International Labour Organization

The Labour Market Implications of Sri Lanka's Multiple Crises

Ramani Gunatilaka
Sunil Chandrasiri

The Labour Market Implications of Sri Lanka's Multiple Crises

Ramani Gunatilaka
Sunil Chandrasiri

First published 2022

ISBN: 978-922-0372-23-4 (web PDF)

Printed in Sri Lanka

Contents

Tables

Figures

Acknowledgements

We wish to thank Sher Singh Verick, Head of the Employment Strategies Unit in the Employment, Labour Markets and Youth Branch of the ILO Geneva for initiating this study and for the stimulating discussions and feedback which developed the report and sharpened the analysis. We also thank Felix Weidenkaff, Youth Employment Expert, ILO Regional Office for Asia and the Pacific for his painstaking reading of the first draft and for his comments which helped improve the presentation and argument considerably. Simrin Singh, ILO Country Director for Sri Lanka and the Maldives, Balasingham Skanthakumar, Senior Programme Officer and Asitha Seneviratne, Programme Officer commented on the first draft, while Thomas Kring, Chief Technical Advisor and Sriyani Ekanayake, National Project Coordinator provided initial comments on the study's scope which strengthened its focus on the human development implications of the crisis. The usual disclaimers apply with respect to errors and omissions and the views expressed.

Ramani Gunatilaka

Sunil Chandrasiri

Foreword

Over 2020 and 2021, the COVID-19 pandemic created an unprecedented economic and labour market crisis around the world, mostly as a consequence of the lockdown and other containment measures used to stem the spread of the virus. Despite some signs of positive trends, the labour market recovery in most developing countries stalled in 2021. While these countries had also implemented stimulus packages and specific interventions to support businesses and workers during the crisis, their ability to respond in 2021 and at the start of 2022 has been much more constrained due to limited fiscal space, debt sustainability challenges and pressures from rising inflation.

While Sri Lanka had a similar experience to most developing countries in terms of the effects of the shock on the labour market during the crisis, it was facing considerable macroeconomic imbalances and structural weaknesses prior to the onset of the COVID-19 pandemic. In addition to the negative impact of the COVID-19 crisis, the country was highly vulnerable to the Ukrainian crisis, which has led to a new "triple crisis" in terms of increasing difficulties in accessing financing, along with rising prices of food and fuel that are hitting developing countries around the word. As a consequence of an intersection of global and domestic shocks, Sri Lanka is now in a full-blown balance of payments and debt crisis, which has already severely impacted economic activity and the labour market.

Against this background, this paper by Dr. Ramani Gunatilaka and Prof. Sunil Chandrasiri reviews the pre-COVID-19 trends and challenges in Sri Lanka, before turning to the impact of the COVID-19 crisis on the economy and labour market over 2020-21. It also analyses the various dimensions of the current phase of the crisis in terms of key issues and its likely impact on the labour market. Finally, the paper presents a policy framework to underpin human centred recovery efforts with a view to promoting more inclusive and sustainable growth and the creation of decent and productive employment in Sri Lanka.

Simrin C. Singh
Country Director, ILO Country Office for Sri Lanka and the Maldives

Executive summary

This study looks at the multiple crises that Sri Lanka currently faces from the perspective of its labour market implications. The approach is based on a conceptualization of human development as Amartya Sen saw it, that of increasing people's capabilities and functionings. The study aims to outline a policy framework that can help Sri Lanka manage the crisis and set it on the road to sustainable recovery and beyond through job-rich growth wrought by the transformation of production structures and export growth. It draws from the existing literature and uses published data from the Central Bank of Sri Lanka, the Department of Census and Statistics and other international sources for its diagnosis of Sri Lanka's economic malaise before the pandemic, and an understanding of the impact of the multiple crises that followed, on key indicators of economic performance and human development.

After the war ended in 2009, Sri Lanka's economy departed from an export-led growth strategy, which had characterized the early years of liberalization and sustained the economy through several decades of violent conflict. Over the last decade or so, growth slowed, the fiscal position weakened, external debt built up. Investor confidence in the real economy evaporated and the country failed to attract much needed FDI. An aging population constrained further labour-force led economic expansion, while women remained unwilling or unable to engage in the paid labour force. Productivity stagnated as production structures did not adequately diversify and adopt advanced technologies. Meanwhile, skills deficits perpetuated Sri Lanka's low-skill intensive portfolio of goods and services. The failure to grow the stock of decent jobs meant that most workers continued in informal employment although their real wages grew due to a labour market squeezed by changing demographics.

Since January 2020, Sri Lanka experienced four increasingly virulent waves of the COVID-19 pandemic. The first wave was controlled effectively, but the same level of control could not be maintained over the second wave due to the greater virulence of the Alpha and Delta strains and political economy factors which confounded the policy response. Despite a weak start, the vaccination programme has been rolled out at lightning speed.

As experienced around the world, the macroeconomic fallout of the pandemic on Sri Lanka's economy was severe, but several factors fuelled multiple crises thereafter. The severity of the pandemic's impact was also exacerbated by the chronic macroeconomic underperformance of the economy since at least 2013. Sri Lanka's economy shrank by a fifth between the fourth quarter of 2019 and the second quarter of 2021. While in most countries, services contracted by much more given the impact of lockdown restrictions, in Sri Lanka industry declined by more. The agriculture sector held firm and provided employment of the last resort to workers displaced from the urban manufacturing and services sector. But the decision to ban agro-chemicals and transition to organic farming during the third quarter of 2021 (even though reversed on 4 November 2021), deeply impacted a sector whose productivity was already low, leading to a situation of food insecurity.

Exports recovered by mid-July 2020 to where they had been in the first quarter of 2019, which was still too low. Agricultural exports recovered more vigorously post lockdown in the first phase. But the ban on agrochemicals shrank the supply of agricultural products such as tea, coconut, and rubber that Sri Lanka exports to international markets. The pandemic and associated restrictions on mobility and operations saw the closure of between a third and a half of formal sector firms who could respond to online surveys and telephone interviews in 2020. Closures and job losses were much higher among the micro, small and medium (MSMEs) enterprise sector which bore the brunt of the economic shock. Firms had limited success working from home. They found it difficult to monitor work from home (WFH), they were constrained by employees' limited access to IT related systems, infrastructure, and workspaces at home, and as in other countries, firms struggled with low output and lack of experience WFH.

A nascent recovery in the second half of 2021 heralded by the vaccination drive petered out with the impact of such steps as the agrochemical ban on agriculture, the management of the exchange rate, a highly accommodative monetary policy, and the use of foreign exchange reserves to repay debt. These policy decisions generated multiple crises which impacted on businesses, workers, and their families, manifesting in shortages of essential consumer goods including food, fuel, power, raw materials, and capital equipment on the one hand, and the disruption of key public services such as education and health on the other. The fiscal bind and looming debt crisis have also left Sri Lanka very little room to manoeuvre. The economic crises have in turn generated political instability and further constrained timely decision-making about how to deal with the crisis.

The multiple crises have intensified long-standing worrisome features of the labour market: they have expanded unemployment, widened gender gaps in labour force participation, and given rise to job insecurity, uncertainty, and hardship. Sri Lanka lost more than 200,000 jobs to the pandemic between the fourth quarter 2019 and the second quarter 2021. Own account workers made up half of all job losses. The employment share of the informal sector increased because formal sector employment contracted more sharply. Although there was some recovery during the second half of 2021, extensive job losses among employers augured ill for the vigorous regeneration of jobs. In fact, the fragile economic recovery of the last quarter of 2021 is likely to have been snuffed out in the first quarter of 2022, due to the shortages in imported raw materials and constraints on power generation and transport which manifested in January 2022. Unemployment has always been significantly higher among women relative to males, while unemployment rates among young people, high at the best of times, rose to 30 percent of the 20-24 age cohort by the middle of 2021 and dropped to 24 percent by the end of the year. However, as the economic crises multiplied and worsened at the beginning of 2022, these indicators would have again regressed. The pandemic also impacted the skills development sector. Efforts to provide education and training online were constrained mainly due to problems of infrastructure access particularly outside of Western Province. Enrolment and completion of TVET courses in 2020 relative to 2019 declined by 50 and 57 percent respectively. However, the imposition of power cuts in 2022 are likely to have disrupted even these limited measures.

The decline in household income due to job losses is likely to have increased the incidence of poverty, with COVID-19 estimated as having pushed over 500,000 people into poverty. The pandemic also saw the emergence of the new poor — those who fell into poverty because of the pandemic – among the more educated and employed in industry and service sectors particularly in urban areas and Western Province, the latter which accounted for the largest share of the new poor. These negative developments would have worsened in 2022 as the economic crises intensified.

Sri Lanka is currently in a full-blown debt and balance-of-payments crisis, leading to massive shortages of essentials and severe disruption to economic activity. The crisis continues to deteriorate and is likely to lead to a deep impact on the labour market, which will require careful monitoring and analysis over the months to come. The severity of the crisis means that policy makers need to grasp the nettle of structural reforms needed for recovery and job-rich growth, which will require carefully balancing macroeconomic stabilization with longer-term goals of creating decent, sustainable, and productive employment. This report suggests eight areas of policy intervention for the short, medium and long term as in the matrix below.

Policy intervention	Time frame		
	Short	Medium	Long
Address current macroeconomic crisis through fiscal consolidation and debt restructuring plus improved fiscal space	√	√	√
Restore investor confidence	√		
Reformulate investment, industry, and trade policies to support export-led growth, technological transformation, productive efficiency and job creation, especially for SMEs	√	√	√
Increase R&D and infrastructure investments with a clear focus on 3IR and 4IR technologies		√	√
Demand-driven skills development and adjustment to a post-COVID-19 economy, including remedial education/training	√	√	
Social dialogue and legislative reform to support flexible arrangements while protecting workers	√	√	
Promote policies that foster women's entry into the labour market and support other hard-hit groups	√	√	√
Expand access to adequate social protection to workers and families (including institutional reforms)	√	√	√

They are based on a comprehensive policy approach covering three dimensions: restoring macroeconomic stability; export-oriented growth and transformation of production structures with advanced technologies; and labour market policies including those focused on developing demand-driven skills and legislative reforms and facilitating women's entry into the paid workforce. Institutional measures needed to promote social dialogue, provide social protection for those who lose their jobs in crises such as the present one, and consumption support for those who lose income, are also strongly recommended.

1. Introduction

Sri Lanka currently faces multiple external crises that have manifested in an acute foreign exchange crisis and crippling shortages of essential commodities, including fuel. These in turn have affected power generation, production, earnings, and employment. The country has suspended debt repayment and needs to urgently restructure its debt, implement a programme of stabilization and structural adjustment, and obtain bridging finance for essential commodities until the economy is resuscitated. This study looks at the implications of these multiple crises from the point of view of Sri Lanka’s labour market. The approach conceives human development as Amartya Sen saw it, which in the present context would involve restoring and increasing people’s capabilities and functionings, during and in the aftermath of the most serious macroeconomic crises the country has faced in the post-colonial period.

While COVID-19 has dealt a massive blow to human capabilities and functionings across the world, the weak and the vulnerable have had to bear the heaviest cost. In Sri Lanka the pandemic impacted on pre-crisis vulnerabilities which triggered devastating external crises in its aftermath. While the decades-long war had constrained Sri Lanka from achieving its full growth potential before 2009 when it ended, subsequent policies did not sufficiently support an economic transformation and upgrading of technology of Sri Lanka’s production structures. Growth faltered, government revenue declined, the fiscal deficit expanded, and increasing external borrowing at commercial lending rates built up a debt overhang that left the economy dangerously exposed to external shocks. COVID-19 was the third of such shocks in as many years and the most devastating. It has still not quite ended, (at the time of publication) while the Ukraine crisis has been the fourth.

This study aims to outline a policy framework for human-centred recovery that can be further developed following consultation with stakeholders. It is in line with the “Global call to action for a human-centred recovery from the COVID-19 crisis that is inclusive, sustainable and resilient” adopted by the International Labour Conference in 2021.[1] The aim of the policy framework is to help Sri Lanka manage the crisis and set it on the road to sustainable recovery and beyond through job-rich growth, catalysed by export-led growth and the transformation of production structures. To help develop the framework, the study first assesses key macroeconomic and sectoral developments over the ten years preceding the pandemic to identify the co-morbidities which made it vulnerable to the pandemic-induced crisis and aggravated it, and which need to be addressed to recover and develop the capabilities and functionings of all Sri Lankans. In Chapter 2 it draws from the existing literature and uses published data from the Central Bank of Sri Lanka, the Department of Census and Statistics and other international sources for its diagnosis of Sri Lanka’s economic situation before the pandemic. Chapter 3 provides an understanding of the impact of the crisis on key indicators of economic performance and human development as it struck, and details subsequent events which created the current macroeconomic crisis. Based on the analyses in these two chapters, Chapter 4 presents a comprehensive policy framework aimed at stabilizing the present macroeconomic crisis, restoring investor confidence in the economy, and setting Sri Lanka on the path of job-rich growth through the transformation and upgrading of production structures, skills development, export diversification and growth. Chapter 5 summarizes and concludes.

1 See https://www.ilo.org/ilc/ILCSessions/109/reports/texts-adopted/WCMS_806092/lang--en/index.htm. Accessed November 2021

2. Before the Pandemic

Sri Lanka's economy has long been dependent on international transactions in tradables, remittances from migrant workers and tourism. Heavy investment in reconstruction and infrastructure after the war ended in 2009 drove economic growth until 2012. But by 2013 the growth momentum had run out of steam, throwing into sharp focus massive underlying macroeconomic stresses. Exports declined relative to imports, tax revenue contracted as a share of GDP and external debt was eating up a growing share of foreign exchange earnings. A moderately managed exchange rate float became overvalued and eroded export competitiveness.

The period before the pandemic also ended with two shocks that rocked the economy within six months of each other. The first was in October 2018 when the President dismissed the incumbent government. The opposition could only muster a minority government, and in any case, the Supreme Court ruled that the President's dismissal of the incumbent government was illegal. The caretaker government was unable to tackle the political instability and policy uncertainty that further eroded investor confidence. Presidential elections were due that year, but it seemed unlikely that any political formation would be able to get a workable majority. A second, more devastating shock followed with the Easter Sunday bombings of April 2019. The impact on tourism was catastrophic. Sri Lanka's economy was left dangerously exposed to the impact of the COVID-19 pandemic which struck in March 2020 and continued until early 2022.

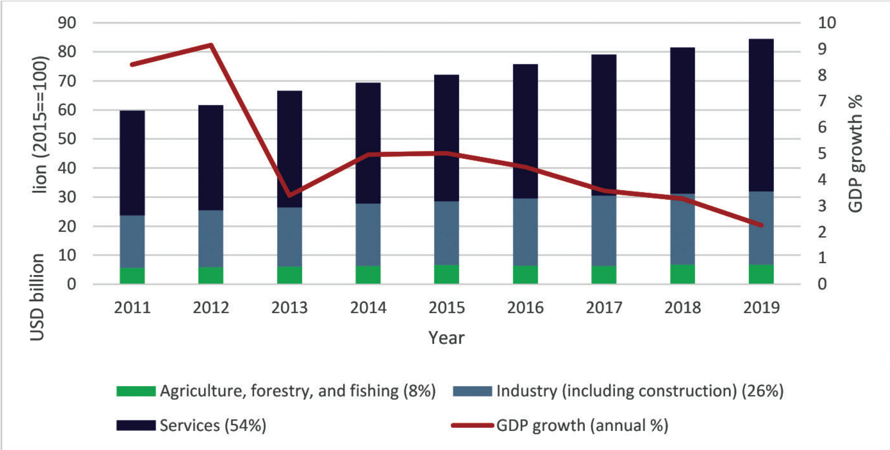
Salient features of the pre-pandemic economy and parallel developments in the labour market and in indicators of poverty and inequality are described in what follows. As will be elaborated in Chapter 3, these characteristics of Sri Lanka's output and export structures produced suboptimal labour market outcomes before the pandemic struck and became co-morbidities which intensified the economic impact of the pandemic. The policy response was insufficient and some measures actually worsened and multiplied the crises as Chapter 3 explains.

