructure development. 2. Reduce the cost of and improve access to capital. 3. Facilitate access to export markets. 4. Facilitate diversification of export markets. 5. Improve financial literacy of MSMEs.
	Minimize the digital divide within and across districts for both enterprises and households: <ol style="list-style-type: none"> 1. Encourage telecom service providers to improve infrastructure in periphery districts. 2. Enhance existing online resources available to MSMEs. 3. Facilitate knowledge-sharing programmes for MSMEs to increase their access to digital technologies. 	<ol style="list-style-type: none"> 1. Upgrade infrastructure to accelerate the energy transition and broaden access to electricity and ICT. 2. Enhance the existing online resources available to MSMEs.
	Expand entrepreneurship development, with a focus on women's entrepreneurship, through skills development, business coaching, digital marketing and improving access to finance and markets. Build capacity to promote diversity, equality and inclusion	Incentivize firms to embrace diversity, equality and inclusion to ensure inclusive business recovery.

Upgrading skills	Scale up the reskilling and upskilling of the present workforce, including migrant workers and persons retrenched from State-owned enterprises, in emerging skills, combined with active labour market policies.	Promote in-house training and external training jointly with private and non- government sector support, including for migration returnees
	Scale up skill certification, including recognition of prior learning.	Expand TVET capacity and extend skills certification to the private sector.
	Facilitate the development of basic digital skills in MSMEs.	Facilitate advanced digital skills development of MSMEs.
	Train sectors to match the post-crisis' skill requirements, such as digital skills and multitasking skills; increase the training output for high-demand sectors; and install an efficient system of career guidance.	Update education curricula and expand investment in the skills needed for jobs for the twenty-first century.
	Pilot entrepreneurship education in schools	Integrate entrepreneurship education into school curriculum.
	Facilitate entrepreneurship development with a special focus on women's entrepreneurship.	Establish dedicated training and support programmes that encourage women's entrepreneurship, ownership and management.
	Skills development and recognition of migrant workers with a special focus on target markets, such as Saudi Arabia, Kuwait, United Arab Emirates, Italy and Canada.	Target the skills development of migrant workers, with a special focus on niche markets (Japan, Republic of Korea, Singapore, etc.) and potential markets (such as developed countries).
	Initiate action to set up an enhanced labour market information system (LMIS): 1. Organize discussions with relevant stakeholders. 2. Take initial steps to set up the LMIS.	Implement the LMIS system.

Institutional reforms	<ol style="list-style-type: none"> 1. Restructure institutions, improve coordination and build up the capacities of critical infrastructure and utility services, such as energy and transport. 2. Discuss the possibility of improving interinstitutional coordination for MSME development among the Ministry of Industries (including the National Enterprise Development Authority and the Industrial Development Board), the Ministry of Youth and Sports, the Ministry of Investment Promotion, the Industrial Technology Institute, etc. 3. Introduce a pilot project on joint service delivery for MSME development, such as collaboration between the National Enterprise Development Authority, the Small Enterprises Development Division and the Industrial Development Board. 	Ensure that public institutions embed strong governance principles and a long-term vision for efficiency and effectiveness.
	<p>Reform the social protection system:</p> <ol style="list-style-type: none"> 1. Start with initial stakeholder discussions, led by the Ministry of Labour and Foreign Employment. 2. Conduct actuarial studies. 	Expand social protection measures and set up a system that includes an unemployment insurance scheme.
	<p>Revise the labour laws to meet the new needs of the workforce, including commencing discussions with stakeholders.</p>	Manage a gradual transition to more effective and revamped labour laws, based on social dialogue.

Annex

Subcommittee members for formulating the Labour Market Recovery and Transformation Strategy

Institution	Name
1. Ministry of Labour and Foreign Employment	Mr B. Vasanthan Senior Assistant Secretary (Foreign Relations) Mr K. Nikarilkanth Senior Assistant Secretary (Development)
2. Department of Manpower and Employment	Ms B.H.C. Shiromali Director Ms Shanika Mayadunne Deputy Director
3. Department of Census and Statistics	Ms K.A.S. Kodikara Director
4. Ministry of Education	Mr Dasitha Niroshana Director (Skills Development) Mr Indika Rosa Director
5. Ministry of Industries	Mr Aruna Bandara Director General
6. Sustainable Development Council	Ms Chamindry Saparamadu Director General Ms Nadeeka Amarasinghe Assistant Director
7. National Trade Union Federation	Mr Padmasiri Ranawakkaachchi General Secretary
8. Free Trade Zones and General Services Employees Union	Mr Anton Marcus Joint Secretary
9. Ceylon Federation of Trade Unions	Mr Chaminda Perera Deputy General Secretary
10. Ceylon Workers' Congress	Mr S. Rajamany
11. Sri Lanka Nidahas Sewaka Sangamaya	Mr Lesli Devendra General Secretary
12. Employers' Federation of Ceylon	Mr Vajira Ellepola Director General Mr Adhil Khasim Deputy Director General Mr Ruvinda Walikala Industrial Relations Advisor