This chapter takes 2011 as the beginning of the reference period: the war had ended in 2009, and the incumbent government had won an overwhelming mandate for economic development at the Presidential Elections of 2010. The end period is 2019, the year before COVID-19 broke out.

2.1 Economic growth tapers off

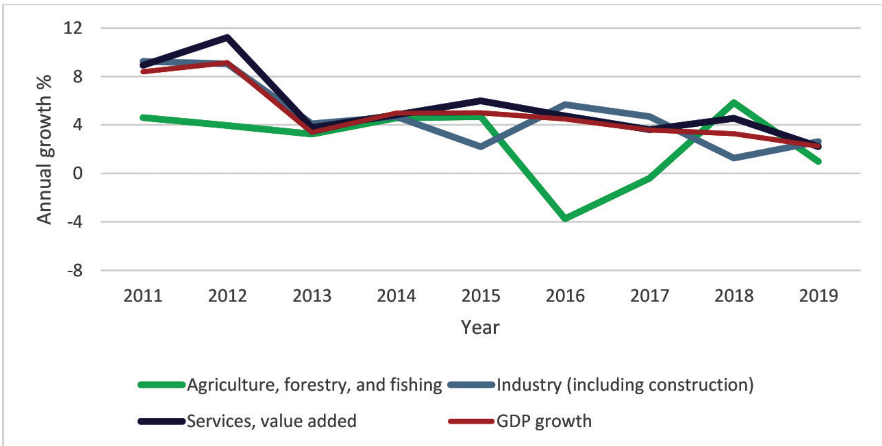
Sri Lanka's government launched an ambitious post-war reconstruction and investment programme after the war ended in 2009. However, as Figure 2.1 shows, the post-war boom ran out of steam just four years thereafter and real GDP growth dropped from a high of 8 percent per annum to 3 percent between 2012 and 2013. It picked up to average around 5 percent over the next three years, to again decelerate to 3 per cent in 2018 before the Easter Bomb attacks of 2019 knocked the growth rate down to 2 per cent. Limited structural transformation of the economy took place during this period: agriculture's contribution dropped from 9.4 to 8 percent, industry's contribution held steady at 30.2 percent and 29.8 percent, and the contribution of services inched up from 60 percent to 62 percent. Declining sectoral growth rates decelerated the rate of economic expansion (Figure 2.2). Sectoral productivity growth rates limped along hugging the bottom other than for mining and quarrying, and financial and insurance activities, both relatively small sectors in terms of both output and employment (Figure 2.3). The low productivity of the agricultural sector (70 percent below the national average) has been particularly worrisome especially as it has continued to employ a little less than a third of Sri Lanka's employed workforce.

Figure 2.1: Real GDP growth and sectoral composition of output in Sri Lanka, 2011-2019



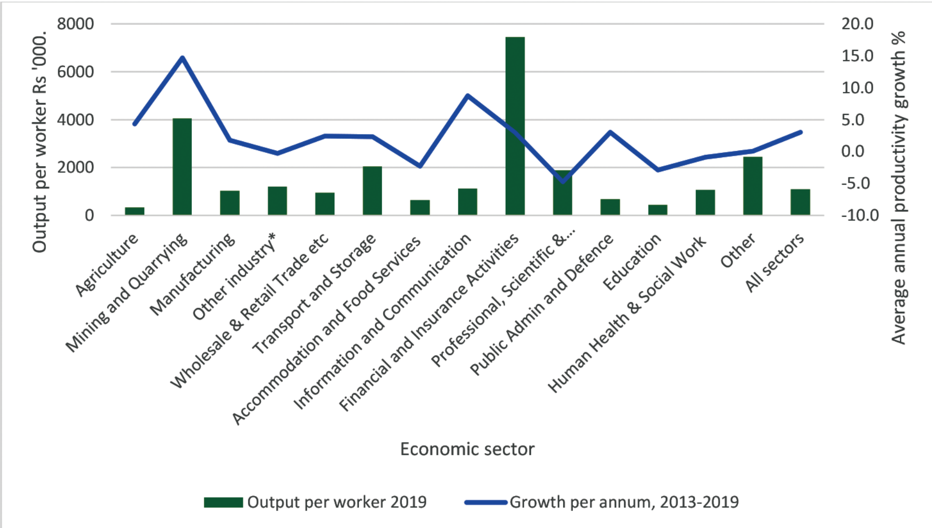
Source: World Bank Database, accessed 16 November 2021. Figures in parenthesis are the sectoral shares in GDP in 2019.

Figure 2.2: Sectoral and GDP growth rates in Sri Lanka, 2011-2019



Source: World Bank Database, accessed 16 November 2021.

Figure 2.3: Output per worker by sector labour productivity growth rates in Sri Lanka, 2013-2019

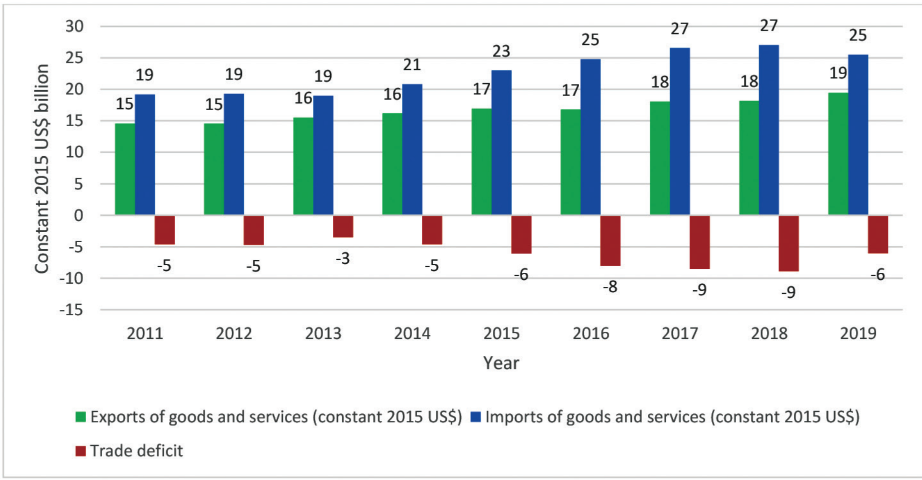


Source and notes: Calculated using GDP estimates and Quarterly Labour Force Survey data available on the website of the Department of Census and Statistics. http://www.statistics.gov.lk/. Accessed 16 November 2021. We use 2013 rather than 2011 as the beginning of the period because the working age population was redefined in the 2013 Labour Force Survey as 15 years and above. * Other industry denotes, Construction, Electricity, Gas, Steam and Air Conditioning Supply, Water Supply, Sewerage, Waste management and Remediation activities

2.2 Exports stagnate

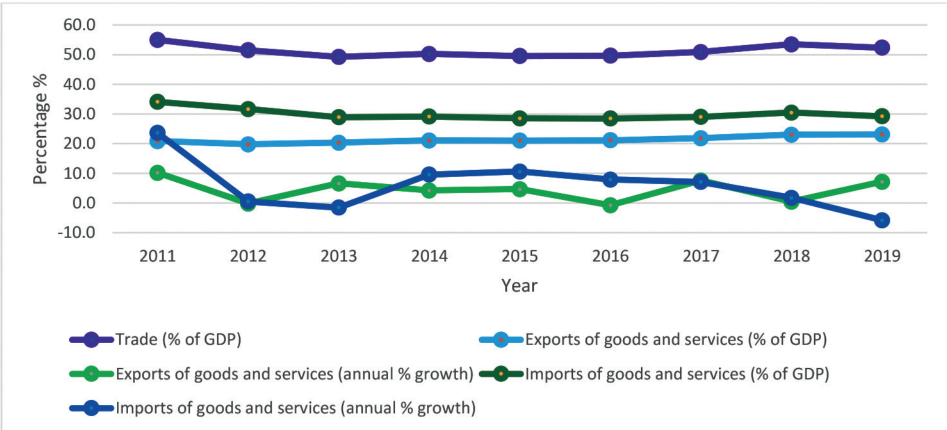
The focus on debt-financed infrastructure expenditure weakened the emphasis on exports, even though only exports could deliver sustained economic growth and employment generation, and critically, repay debt. At the same time, the real exchange rate regime favoured consumption over savings and exports. Foreign direct investment (FDI) inflows as a share of GDP inched up from a low of 1.46 percent in 2011 to 1.84 in 2018 but slumped to 0.88 by 2019, following the Easter Bomb attacks of that year (World Bank Database, accessed 16 November 2021). Figure 2.4 shows an expanding trade deficit over the period while Figure 2.4 shows imports growing faster than exports. The export growth rate never exceeded 10 percent but dropped to zero and below in at least three of the nine years of the reference period.

Figure 2.4: Exports and imports of goods and services, 2011-2019



Source: World Bank Database, accessed 16 November 2021.

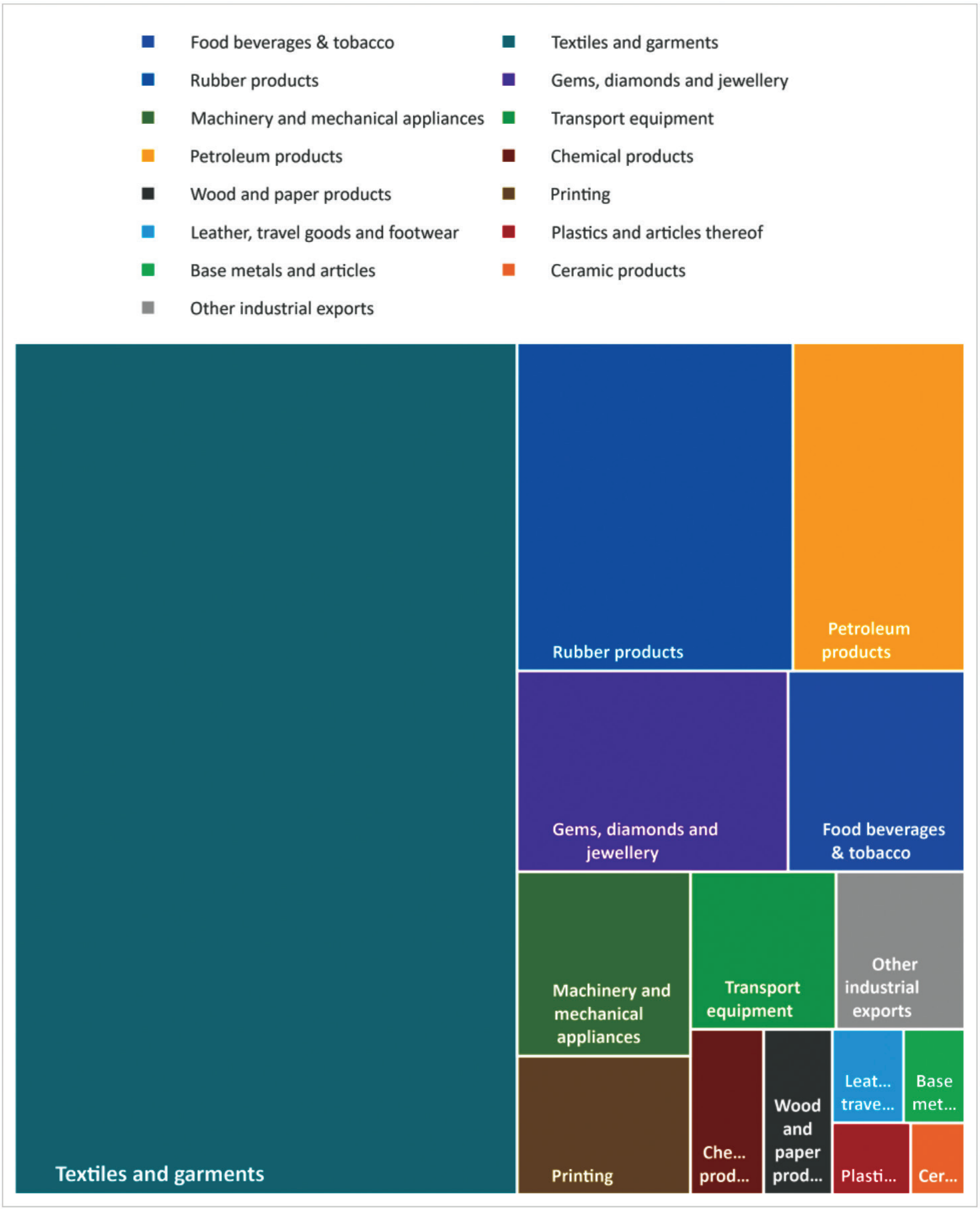
Figure 2.5: External trade, 2011-2019



Source: World Bank Database, accessed 16 November 2021.

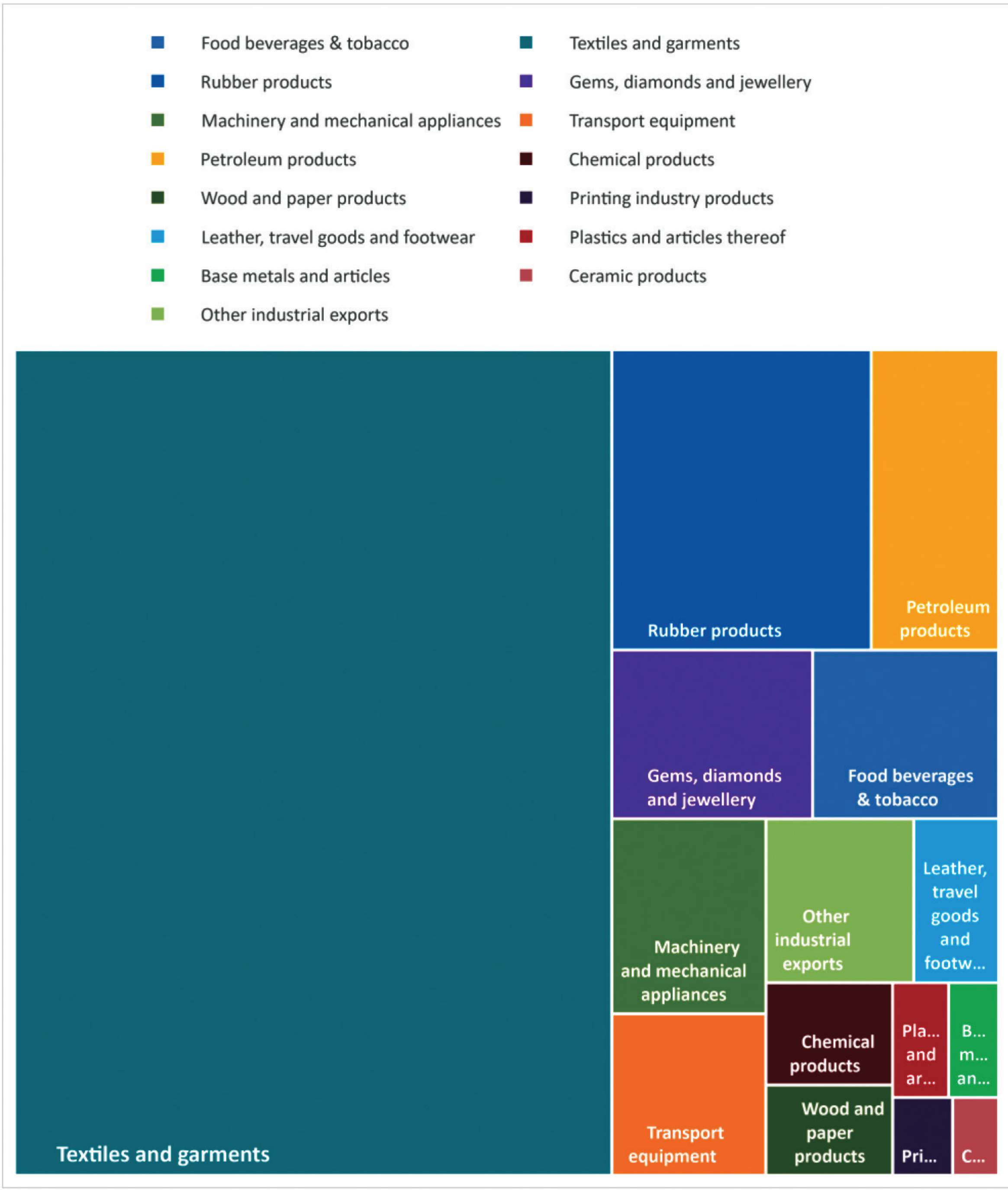
While exports failed to grow faster than imports, export structures remained undiversified and only weakly competitive, concentrated as they were in low technology and low skilled labour-intensive products with hardly any productivity growth. Figure 2.6 and Figure 2.7 show the composition of manufactured exports in 2011 and 2019. It is immediately apparent that Sri Lanka's manufactured exports had become even less diversified over the reference period. Textiles and garments which accounted for 40 percent of all manufactured exports in 2011, accounted for 47 percent in 2019. Rubber products, gems, diamonds and jewellery, transport equipment and petroleum products all lost shares to textiles and garments. The share of medium and high-tech exports in total manufactured exports increased only infinitesimally from 9.4 to 10.5 between 2011 and 2019. ICT goods exports accounted for 0.39 percent of total goods exports in 2011 and 0.55 percent in 2017. The share of ICT service exports though much larger, dropped from 14 percent to 12 percent over the same period (World Bank Database, accessed 16 November 2021).

Figure 2.6: Composition of manufacturing exports, 2011



Source: Central Bank of Sri Lanka, https://www.cbsl.gov.lk/en/statistics/statistical-tables, accessed 16 November 2021

Figure 2.7: Composition of manufacturing exports, 2019



Source: Central Bank of Sri Lanka, https://www.cbsl.gov.lk/en/statistics/statistical-tables, accessed 16 November 2021

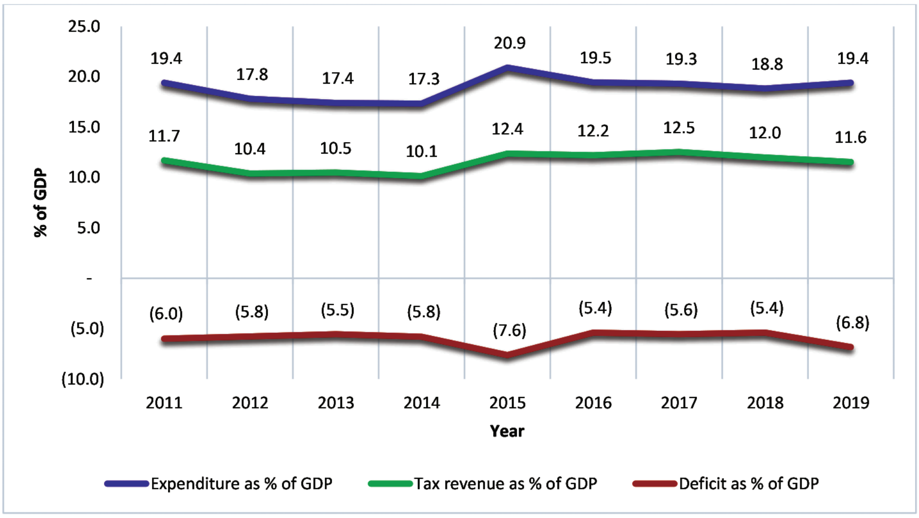
2.3 The state of government finances

Although government expenditure at around 20 percent of GDP has been relatively low, it has been locked into items which have contributed only marginally to building productive or social capital or providing welfare services. On the other hand, tax receipts which make up 90 percent of government revenue averaged no more than 11.5 percent of GDP throughout the period, one of the lowest among emerging economies (Figure 2.8). An attempt at shoring up government revenue from 2015 to 2017 moved the ratio from 10.1 to 12.5 percent, and the fiscal deficit contracted to 5.4 percent from a high of 7.6 percent in 2015, even though an election year. But this effort was unravelled in late 2019 after the Easter Bomb attacks and the Presidential and General Elections in what turned out to be a futile attempt to resuscitate the economy. The income tax rates, and the Value Added Tax (VAT) rate were lowered; the VAT threshold was raised; and the Nation Building Tax (NBT) and Economic Service Charge (ESC) were abolished. The tax reform had knock on effects on Sri Lanka's debt position as it caused credit rating agencies to downgrade the country's credit rating, making it lose access to commercial lending to roll debt over.

Unsurprisingly, tax revenue as a share of GDP slid to 11.6 percent in 2019, while the fiscal deficit widened to 6.8 percent of GDP. The expected economic growth boost did not materialize. In the absence of an implemented policy framework that focused on export growth, attracting FDI, and developing the necessary skills for both, there was little that lowering taxes could achieve, other than widen the deficit.

The composition of government expenditure throws further light on the fiscal constraints facing Sri Lanka's government even before COVID-19 broke out in 2020. Figure 2.9 shows interest payment on debt accounting for increasing shares of government expenditure, rising from a quarter of total government expenditure in 2011 to nearly a third at 31 percent in 2019. Expenditure on salaries and wages accounted for a quarter, and current transfers and subsides averaged 17 percent over the period. In fact, the share of salaries and wages rose from 23 percent to 24 percent between 2011 and 2019 as public sector employment expanded by 20 percent, from 1,232,477 to 1,467,008 in 2019 (CBAR, various years). Embedded within these expenditure heads are expenditures on 527 loss-making state-owned enterprises, of which the 55 for which information is publicly available have posted cumulative losses of Rs. 1.2 trillion between 2006 and 2020 (Advocata Institute 2021). The combined loss per day of the Ceylon Petroleum Corporation, the Ceylon Electricity Board, SriLankan Airlines, Sathosa and the National Water Supply and Drainage Board, have been estimated as approximately Rs. 384,479,189 in 2019 (ibid.).

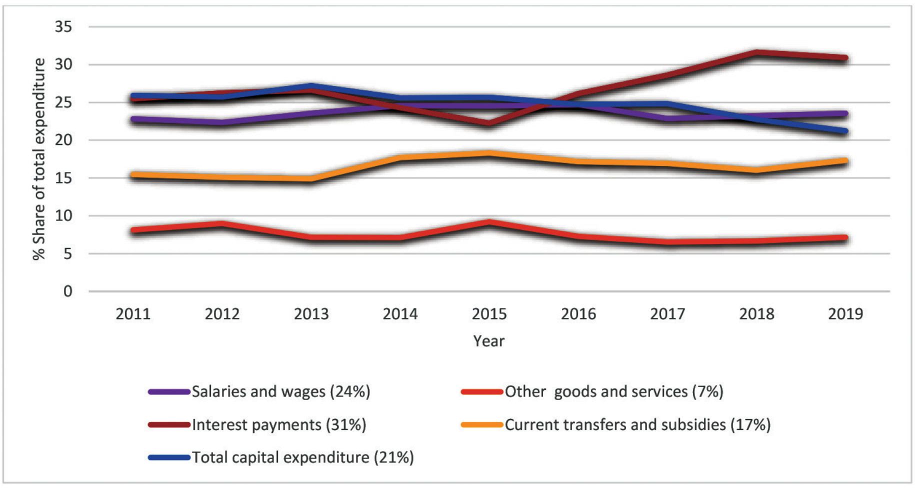
Figure 2.8: Government expenditure and revenue as a % of GDP, 2011-2019



Source: Central Bank of Sri Lanka, https://www.cbsl.gov.lk/en/statistics/statistical-tables, accessed 16 November 2021

The functional classification of government expenditure shows that embedded within current transfers and subsidies are expenditures on pensions which increased from 1.5 percent of GDP in 2011 to 1.7 percent in 2018,[2] a claim on revenue that is set to rise inexorably as public sector cadres expand. Similarly, interest payments rose from 5.5 percent of GDP to 5.8 percent and expenditure on economic services (which include agriculture and irrigation, energy and water supply and transport and communication) dropped from 6.1 percent of GDP to 4.4 percent between 2011 and 2018. A positive development in the functional classification of government expenditure was the increase in expenditure on social services: expenditure as a share of GDP rose from 5.8 percent to 6.5 between the two years, with expenditure on education rising from 0.83 percent to 4.74, and on health from 0.61 percent to 3.57.[3]

Figure 2.9: Economic classification of expenditure as % of total government expenditure, 2011-2019



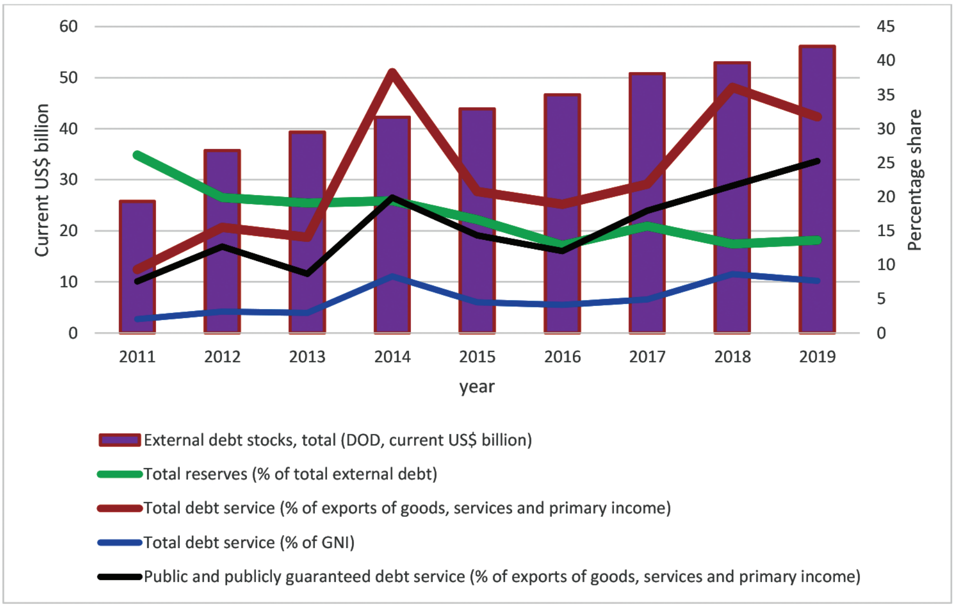
Source: Central Bank of Sri Lanka, https://www.cbsl.gov.lk/en/statistics/statistical-tables, accessed 16 November 2021. Figures in parenthesis are the shares in 2019.

2 The Central Bank of Sri Lanka stopped publishing this data in its annual report from 2019 onwards.
3 Calculated from statistics reported in CBAR 2011 and 2018.

2.4 An incipient debt crisis

Figure 2.9 showed how interest payments on debt have been eating up increasing shares of total government expenditure. Sri Lanka's current debt crisis has its roots in the coincidence of three conditioning factors. Just as Sri Lanka ended the three-decade long war that had left a huge infrastructure backlog, it also assumed middle-income country status that reduced access to concessional financing (Weerakoon, 2017). At the same time, shrinking markets and a low interest rate environment in advanced economies saw investors focusing on emerging markets, while countries such as China stepped in as new sources of development finance for countries across Africa and Asia. Compared with the lengthy processes and safeguards typically associated with multilateral lending agencies, the limited conditionality and the rapid disbursement of funds appealed to developing countries such as Sri Lanka. The country's external financing portfolio swiftly changed towards costlier and riskier forms of foreign debt. The borrowed funds were invested in the building of core infrastructure and initially stimulated demand. But there were also investments that did not generate the foreign exchange earnings needed to service the debt. So, while the resulting boom was short-lived, it "left in its wake a growing pile of debt with high refinancing costs" (Weerakoon 2017:15).

▶ *Figure 2.10: Government debt, 2011-2019*



Source: World Bank Database, accessed 16 November 2021.

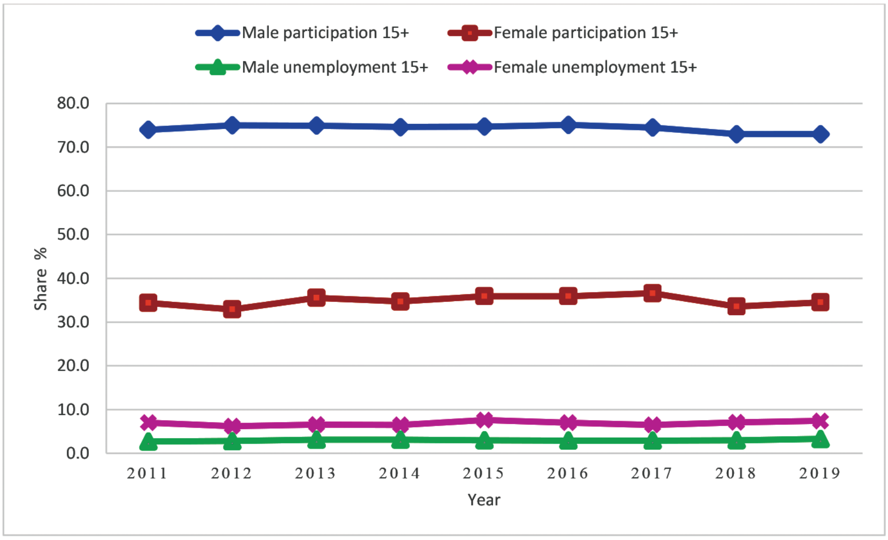
Figure 2.10 presents several indicators of Sri Lanka's debt position. By 2019, total debt service had tripled from nearly 10 percent of exports of goods, services, and primary income to 32 percent. Total reserves as a share of total external debt declined correspondingly.

2.5 Weak transitions in the labour market

Sri Lanka's population has been ageing rapidly and the working-age population's share of the total population continued to decline over the reference period, from 67 percent in 2011 to 65 percent in

2019 (World Bank database, accessed 16 November 2021). In 2011, 16.1 million Sri Lankans were 15 years and above and therefore in the working age population. By 2019 the working-age population had increased by a further 300,000. As Figure 2.11 shows, male labour force participation rates declined marginally from 74 percent to 73 percent, but women's participation rates held at a low of 35 percent.

Figure 2.11: Trends in labour force participation and unemployment rates in Sri Lanka by gender, 2011-2018



Source: Department of Census and Statistics (2015), Sri Lanka Labour Force Survey, Annual Report 2014 and Department of Census and Statistics (2020), Sri Lanka Labour Force Survey, Annual Bulletin 2019.

Unemployment rates increased marginally, from 2.7 to 3.3 for men and 7 to 7.4 percent for women, and the increase preceded the Easter Bomb attacks of 2019: in 2018, the equivalent unemployment rates were 3 and 7.1 percent respectively. Youth unemployment rates have been persistently high and 21 percent of the population aged 15 to 24 years, were unemployed in 2019, much higher for young women (28.7 percent) than for young men (17.6 percent) (Department of Census and Statistics, 2020). The unemployed are the better educated: in 2019, 6.5 percent of the working-age population who was unemployed had passed their GCE O' Level examinations, while 8.5 percent were at least A' Level qualified. Of the economically inactive, 1.1 percent were discouraged, three fifths of whom were female.

The post-war period saw only marginal improvement in the structure of employment and the growth of decent jobs (Table 2.1). The proportion of the workforce engaged in agriculture forestry and fishing declined by four percentage points and the share of industry increased from 25 percent to 27 percent. But growth in share of industry came more from construction rather than manufacturing. The share of the services sector increased from 44 percent to 47 percent. There is evidence of some improvement in the structure of occupations with the proportions of managers and technicians expanding and the proportions in middle level occupations such as skilled agricultural and fisheries workers and services and sales workers contracting. But the bulk of the workforce continued to remain in low-skilled occupations. Again, there was marginal improvement in the structure of the workforce in terms of job status, with the share of public sector workers and contributing family workers declining as the proportion of private employees increased. But the public sector still accounted for an unsustainable 15 percent of the workforce. In 2011, 63 percent of the employed workforce was in the informal sector, and this figure had dropped to 57.4 percent by 2019. However, informal employment accounted for two thirds of the employed workforce in 2019 while the proportion of vulnerable workers (own-account workers and contributing family workers) accounted for two fifths.

Table 2.1: Employment by economic sector, occupation, and status (%), 2013, 2018, 2019

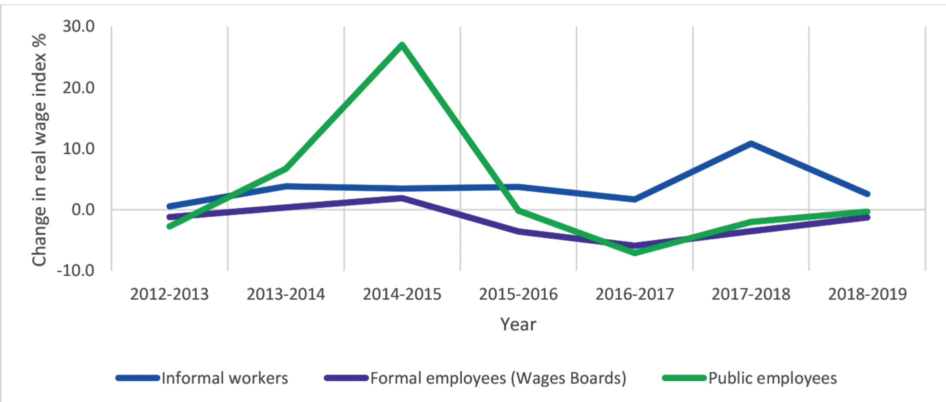
Category	2013	2018	2019	Change 2013-2018 (percentage points)
Economic sector				
Agriculture, forestry, and fishing	29.8	25.5	25.4	-4.3
Mining and quarrying	1.2	0.8	0.7	-0.4
Manufacturing	18.0	18.3	18.4	0.3
Construction, electricity, gas and water supply, sewerage	7.0	8.9	8.5	1.9
Wholesale and retail trade, repair of motor vehicles and motorcycles	13.7	14.2	13.9	0.6
Transportation and storage	6.1	6.3	6.3	0.1
Accommodation and food service activities	2.2	3.0	2.8	0.7
Information and communication	0.7	0.7	0.7	-0.1
Financial and insurance activities	1.8	2.2	2.3	0.3
Professional, scientific, and technical activities	0.8	1.1	1.1	0.3
Administrative and support service activities	1.3	2.1	2.5	0.8
Public administration, defence, compulsory social security	7.5	5.4	5.3	-2.1
Education	3.9	5.3	5.2	1.4
Human health and social work activities	1.7	1.8	2.1	0.1
Other service activities	1.6	1.5	1.7	-0.1
Activities of households as employers; undifferentiated goods and services - producing activities for own use	2.2	2.4	2.3	0.3
Other	0.6	0.7	0.8	0.1
	100.0	100.0	100.0	
Occupation				
Managers, Senior Officials and Legislators	4.7	7.7	7.6	3.1
Professionals	6.3	7.0	7.4	0.6
Technicians and Associate Professionals	5.9	8.3	9.1	2.3
Clerks and clerical support workers	3.7	3.6	3.8	-0.1
Services and Sales workers	11.1	8.8	8.7	-2.4
Skilled Agricultural, Forestry and Fishery workers	19.3	16.3	16.8	-3.0
Craft and Related Trades workers	17.1	16.2	16.0	-0.9
Plant and Machine operators and Assemblers	8.4	8.8	8.7	0.4

Category	2013	2018	2019	Change 2013-2018 (percentage points)
Elementary occupations	22.8	22.9	21.5	0.1
Armed Forces Occupations & unidentified	0.6	0.5	0.4	-0.2
	100.0	100.0	100.0	
Job status				
Public employee	15.08	14.45	14.87	-0.6
Private employee	40.64	43.35	43.05	2.7
Employer	3.04	2.76	2.56	-0.3
Own account worker	32.17	32.27	32.50	0.1
Contributing family worker	9.07	7.17	7.02	-1.9
	100.0	100.0	100.0	

Source: Department of Census and Statistics (various years), Annual Report of the Labour Force Survey.

The growth of market-determined real wages was modest during this period and reflects the change in productivity discussed above. However, political imperatives drove wage increases among more privileged groups. Figure 2.12 plots the growth in real wages that took place in the decade before the pandemic among three groups of workers: informal employees, formal employees in trades where minimum wages are determined by the Wages Boards, and public employees. A substantial increase in public sector wages and a much smaller increase in formal wages governed by the Wages Boards took place between 2014 and 2015. A further rise in both public sector wages and those determined by the Wages Boards is also apparent in the run up to the 2019 elections. Compared to these two wage series, the wage rate index of informal workers is arguably the most market determined and reflects the true state of the economy. For this group of workers, real wages grew at nearly 3 percent per annum between 2011 and 2017, and then by 11 percent in 2017 before wage growth fell again to 2.7 percent.

Figure 2.12: Real wage growth, 2012-2019



Source: Calculated from real wage rate indices reported in CBAR 2011 and 2018.

Thus, while there were some positive transformations in Sri Lanka's labour market during the post-conflict, pre-pandemic period, particularly in the structure of occupations, other trends indicated less favourable developments. For example, industry appeared to account for a larger share of employment, but that was really in construction and not manufacturing. While the working age cohort's share continued to shrink, making it imperative that more women entered the paid workforce and that productivity increased, supportive policies were lacking and neither took place.

The structural transformation of production and employment into high value-added products has also been constrained by the lack of necessary skills. For example, Dundar et al.'s (2014) study of skills mismatches based on a survey conducted in 2012 found that even though 70 percent of employers thought an average low-skilled worker should have passed the GCE O-Levels, only 35 percent of low-skilled employees and 40 percent of the self-employed had done so. With respect to training, 60 percent of employers expected workers in a high-skilled occupation to have completed technical or vocational education and training, while 24 percent thought that low-skilled workers should have completed it. But only 16 percent of the population had done any such training at all. Meanwhile, 80 percent of employers expected a higher skilled worker to know English and 40 per cent expected that of less skilled workers. But only 20 per cent of workers were fluent in English. And while 75 percent of employers thought that an average higher-skilled worker should have computer skills and 38 per cent expected the same of lower-skilled workers, only 15 per cent of the population could use computers. Drawing from data about employers' perceptions collected during a survey of formal private sector establishments conducted in 2020/21, Gunatilaka and Chandrasiri (2022) found bigger skills deficits among workers in middle-level occupations, particularly in English language skills, capacity to learn and problem solving.

Employers' perceptions are confirmed by data on learning outcomes in Sri Lanka's general education system. The most recent performance evaluation of students in Grade 8 in science and mathematics showed that, in 2016, 50 percent of Grade 8 students scored less than 5 percent in mathematics while 66 percent scored less than 5 percent in science. Slightly more than two-thirds (68 percent) scored less than 40 percent in English (National Education Research and Evaluation Centre 2017). There was hardly any change in performance in these three subjects between 2014 and 2016. A comparison of competency levels in the use of visual clues and contextual clues in vocabulary and the mechanics of writing also suggests a marked decline in achievements during 2014-2016. Learning outcomes in Sri Lanka's education system, as measured by internationally comparable indicators in the Trends in International Mathematics and Science Study (TIMSS) confirm the inability of the system to impart sufficiently large numbers of students with basic skills as overall performance declined between 2014 and 2016. Of particular concern is that there was little satisfactory progress in students' achievements in the cognitive and content domains of knowing, applying, and reasoning (see NEREC 2015, 2017a, 2017b).

The quality and relevance of the provision of university education in Sri Lanka has also been a major challenge. Relatively few students are enrolled in programmes identified as national priorities, and many students remain idle for extended periods between graduation and their first job. More than 50 percent of employers surveyed for the Labour Demand Survey of 2017 had questioned the quality and relevance of secondary and tertiary education for the skills needed in the workplace (Dunder et al. 2017).[4]

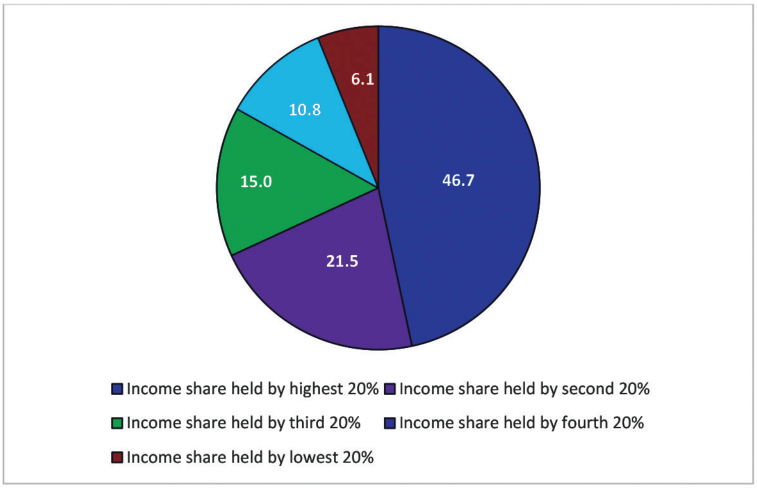
In terms of learning outcomes, the TVET sector performs no better than the general education system. Notwithstanding the large number of young Sri Lankans requiring job-oriented training, the system's capacity to generate the required training is constrained. A sizable proportion of TVET graduates leave training programs without the skills that employers require. Tracer studies on the employability of TVET graduates reveal a high rate of unemployment among TVET graduates who had been trained for employment in even the fast-growing ICT, construction, tourism, and light engineering subsectors (ADB 2018).

4 For latest statistical evidence, see Table 2.11.

2.6 Income distribution and poverty

The distribution of income remained skewed during the post-war period. The Gini coefficient of household expenditure increased slightly from 40 in 2012 through to 41 in 2016 and back to 40 in 2019 (DCS, 2022). However, summary measures of inequality such as the Gini coefficient do not show changes in different segments of the distribution, for which other measures are better suited. For example, the distribution of income over income quintiles has hardly changed over the period. Figure 2.13 shows that while the poorest quintile had only 6 percent of total income in 2019, the richest quintile appropriated nearly half. In fact, the poorest decile had only 2 percent of total income while the richest decile claimed nearly a third, at 31 percent.

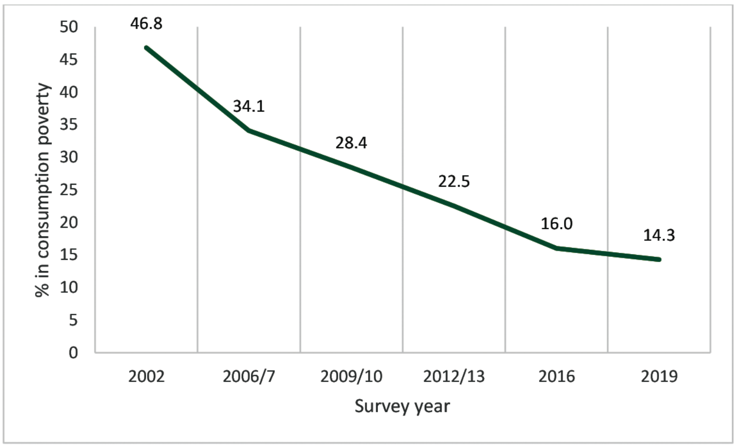
▶ *Figure 2.13: The share of income per expenditure quintile, 2019*



Source: Department of Census and Statistics (2022a).

The incidence of consumption poverty declined throughout the 2002 to 2019 period, even though only marginally between 2016 to 2019. However, the decline in national poverty hides considerable regional variations in the poverty headcount index (HCI). The conflict-affected provinces in the North and East, and the economically backward provinces of Uva and Sabaragamuwa remained the poorest. Meanwhile, the rural sector continued as the main repository of poverty in Sri Lanka (82 percent of all poor). Notwithstanding the decline in poverty, a considerable proportion of the population remains vulnerable to falling into poverty as there is a high concentration of the non-poor just above the poverty line.

Figure 2.14: Trend in consumption poverty incidence, Sri Lanka 2002 - 2019



Source: Department of Census and Statistics (2022b) using updated poverty line based on the consumption bundle of 2012/13.

2.7 Summary and conclusion

The analysis has thus far shown how after the war ended, Sri Lanka's economy drifted away from export-led growth which had characterized the early years of liberalization and sustained the economy through several decades of violent conflict. Growth slowed, the fiscal position weakened, external debt built up, and investor confidence could not be restored in the real economy to attract FDI. An aging population constrained further labour-force led economic expansion while women remained unwilling or unable to engage in the paid labour force. Productivity did not grow sufficiently as production structures failed to diversify and adopt advanced technologies. Skills deficits were a further impediment that perpetuated Sri Lanka's low-skill intensive portfolio of goods and services. Sri Lanka failed to grow its stock of decent jobs and most workers continued in informal employment although their real wages grew due to a labour market squeezed by changing demographics.

3. COVID-19 and the multiple economic crises

This chapter highlights the macroeconomic and the labour market impacts of the COVID-19 pandemic and the economic crises which followed in its wake. It picks up the themes of the macroeconomic and sectoral co-morbidities identified in Chapter 2 and describes how they influenced the way the pandemic unfolded in terms of firms' responses and impacts on the labour market and skills development sectors. Finally, it assesses the government's policy response, weaknesses, and gaps.

3.1 The timeline of the pandemic

Sri Lanka experienced four increasingly virulent waves of the pandemic beginning with the first case of COVID-19 detected in January 2020. According to the Epidemiology Unit of Sri Lanka's Ministry of Health, the first wave lasted from 27 January to 3 September 2020, the second from 4 October 2020 to 14 April 2021, the third wave from 15 April to 30 June 2021, and the fourth wave from August to October 2021.[5]

During the first wave Sri Lanka's government implemented several measures to control its spread. These included social distancing, quarantine, lockdowns, travel restrictions, and the isolation of communities. Agriculture, food processing and distribution, as well as export industry were declared as essential services and showed that policy makers were alert to the adverse impact of the lockdown on food supply and export earnings. The return of overseas migrant workers due to the pandemic and the prospect of foreign exchange remittances falling away as the collapse of the travel industry snuffed out tourism's weak recovery after the Easter Bombing, threw into sharp relief the possibility of an impending foreign exchange crisis.

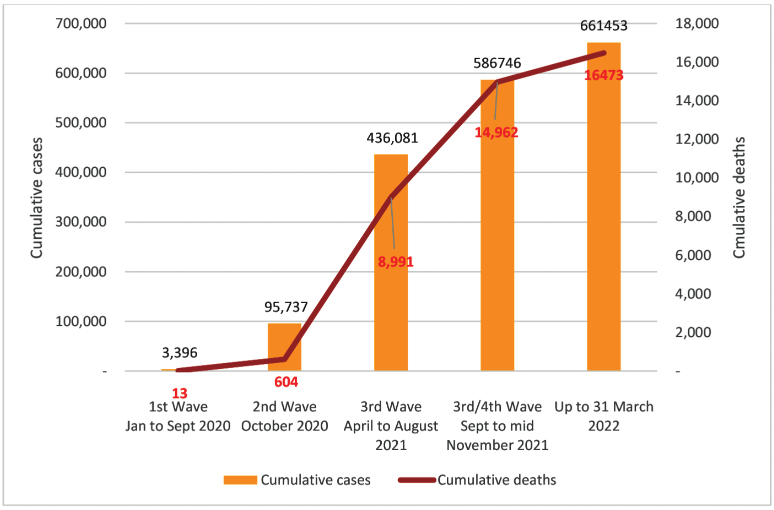
These initial measures proved successful at containing the advance of the disease, and Sri Lanka ranked 11th in the COVID Performance Index by mid-March 2021 (Lowy Institute, 2021). Rigorous contact tracing and isolation of suspected patients were conducted by community health teams with the support of the armed forces. The only limitation was the absence of widespread community testing which would have enabled epidemiologists to reliably assess and predict the spread of the disease. The other aggressive control measures were well coordinated and implemented. As a result, the government was able to contain the virus within a period of 3 months even though at a high cost of financing and heavy economic losses caused by the island-wide lockdown which was imposed from March to May 2020.

The same level of control could not be maintained over the second wave of the pandemic. For one thing, neither the economy nor households could endure a nation-wide lockdown so soon after the first, so area-specific lockdowns were resorted to which were less effective in curbing the spread of the virus. The rate of COVID-19 screening in terms of PCR testing was too low to effectively contain the spread of the virus. Average PCR tests declined to 4000/day in April 2021 as against 12000/day in mid-2020. The first round of vaccination was slow to start and was not implemented so that the rapid spread of the disease could be contained. After the first round of the Covishield vaccine was rolled out in an ad hoc way, the government found it difficult to obtain the second dose of the vaccine in time because of bottlenecks in the production of vaccines internationally.

5 http://www.epid.gov.lk/web/images/pdf/corona_monthly_summery/esummery-june.pdf. Accessed 24 November 2021.

Consequently, the 3rd wave erupted in mid-April with the highly infectious Alpha variant. This variant was soon subdued by the even more virulent Delta strain and the daily number of positive cases surged to over 3000 and the daily death rate hit 200, far higher than the numbers reported during the first and second waves. Hospitals were inundated, healthcare workers exhausted, and morticians overwhelmed. The government was forced to impose an island-wide lockdown. However, the Government of Japan donated sufficient stocks of the second dose of Covishield, the Sinopharm vaccine also became available, and the armed forces were given the task of rolling them out which they did at lightning speed. The lockdown brought down the daily rate of new cases to below 500 and death rates to about 30 as the vaccine programme also kicked in. As of 31 March 2022, Sri Lanka reported 661453 confirmed cases of COVID-19 and 16473 deaths, while 63 percent of the population had been fully vaccinated (Figure 3.1).

Figure 3.1: Confirmed cumulative cases and deaths during four waves of the pandemic in Sri Lanka



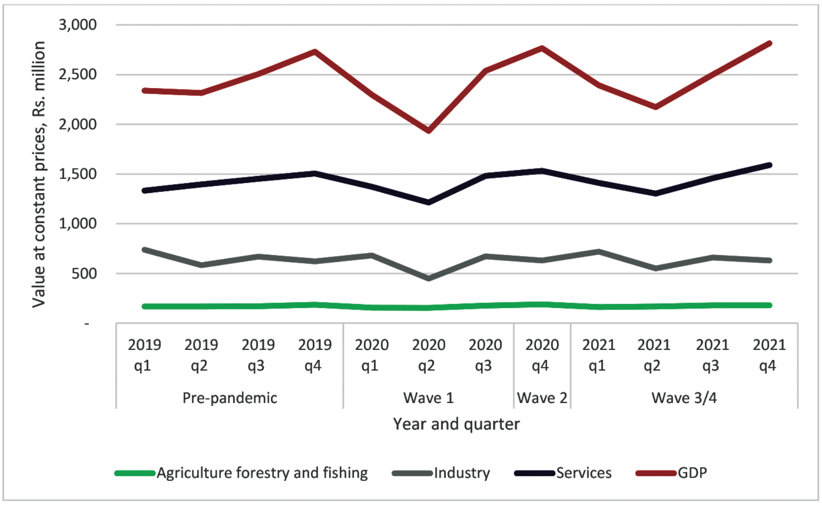
Source: Ministry of Health, Epidemiology Unit, Situation Report, Colombo. https://www.epid.gov.lk/web/index.php?option=com_content&view=article&id=225&lang=en, accessed 7 April 2022.

3.2 The economy contracts

The macroeconomic fallout of the pandemic on Sri Lanka's economy was severe, exacerbated by the macroeconomic weaknesses evident since at least 2013, as described in Chapter 2. Sri Lanka's GDP contracted by 3.6 percent in real terms during 2020 and by 1.5 percent during the first half of 2021. In rupee terms, Sri Lanka's economy shrank by a fifth, from Rs. 2731.1 billion in the fourth quarter of 2019, to Rs.2170 billion in the second quarter of 2021 (DCS, 2021). Nevertheless, this was less than the average rate of economic contraction in the region. Compared to a baseline without the pandemic, estimates by the ADB placed the contraction of regional GDP in developing Asian countries as between 6 and 9 percent in 2020 and 3.6 and 6.3 percent in 2021 (ADBI, 2021). Growth recovered in the last two quarters of 2021 with the vaccination drive and end of lockdowns, producing an annual growth rate of 3.7 per cent, compared to the negative growth of 3.6 percent recorded the previous year. The services sector contributed 1.7 percent of total economic expansion of 3.6 percent, while industry (mainly manufacturing) contributed 1.4 percent. However, the dollar crisis and related commodity and fuel and power crises of the first quarter of 2022 would have snuffed out this recovery.

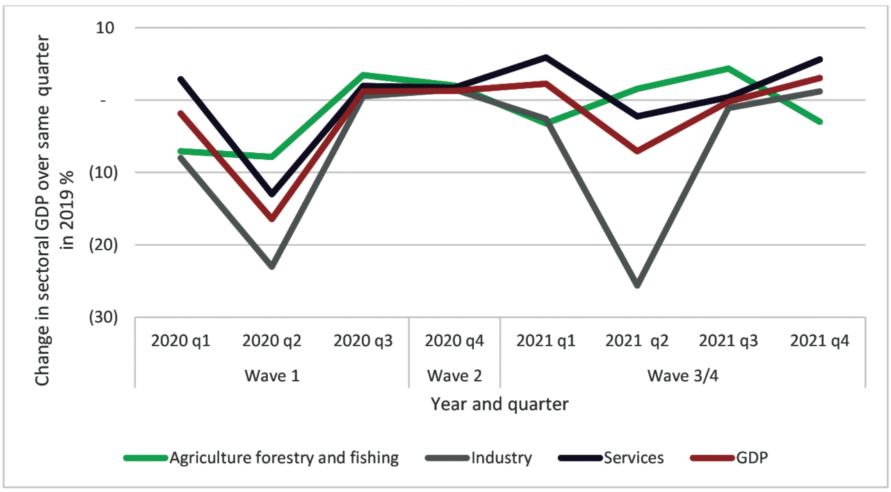
Figure 3.2 shows the value of output by sector between the first quarter of 2019 and the last quarter of 2021, the period for which data is available. The dip in output during the second quarter of 2019 was the result of the Easter Bomb attacks, but in the first wave of the pandemic in 2020, output levels plunged even in the agricultural sector even though policy makers had taken measures to minimise the impact of lockdown on the food production sector. But the lockdown disrupted markets and the sector contracted by 2 percent in 2020 compared with one percent growth in 2019. The agriculture sector was dealt a further blow when in mid-2021 the government took a policy decision to switch to organic fertilizers, threatening crop production and the livelihoods of farmers. The policy caused mass protests country-wide and resulted in a drop in production, a decline in productivity, loss of income and greater indebtedness among those who depended on agriculture for their livelihood. The policy is likely to have worsened poverty. The decision to ban agro-chemicals was reversed 24th of November, as the government allowed private sector firms to import chemical fertilizer.

Figure 3.2: Value of quarterly output by sector, 2019-2021.



Source: http://www.statistics.gov.lk/NationalAccounts/StaticalInformation/GDP. Accessed April 2022.

Figure 3.3: Sectoral change in output by quarter, compared to equivalent quarter in 2019



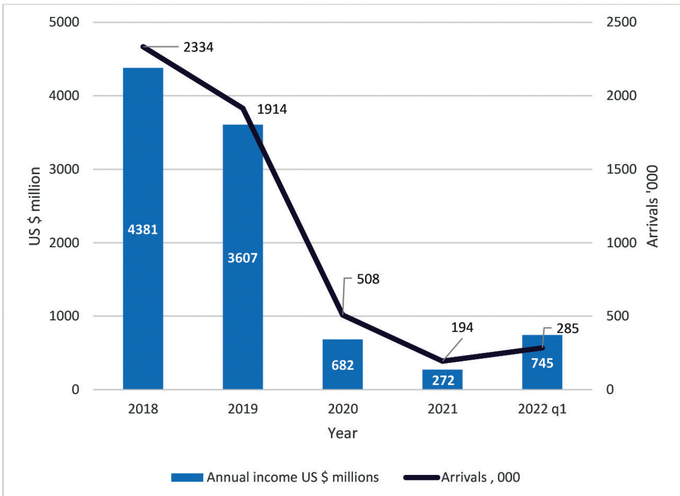
Source: http://www.statistics.gov.lk/NationalAccounts/StaticalInformation/GDP. Accessed April 2022.

Policy makers also implemented fiscal and monetary measures to resuscitate growth and by the third quarter of 2020 output levels had bounced back given the effective management of the first wave of the pandemic. But as the third wave bit with the more virulent Alpha strain, the industry and services sectors again contracted, pulling down aggregate GDP. While in most countries, services contracted by much more given the impact of lockdown restrictions, it is noteworthy that industry declined by more in Sri Lanka, although the reasons are not immediately apparent. Figure 3.3 shows how quarterly output changed compared to the pre-pandemic year of 2019. Recovery during the last two quarters of 2020 swiftly unravelled as the more virulent strains made landfall and the institutional capacity to manage them also weakened. Similarly, the recovery witnessed in the last two quarters of 2021 would have been wiped out again with the external crisis of the first quarter of 2022.

Tourism was hardest hit and the decline in the sector dragged down service sector output. The pandemic saw tourist arrivals in 2021 shrink to a tenth of even the much-reduced number which arrived in 2019 (Figure 3.4). Foreign exchange receipts from tourism collapsed commensurately. Recovery in arrivals and receipts during the first quarter of 2022 weakened by April as the season ended, the Ukraine crisis unfolded, and the fuel and commodity crises bit.

Significant volatility in the exchange rate were prevented with timely measures, and the depreciation of the Sri Lankan rupee against the US dollar was contained at 2.6 per cent in 2020 despite significant pressures on the exchange rate during March-April 2020, and in late 2020. However, in September 2021, the Central Bank of Sri Lanka (CBSL) fixed the exchange rate within a band of Rs. 200 to 203 per US dollar and instructed banks to carry out transactions within this narrow band. This created a black market and the operation of multiple exchange rates in the unofficial market. This is to be expected in an island economy highly dependent on the import of capital, intermediate and consumption goods. The severe shortage of foreign exchange caused enormous difficulties to both producers and consumers. In early March 2022 the US dollar was trading at around Rs. 260-270 in the black market. However, instead of a staged flotation of the rupee, the Central Bank of Sri Lanka abandoned the peg on 8 March 2022 in a single move. Consequently, while the US dollar was officially trading at around Rs. 293-303 in early April 2022, by early May 2022 it had overshot to 370 rupees, aggravating the external crisis. This trend is likely to continue until the regulatory authorities take some measures to improve Sri Lanka's foreign reserves.

Figure 3.4: Tourist arrivals and earnings, 2018-2022



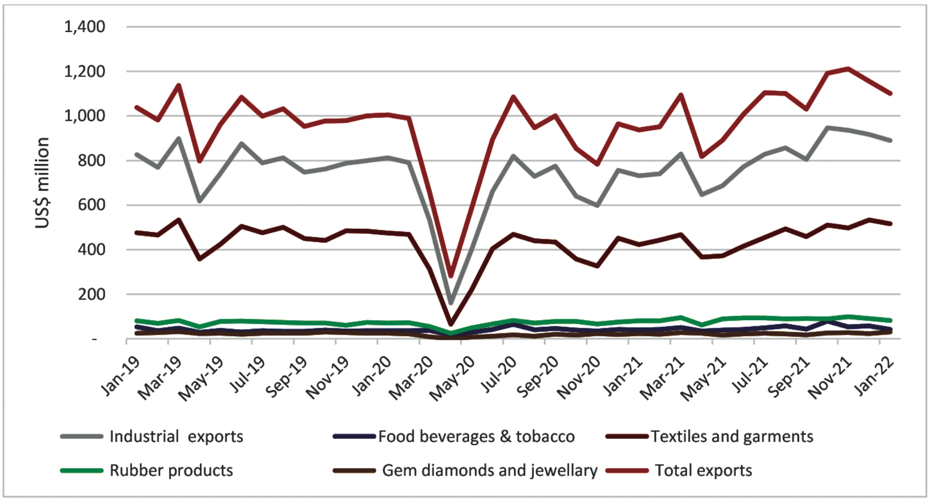
Source: Sri Lanka Tourism Development Authority (SLTDA), and Central Bank of Sri Lanka, Monthly Economic Indicators, March. Accessed May 2022.

3.3 Exports recover but external debt balloons

Receipts from both industrial and agricultural exports which were tapering off in the aftermath of the Easter Bomb attacks in the last quarter of 2019, collapsed with the first lockdown of March 2020. By July 2020, though, they had climbed back to where they had been in the first quarter of 2019 (Figure 3.5 and Figure 3.6). Agricultural exports seem to have recovered more vigorously post lockdown in the first phase. Nevertheless, the ill-advised 2021 ban of agrochemicals to compel farmers to switch overnight to organic farming, shrank receipts from agricultural exports such as tea, coconut, and rubber that Sri Lanka exports to international markets, as can be seen from the statistics for January 2022, by when export recovery of even the other sectors appear to have weakened.

However, one also needs to remember that as a base from which to measure recovery, 2019 was particularly low. As described in Chapter 2, exports had been limping along during the entire post-conflict period before the Easter bomb attacks, so their recovery during the pandemic to 2019 levels was cause for relief but not celebration. What was really needed was not just recovery but vigorous growth, especially as Sri Lanka's external debt repayments are claiming a rapidly increasing proportion of export earnings, since the other foreign exchange earner, tourism, has yet to recover. Figure 3.7 shows that gross external debt amounted to a little more than half of GDP during this period while short-term debt ballooned alarmingly, accounting for all of Sri Lanka's external reserves in 2019 and for 200 percent of them in 2021. By April 2022, the total outstanding external debt of Sri Lanka's government was US$35.1 billion, of which 47 percent consisted of market borrowings, 13 percent was held by the Asian Development Bank, 10 percent each by China and Japan, and 9 percent by the World Bank.[6]

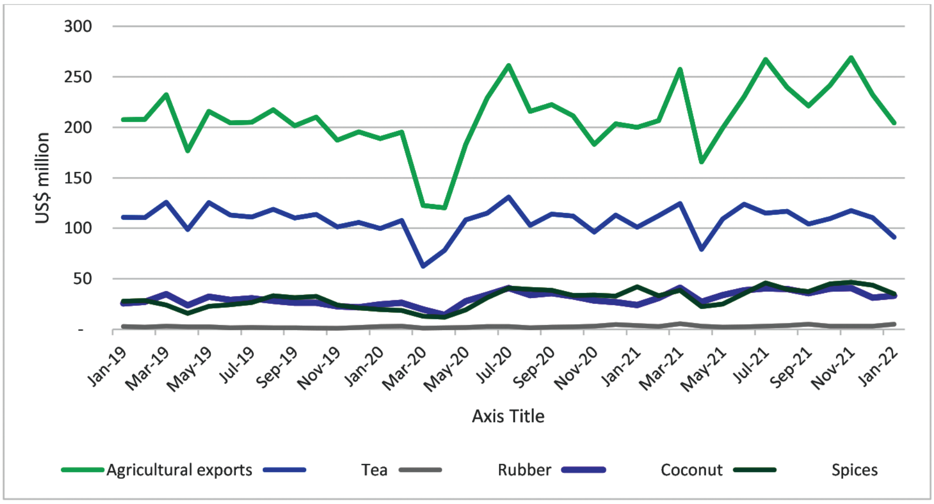
▶ *Figure 3.5: Industrial exports 2019-2022*



Source: https://www.cbsl.gov.lk/en/statistics/statistical-tables/ Accessed 11 May 2022.

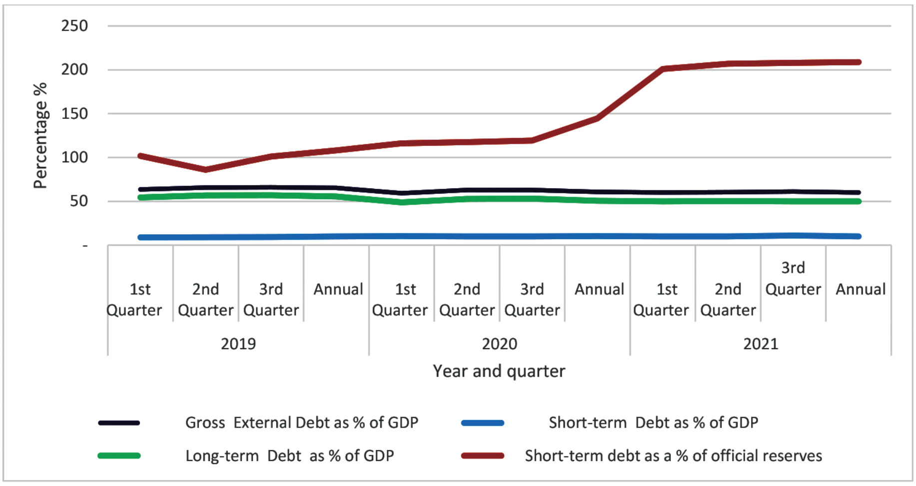
6 Department of External Resources website, http://www.erd.gov.lk/index.php?option=com_content&view=article&id=102&Itemid=308&lang=en, accessed 17 May 2022.

▶ *Figure 3.6: Agricultural exports 2019-2022*



Source: https://www.cbsl.gov.lk/en/statistics/statistical-tables/ Accessed 11 May 2022.

▶ *Figure 3.7: External debt 2019-2021*



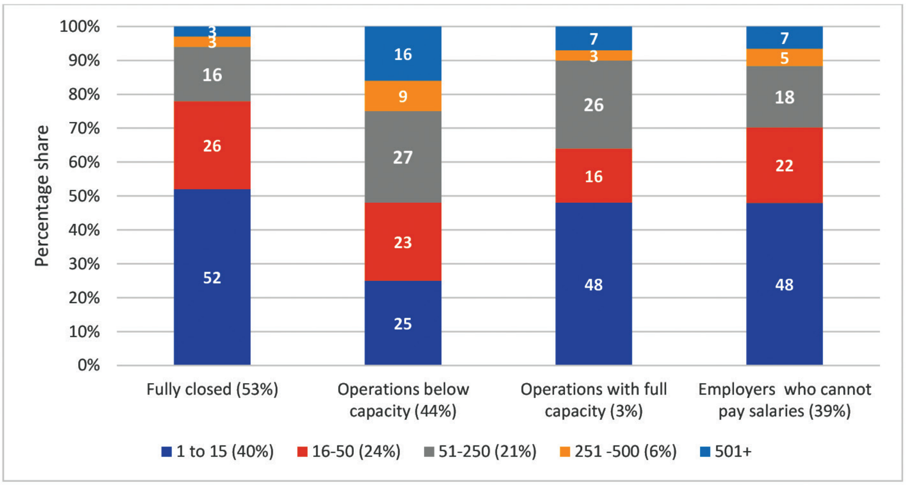
Source: https://www.cbsl.gov.lk/en/statistics/statistical-tables/ Accessed 7 April 2022.

3.4 Impact on firms

The available survey-based evidence shows that the pandemic and associated restrictions on mobility and operations saw the closure of between a third and a half of formal sector firms who could respond to online surveys and telephone interviews. Closures and job losses were much higher among the micro, small and medium enterprise (MSME) sector which bore the brunt of the economic shock.

For example, a large sample of 2764 formal establishments by the Department of Labour in April-May 2020 during the first lockdown found that 53 percent of sample firms were closed during the survey period and that the resulting job losses were around 64 percent of the total workforce that had been employed in these firms in February 2020. But the impact on employment in the MSME sector micro, small and medium establishments with less than 50 employees) was far more severe, with job losses as high as 74 percent of the pre-lockdown workforce among them. Nearly two fifths, or 39 percent of the establishments surveyed, could not pay salaries and most of these enterprises were in manufacturing and services.

▶ *Figure 3.8: How firms coped with the pandemic and associated lockdown, April-May 2020.*



Source: Wimalaweera (2020). Figures in parenthesis denote the proportion of the entire sample in that category. Total sample size 2764 firms.

Around the same time as the Department of Labour conducted its survey of formal establishments, the Employers' Federation of Ceylon (EFC) conducted a survey of its members to find out the impact of the pandemic and lockdown on their operations (Chandrasiri et al., 2020). The sample size was 100 and the results are reported in Table 3.1. Nearly half of these firms experienced loss of production, three fifths experienced loss of revenue, two fifths experienced loss of export income and loss of investment. However, the worst hit were firms in the accommodation and food service activities. Among firms in this sector, roughly 90 per cent experienced the first three impacts, and three fourths experienced loss of investment.

A more recent survey of 566 formal firms belonging to the manufacturing and services sectors was conducted for UN Women between September 2020 and February 2021. It found that while COVID-19 had negatively impacted an overwhelming 90 percent of firms in the sample, 34 percent of the impacted had completely closed operations during the lockdown, 58 percent had closed partially, and a further 9 percent had resorted to working from home (see Gunatilaka and Chandrasiri, 2022). But firms had limited success working from home. Half the firms found it difficult to monitor WFH. More than a third of such firms were constrained by employees' limited access to IT related systems, infrastructure, and workspaces at home, did not have access to the necessary infrastructure and two fifths of firms and employees struggled with low output and lack of experience WFH (ibid.).

Table 3.1: Impact of COVID-19 on firms belonging to the EFC, 2020

Sector	Loss of Production %	Loss of Revenue %	Loss of Export income %	Loss of Investment %
Agriculture, forestry, and fishing	33.00	48.58	50.00	0.00
Manufacturing	46.94	45.33	49.62	44.77
Wholesale and retail trade; repair of motor vehicles and motorcycles	44.17	53.06	7.50	23.33
Accommodation and food service activities	89.40	91.00	92.50	73.33
Information and communication	36.00	53.80	30.00	27.20
Financial and insurance activities	40.83	60.00	63.33	55.00
All firms in sample (100 in number)	48.41	56.35	42.78	42.72

Source: Chandrasiri et al., 2020

While small and medium firms bore the brunt of the restrictions on movement, the survey conducted by the IFC (2021b)[7] on the impact of COVID-19 on SMEs suggests that there was little difference in impact between men-owned businesses, women-owned businesses, and those owned by both. Nearly three fourths of all three types of firms experienced losses in sales. Eight out of ten SMEs experienced difficulties meeting operating expenses and had some shortfall in debt repayment or ability to meet financial obligations due to the crisis. The study also found that women-owned SMEs were less likely to have made staff redundant, and less likely to have granted staff leave with or without pay, or to have reduced staff salaries. They also tended to have fewer employees anyway. A third of SMEs surveyed tried at least one new digital business channel since the onset of COVID-19, however, SMEs owned by women were significantly less likely to have done so than other businesses.

3.5 Impact on labour market

The pandemic, lockdown and the economic crisis which followed have impacted on a labour market whose characteristics have long been cause for concern. They are the slow growth of decent jobs, low productivity of labour, low levels of women's participation in the paid workforce, skills gaps, and the persistence of a large informal sector. The crisis has intensified these features, expanding unemployment, widening gender gaps in labour force participation, and giving rise to job insecurity, uncertainty, and hardship.

The pandemic and multiple economic crises appear to have created a K-economy with two clearly distinguishable sub-sets comprising winners and losers. Among enterprises, the establishments-based survey evidence discussed above suggest that the winners were the sectors that recovered quickly from the pandemic such as large-scale companies, large financial, insurance and real estate companies, information, and communication technology (ICT) providers, and home delivery services. In contrast, the losers were the subsectors that failed to recover, such as tourism, transport, micro and small-scale enterprises, microfinance institutions and informal sector activities. Firms which lost to the

7 The results of this study should not be assumed to be representative of the whole SME population as there is likely to be some bias towards more formal and potentially higher capacity and more financially resilient SMEs than the broader SME population in Sri Lanka. The survey was done between June 22 and July 22, 2020.

pandemic were those with weaker asset bases and financial strength and which would have found it difficult to survive the prolonged and intermittent lockdowns and maintain employment. However, the weak economic recovery of the last two quarters of 2021 were wiped out as agricultural productivity plummeted following the new fertilizer policy, while the foreign exchange crisis which came to a head in early 2022 gave rise to power and fuel crises and shortages in consumption, intermediate and capital goods imports. These macroeconomic shocks are likely to have increased both morbidity and mortality rates among firms in the first quarter of 2022.

The analysis of published data from the labour force surveys shows that the workers who lost out were the self-employed, casual workers, and contract workers. It is likely that the less educated, low-skilled and poorer workers were less able to navigate the crisis, but there is insufficient published data to provide a more nuanced analysis of winners and losers in the labour market.[8] In this way, the pandemic is likely to have intensified poverty and inequality in an economy in which growth was faltering, exports were stagnating, government revenue was declining and an external debt crisis brewing long before the pandemic made landfall.

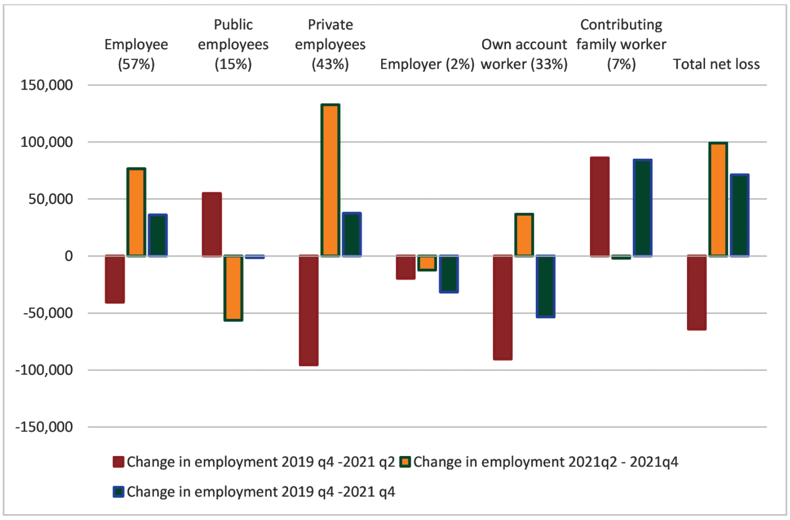
In this section we describe how four waves of the pandemic in Sri Lanka between March 2020 and October 2021 which caused prolonged and intermittent lockdowns badly affected the livelihoods of the most vulnerable in the labour market: female workers, casual workers, and the self-employed. The pandemic created significant challenges for the education and training sectors and directly affected the acquisition of skills by young people. These problems have intensified following the multiple external crises which began to bite in 2022. These challenges will have long-term impacts on the supply of labour both in quantitative and qualitative terms.

Employment

Figure 3.9 shows changes in employment by job status category between the last quarter of 2019 and the second quarter of 2021 (orange columns), between the second quarter of 2021 and the last quarter of 2021 (yellow columns), and over the entire two year period between the last quarter of 2019 and the last quarter of 2022 (green columns). Sri Lanka lost about 64,000 jobs to the pandemic between the last quarter of 2019 and the second quarter of 2021, but that was because the government upped recruitment by 54,000 whereas private companies downsized their workforces by about 95,000. Nearly as many own account workers lost their jobs during this period, while the number of contributing family workers increased by 86,000. About 19,000 employers were also casualties of the pandemic. Data on formal and informal employment is only available in the published annual reports, and it appears that the employment share of the informal sector increased between 2019 and 2020, from 57.4 to 58.1 but this change came about because of a bigger contraction of total formal sector employment, while informal sector employment also contracted. For example, between the two years total informal sector employment shrank by a little more than 50,000, that is around one percent, whereas the formal sector lost around 130,000, a decline of nearly four percent.

8 For example, growth of operating profit of many leading financial institutions and retail companies were around 40% for the 9 months of 2021.

Figure 3.9: Job losses by status, fourth quarter 2019 to fourth quarter 2021

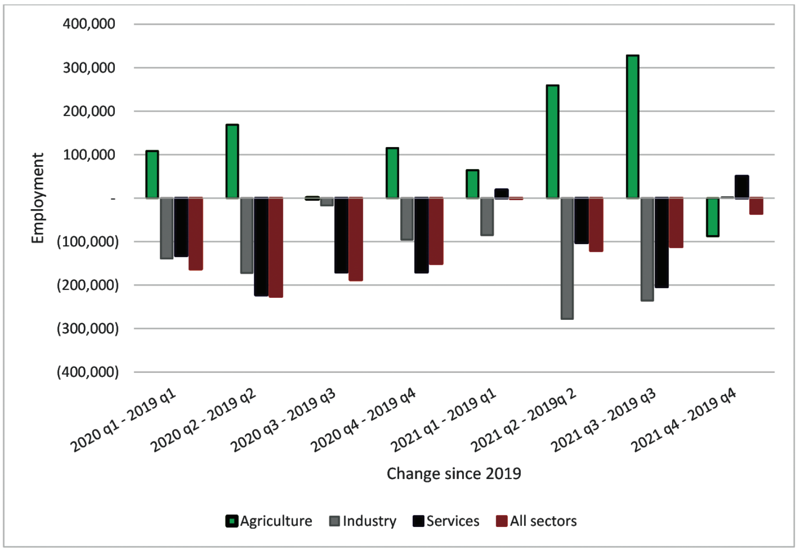


Source: Department of Census and Statistics (various years) Quarterly Reports and Bulletins of the Labour Force Survey. Figures in parentheses show the share of all employed in that status category in 2021 q4.

However, as increasing numbers of Sri Lankans became vaccinated during the second half of 2021, the economy and employment recovered. The state sector seems to have laid off workers as the private sector began recruiting again, more than making good the earlier layoffs. There was also an increase in own account workers but insufficient to make up for the losses suffered during the pandemic. Mainly because of private sector job growth, there was a net gain of about 71,000 jobs between the last quarter of 2019 and the last quarter of 2021. However, many who became contributing family workers during the pandemic seem to have remained as such. And job losses among employers never recovered, and since recovery from the crisis depends critically on the ability of such individuals to resuscitate their businesses and begin employing workers again, job losses associated with the dollar crisis in the first quarter of 2022 are likely to be substantial.

Figure 3.10 shows the change in employment by sector in the pandemic years of 2020 and 2021, compared to the corresponding quarterly figures of 2019. The biggest contraction in employment in industries and services took place during the first lockdown of the second quarter of 2020, with further contractions taking place in subsequent quarters, other than for the small growth in service sector jobs in the last quarter of 2021 compared with the last quarter of 2019. In contrast, employment in agriculture increased in every quarter during the pandemic compared to the 2019 base other than in the fourth quarter of 2020. There may be at least two reasons for the increase in agricultural employment until the middle of 2021. First, it was declared an essential service during the lockdowns. Second, it may have acted as the employer of the last resort for many workers when the economic downturn displaced them from other sectors of the economy which were largely urban based. However, this trend reversed during the last quarter of 2021 following the effects of the changes to the fertilizer policy.

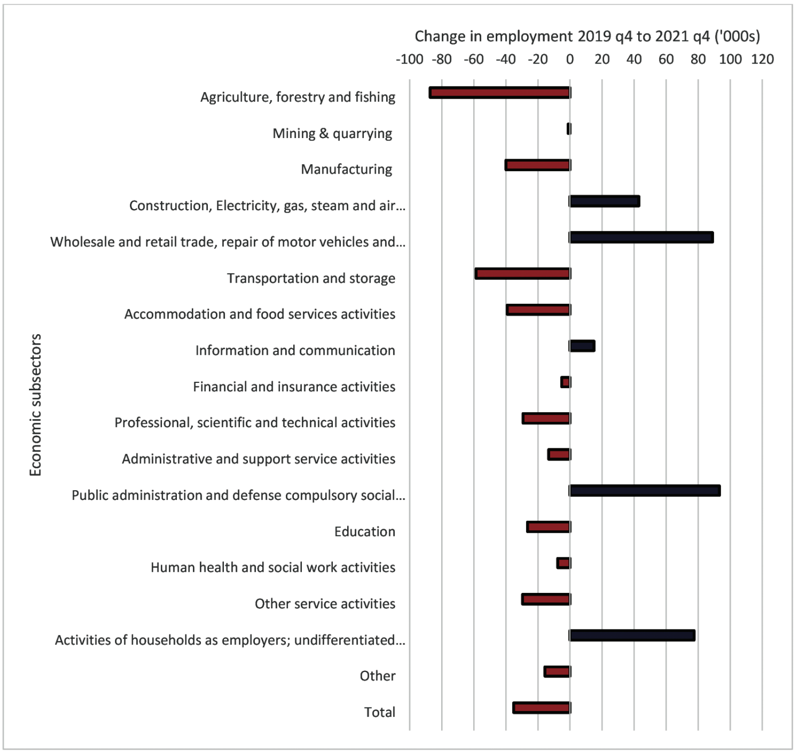
Figure 3.10: Job losses by sector, first quarter 2019 to fourth quarter 2021.



Source: Department of Census and Statistics (various years) Quarterly Reports and Bulletins of the Labour Force Survey.

Data for the fourth quarters of 2019 and 2021 show that only the subsectors of construction, trade, information and communication, public administration and other subsectors not elsewhere specified, experienced an increase in employment over the period (Figure 3.11). All other subsectors experienced job losses, with agriculture, transport, manufacturing, hospitality, and professional, scientific, and technical activities the biggest losers.

Figure 3.11: Job losses by subsector, fourth quarter 2019 to fourth quarter 2021

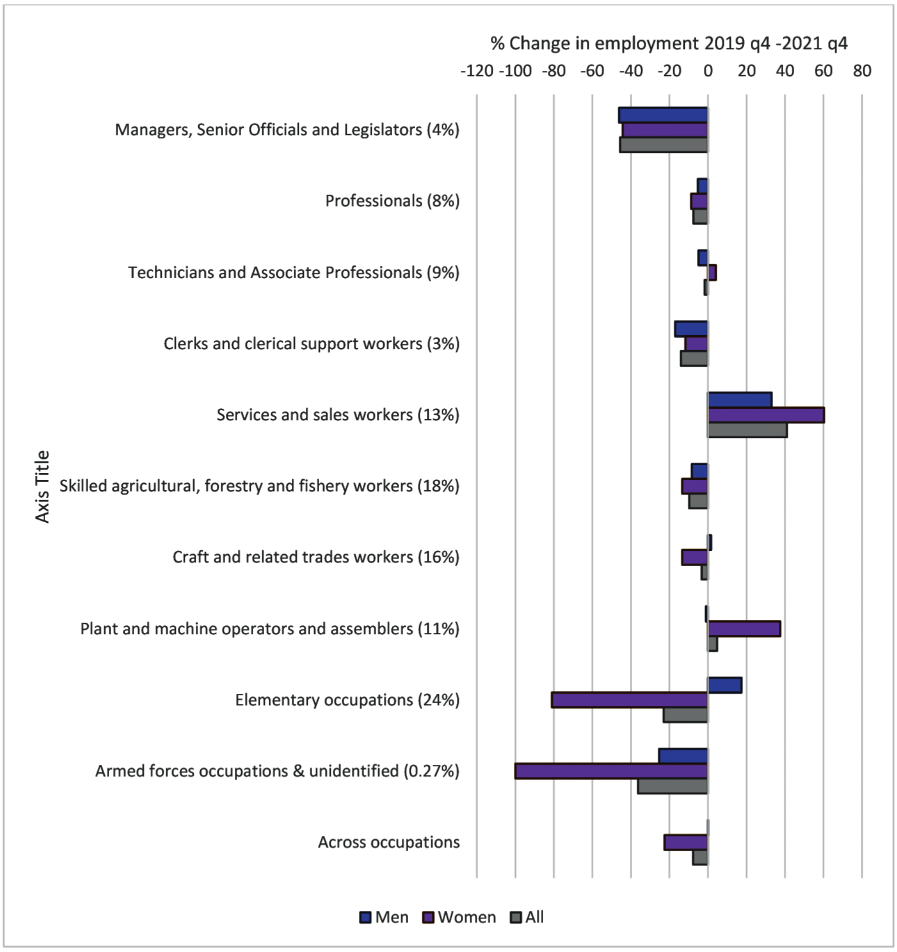


Source: Department of Census and Statistics (2020, 2022) Quarterly Reports of the Labour Force Survey.

Quarterly labour force data between the last quarter of 2019 and the last quarter of 2021, shows that employment in higher skilled occupations contracted relatively more than in middle and lower skilled occupations although the former accounted for smaller shares of the employed workforce (Figure 3.12). Employment increased in service and sales occupations and increased in elementary occupations which accounted for larger proportions of the total workforce. Women’s employment contracted in craft related work but increased as plant and machine operators and assemblers, most likely when production in the wearing apparel sector shifted to producing personal protective equipment in the wake of the pandemic. Men’s employment shrank in these occupations but grew in services and sales work and elementary occupations. The only job gains were in services and sales work and plant and machine operations and assembly, and for men in elementary occupations. Across occupations, women lost a larger share of jobs. A recent study on the demand for female workers based on a sample of 566 formal firms in the non-farm sector also found that between 2019 and 2020, the employment of high and medium skilled women contracted by 19 percent while the employment of unskilled women increased by 22 percent (Gunatilaka and Chandrasiri, 2022). However, in the sample of 100 formal firms belonging to the Employers Federation, job losses during the first lockdown appear to have been significantly higher among non-executive level employees relative to their counterparts in executive grades (Chandrasiri et al., 2020).

The crisis in employment has emerged against an institutional backdrop where existing labour laws do not provide for pandemic-like situations, leaving a gap in institutional mechanisms needed to manage crises of this nature. The Department of Labour responded to the immediate crisis with administrative measures such as granting permission to delay EPF/ETF contributions and suspended provisions relating to payments of salaries and other statutory entitlements (Wimalaweera 2020). However, COVID-19 has exposed Sri Lanka’s institutional gaps in coverage and the lack of more modern labour institutions, such as designing and implementing an unemployment benefit insurance scheme which can provide protection to workers who lose jobs in firms bankrupted by economic crises. Such institutional upgrading is needed before a crisis hits to protect the most vulnerable workers.

Figure 3.12: Job losses by occupation and gender, fourth quarter 2019 to fourth quarter 2021

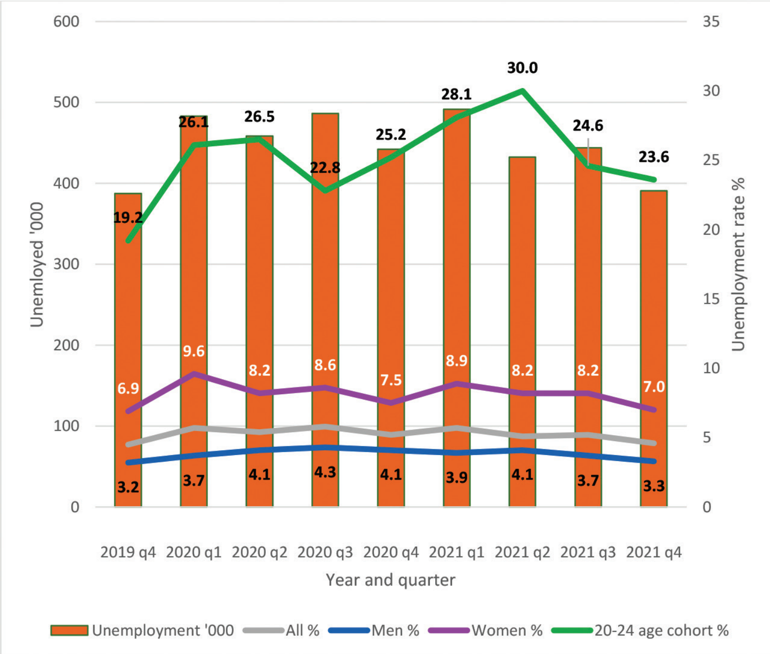


Source: Department of Census and Statistics (various years) Quarterly Reports and Bulletins of the Labour Force Survey. Figures in parenthesis show the proportions of both men and women employed in these occupation categories in the last quarter of 2021.

Unemployment

In terms of unemployment rates, the total stock of unemployed persons surged by 24 percent in the first quarter of 2020 compared to the level in the last quarter of 2019 with the imposition of lockdown and other restrictions on mobility during the first wave of the pandemic. Having dropped again in the second quarter, unemployment again rose with the second wave to 5.8 percent, tapered off, and then hit 5.7 percent with the third wave (Figure 3.13). Unemployment was significantly higher among women relative to men. Male unemployment rates fluctuated between 3.2 and 3.3 percent between the four quarter of 2019 and the fourth quarter of 2021. In contrast, unemployment rates among women surged from 6.9 percent in the last quarter of 2019 to nearly 10 percent with the first lockdown, and thereafter, remained at least at 8 percent and slipped only marginally to 7 percent in the last quarter of 2021.

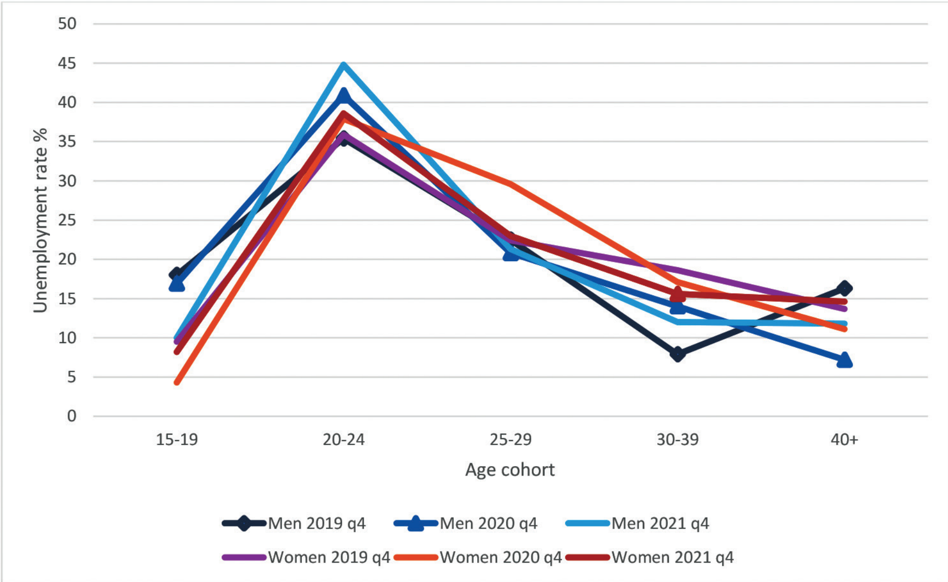
▶ *Figure 3.13: Changes in unemployment by gender, 2019-2021*



Source: Department of Census and Statistics (various years) Quarterly Reports and Bulletins of the Labour Force Survey.

While unemployment rates among young people have been high even at the best of times, the pandemic has seen these rates climb even higher. Figure 3.14 shows unemployment rates among men and women by age cohort during the last quarters of 2019, 2020 and 2021. Unemployment rates among the younger age group of 20-24 are the highest and have increased steadily over the period. But while unemployment rates among men of this age group are slightly higher than among women, there are proportionately more women of the next two age groups, 25-29 and 30-39 who are unemployed than men. Therefore, overall, unemployment rates among women are higher than among men (for example, see Figure 3.13). High rates of unemployment among women is cause for serious concern: it shows that while women are less willing or able to enter the paid workforce, those who decide to enter it, find it hard to get jobs.

Figure 3.14: Changes in unemployment rates by gender, last quarter, 2019-2021



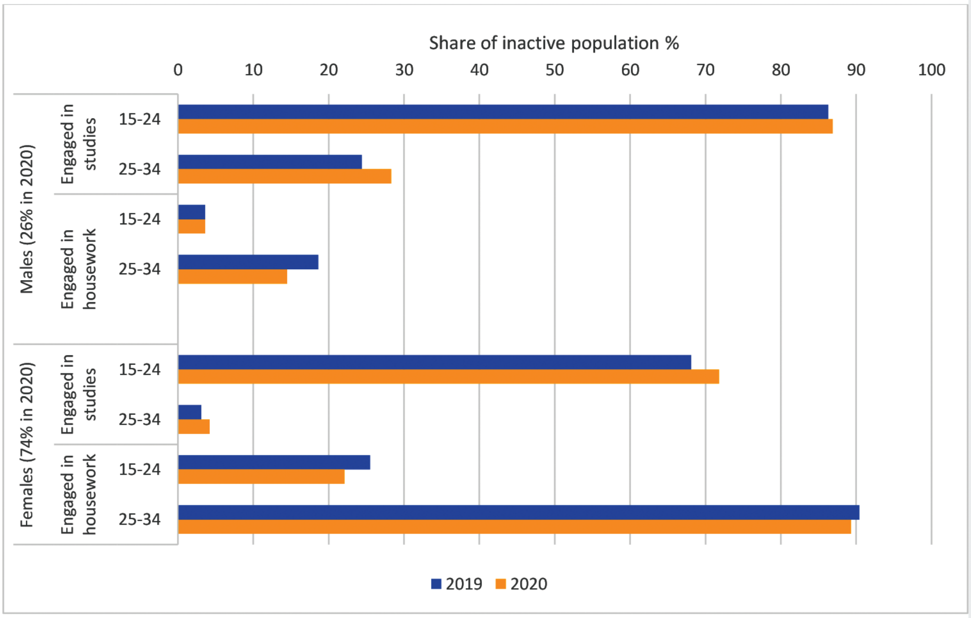
Source: Department of Census and Statistics (2021) Quarterly Report of the Labour Force Survey 2021, Last Quarter.

Youth inactivity

Annual inactivity rates among men and women also increased between 2019 and 2020.[9] Women in any case accounted for 74 percent of the total inactive population in 2020, and their numbers increased by 6.5 percent between 2019 and 2020. The smaller number of inactive males increased by 5.3 percent. While a far bigger proportion of inactive young males than females have been in education (86.3 percent of males in the 15-24 age cohort as against 68 percent of females in the same age cohort in 2019) a greater proportion of young females than males have been engaged in housework (25.5 percent females compared to 3.6 percent of males in the 15-24 age cohort in 2019). The pandemic has seen an increase in the proportion of young people opting out of the labour market and engaging in education and training as Figure 3.15 shows.

9 This data is reported only in the Annual Reports of the Labour Force Survey.

Figure 3.15: Inactivity by gender and reason, 2019-2020



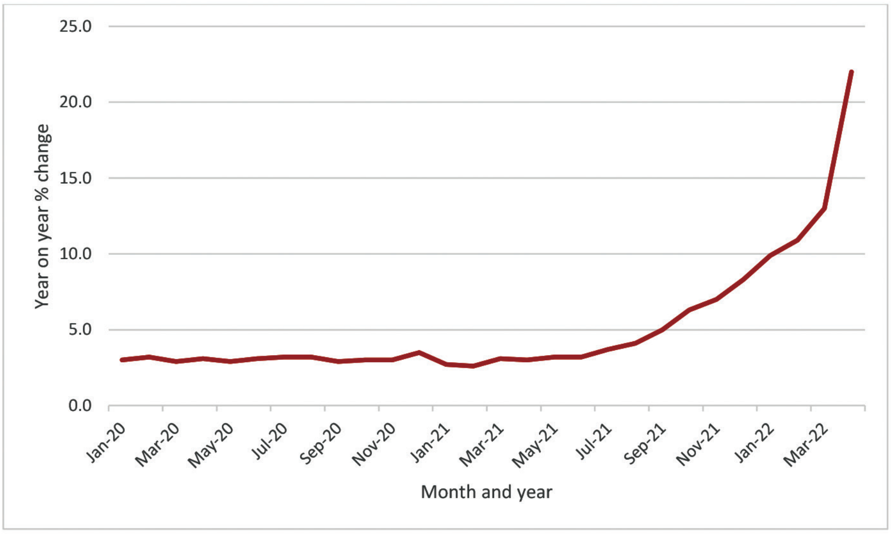
Source: Department of Census and Statistics (2020, 2021) Annual Reports of the Labour Force Survey. A total of 2190629 males and 6082161 females were inactive in 2020.

Against a backdrop of a rapidly aging population, the economic crises' impact on young people has been harsh. There are at least three ways in which their productivity in the medium to long term will be affected, limiting their potential contribution to Sri Lanka's development. These three ways are: a) disruptions to education, training, and work-based training; b) new entrants to the labour market are finding it increasingly difficult to get jobs; and c) job and income losses along with the deteriorating quality of employment (also see ILO-ADB 2020). In terms of academic qualifications, the rate of unemployment among individuals with A/L or above qualifications increased from 8.5 to 10.1 percent during the pandemic period but dropped to 7.6 percent by the last quarter of 2021. Among educated females it varied from 11.9 to 14.2 percent and dropped to 9.6 percent by end 2021 (Department of Census and Statistics, 2022c). Annual reports of the labour force surveys show that while the total number of individuals who have had vocational training but were unemployed had declined from 14,000 to 11,600 between 2011 and 2019, by 2020 the number had risen again to 131,500 (Department of Census and Statistics, 2021).

Inflationary pressure and wage demands

Year-on-year inflation (measured by the Colombo Consumer Price Index) has steadily increased since the outbreak of COVID-19 and accelerated since mid-2021, mainly due to high food inflation which can be attributed to four underlying factors: a) the collapse of food production sector due to the sudden decision to abandon import of fertilizer and agro-chemicals and the absence of alternative measures from the local supply side; b) non-availability of imported basic food items due to inadequate dollar reserves and high para-tariffs; c) depreciation of the rupee against the dollar; and, d) presence of oligopolistic market structures in the domestic market and institutional failures of the regulatory system. As a result, food insecurity has emerged as a major concern among low-income households. The weak safety net system failed to contain increasing vulnerability among this segment of the population. The government invoked emergency regulations to curb speculative practices of traders amid high food prices and shortages of some essential commodities. The Central Bank also increased policy rates by 50 basis points (Standing Deposit Facility to 5 percent and Standing Lending Facility to 6 percent) and the reserve ratio by 200 basis points in August to curb rising inflationary pressures (CBSL, 2021c).

▶ *Figure 3.16: Consumer price inflation, January 2020 – April 2022*



Source: Central Bank of Sri Lanka, https://www.cbsl.gov.lk/en/statistics/economic-indicators, accessed 12 May 2022.

Workers responded to prolonged inflation by demanding higher wages due to deteriorating purchasing power and drop in income. In October 2021 Sri Lanka's private sector workers demanded a monthly wage increase of Rs.10,000 arguing that the profits of leading companies had increased despite the crisis. The profits of major firms went up further in the third quarter of 2021.[10] About 10 trade union bodies representing the different industries in the private sector like banking, apparel, tea and others along with different political parties joined hands to state their support to take their cause to the streets should the need arise.[11] The unions demanded the minimum daily wage be increased by Rs.1000 and that the existing national minimum wage of Rs.16,000 inclusive of the existing budget relief allowance be raised to Rs.26,000. As of December 2021, none of these demands had been met.

A vast and growing international literature attests to the gendered impact of the pandemic. First, as women are frequently employed in sectors directly disrupted by lockdown and social distancing measures (e.g., tourism), they consequently experienced higher unemployment rates and a more subdued re-entry into employment. Second, female labour force participation and inactivity rates have declined compared to males. Third, the overlap of work responsibilities and care responsibilities (housework, childcare, eldercare, and looking after family members who are sick) has intensified women's double burden during the pandemic. Gender-based violence and worsening mental health has affected women disproportionately.

In Sri Lanka, the International Finance Corporation (2021) researched the gendered impacts of COVID-19 on employment in the private corporate sector by collecting information from employees and HR managers from 15 leading companies across a range of sectors. Collectively the companies employed more than 140,000 employees, including approximately 85,000 women. The study found that almost

10 The data substantiates this allegation. Profits of leading companies increased. Profits went up further in the 3Q of 2021 for major firms operating in different sub-sectors of the economy.

11 https://www.sundaytimes.lk/211024/business-times/labour-unions-demand-rs-10000-pay-hike-459166.html

one-third of employees experienced a reduction in salary, and almost 40 percent had their benefits reduced. Forty-two percent of women and 37 percent of men reported challenges meeting utility bills, 21 percent of women and 26 percent of men reported challenges meeting other basic household expenses, and 22 percent of women and 34 percent of men reported challenges meeting housing, car, or other personal loan repayments. Women were almost twice as likely to report household or care responsibilities as impacting their productivity than men. Female employees were more likely to have experienced increased hours, remote working, a change in job role or to have been re-allocated to a different business unit or work location. The study also found that female managers at all levels were more likely than their male peers to report increased hours, while men at all levels were equally or more likely to report increased responsibility.

Almost one-third of workers reported they were less productive during the previous three months compared to pre-COVID-19, with men more likely to have reported reduced levels of productivity than women. Conversely, women were more likely to have reported increased productivity than men – over three-quarters of women reported the same or an increased level of productivity during COVID-19, compared to just over one-third of men. Some reasons given included being able to better manage work and home responsibilities and the lack of time, and stress involved in traveling to work. Constraints in connectivity, in terms of phone and internet connection, was the main reason cited for lower productivity for both women and men. Meegaswatte (2021) found that by and large, Sri Lankan women working remotely, almost invariably from the educated, urban middle classes, were able to devote enough time to professional work despite the burdens of domestic labour largely thanks to support structures available to women in the traditional South Asian home.

No sooner did the economy make a faltering recovery in the second half of 2021 than when the dollar-related economic crises increased women's double burden unbearably. Rising food prices over the second half of 2021, which accelerated in 2022, are confounding household budget management while shortages of essential food items such as milk food, sugar, rice, and flour have generated more unpaid work to both procure food and prepare meals. Meanwhile, gas shortages have also necessitated queuing and looking for alternative, less efficient ways of preparing food while diesel and petrol shortages have constrained transport and necessitated further queuing. Women's mental load has increased commensurately. Meanwhile, power cuts are preventing the pacing of paid and unpaid work, disrupting and constraining sleep, and giving rise to fatigue and exhaustion.

Vulnerable groups

Stresses generated by the pandemic have combined with existing sources of horizontal inequality to lock certain population groups within systems of exclusion and marginalization (Kandasamy et al. 2021). The international empirical literature about the impact of COVID-19, identifies women and the disabled as being among the most vulnerable (ILO 2021a). This section on the labour market impacts of the pandemic and the economic crisis drew attention to several vulnerable segments of Sri Lanka's working population, such as informal sector workers, casual workers, low-wage earners, self-employed, youth and women. Everywhere, it has been the already poor and vulnerable who have been hit the hardest.

In the absence of properly targeted safety net systems and social protection systems and the persistence of social norms which disempower women, women have been burdened with even more unpaid care and household work, while many who engaged in paid work lost their livelihoods. Policies to grow out of the crisis need to place these vulnerable groups, particularly girls and women at the centre of recovery efforts, not only to mitigate historically debilitating socio-economic inequalities, but ensure that the reduction of those inequalities deliver the sustainable growth of human capabilities and functionalities in the future. Job creation programmes must be designed with a gender lens that invests in women's economic empowerment.

Similarly, persons with disabilities face higher risk of poverty and exclusion in pandemics and economic downturns and their needs must also be incorporated in the design of interventions. There are specific disadvantages that persons with disabilities face: lack of access to essential services, aggravated impact of inability to engage in work, receive aid packages, and access education and information among others.

3.6 Impact on skills development

Worldwide, the pandemic has aggravated the existing learning and skills development crisis, especially in low-income and middle-income countries, with an estimated 1.5 billion students out of school in 165 countries, leading to greater losses in lifetime opportunities and earnings (ADBI 2021). Nevertheless, it has also increased the uptake of distance learning approaches (including offline tools), investment in new tools and resources (e.g., platforms to train teachers and trainers to use digital tools, locally developed platforms with distance learning solutions), increased cooperation between public, private, and civil society organizations for improving access to, and developing capacity for, digital learning. Sri Lanka, however, has had limited success with such innovative changes as we discuss below.

When COVID-19 struck, the lockdown, and physical distancing measures that followed led to unprecedented disruption in the provision of general education and technical and vocational education and training (TVET) services. The parallel strike by teachers' unions over pay made the situation worse. The impact on school education has been particularly severe causing disruption in structured in-school education. This will have serious long-term impacts on the learning achievements of the already disadvantaged and their productivity, employability, and capacity to earn in the future. At the time the pandemic struck, Sri Lanka's education system had roughly 4.2 million students and 235,000 teachers, so that closing schools for just one day eliminates about 25 million learning hours and 1.4 million teaching hours (UNICEF, 2021). In Sri Lanka, schools were closed for one and a half years at least. Nevertheless, UNICEF (2021) notes that the authorities responded swiftly, decisively and in a well-coordinated manner, using the whole-of- society approach as far as administration and management were concerned. Inter-ministerial coordination at national, provincial, and zonal levels of school administration were given specific responsibilities to respond to the pandemic. The government also tried to provide free access to online learning through increased levels of WiFi usage with voluntary support from both public and private sector internet service providers (e.g. Sri Lanka Telecom, Lanka Bell, Hutch, Mobitel and Dialog). Their support included special e-learning student data packages and online leaning platforms.

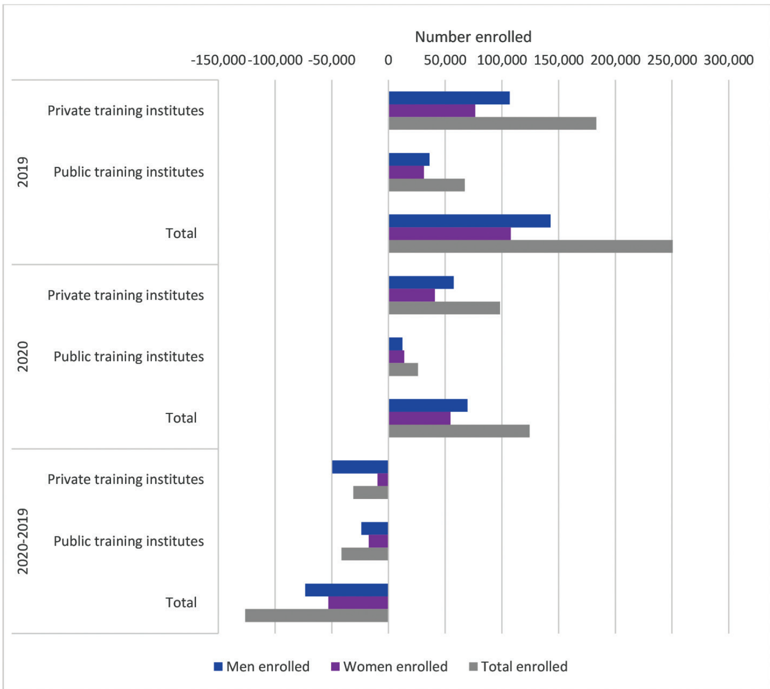
However, the uptake of distance learning in school education has not been satisfactory in many instances. Many spatial inequalities in access have emerged according to survey-based data. For example, parents in the Western province were more satisfied with the distant mode of school education compared to parents in other parts of the country (Liyanagunawardena and Williams, 2021). This evidence shows that large parts of Sri Lanka have been unable to access online educational delivery due to the multifaceted digital divide (see Annex 1). Teachers too encountered many difficulties teaching online, such as lack of ICT devices, connectivity, and insufficient data plans. In addition, teachers also found it difficult to deliver the curriculum through distance learning modalities due to lack of training on the use of ICT technology in distance learning. The lack of data on the usage of online learning by school children for continuous monitoring and evidence-based decision making was another major problem. Without strong continuous monitoring systems in place, the education sector could not be agile and quick to adapt and find solutions to the challenges raised by the pandemic (UNICEF, 2021).

The pandemic also forced innovation and the application of digital technology in the delivery of education and skills development programmes in the tertiary systems. For example, as the pandemic broke out, the University Grants Commission (UGC) arranged to connect university web servers to the Lanka Education and Research Network (LEARN) for online education. In addition, all internet service providers in Sri Lanka provided free access to university web servers during the pandemic. The TVEC, however, faced challenges in managing the technical transition. In fact, the pandemic aggravated pre-crisis problems of the skills development sector, characterised by the lack of technological infrastructure and digital connectivity, skills gaps in online teaching and learning, unequal access to training among students and workers, lack of digital and pedagogical resources, and absence of learning platforms and support services. Pre-existing social and digital divides deprived the most marginalized groups of continued learning and put them at risk of falling further behind, particularly between centre and the periphery, and between women and men.

A rapid shift to distance learning in TVET facilitated continuity of scheduled programmes and the ADB's online survey conducted on 21 July–18 August 2020 showed that whereas only 36 percent of TVET institutions had provided distance learning before the pandemic, around two thirds of major TVET courses continued during the pandemic, with 92 percent of institutions provided at least one online TVET course (Hayashi et al., 2021). Of the sample of students surveyed, 93 percent attended online learning mostly through low-tech solutions using social media. However, the study highlighted the drastic reduction in quality when training providers were forced to provide practical training online and deliver lectures to students who had only limited access to internet and devices. Besides, there was no evidence that necessary pre-requisites for effective online training provision such as a suitable curriculum, learning content, and assessment criteria had been developed to support online training efforts.

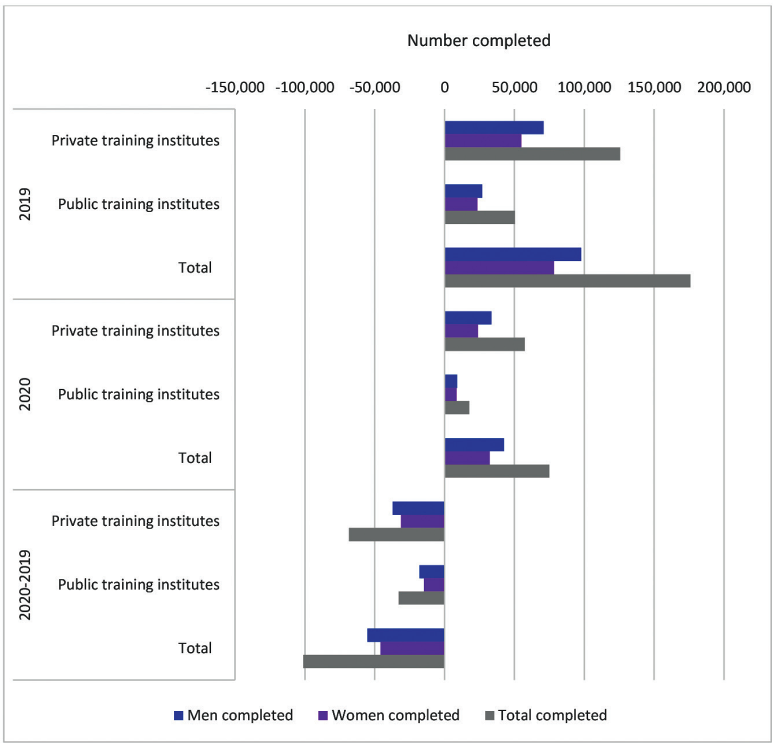
Notwithstanding efforts at providing training online, enrolment and completion of TVET courses in 2020 relative to 2019 declined by 50 and 57 percent respectively. While the numbers of males enrolled in TVET generally exceeds that of women, the pandemic has caused largely similar declines in enrolment of both men and women. The same has been true for course completion (see Figure 3.17 and Figure 3.18). The decline in enrolment and course completion in private training institutes was higher than in public sector training institutes. The actual decline in enrolment and training output may be much higher as this information does not capture the performance of unregistered training providers.

Figure 3.17: Change in enrolment to TVET institutes by gender, 2019-2020



Source: TVEC (2020, 2021).

Figure 3.18: Change in course completion in TVET institutes by gender, 2019-2020



Source: TVEC (2020, 2021).

The pandemic has also disrupted existing arrangements for the acquisition of practical skills and organization of work-based learning, which are essential components for the success of TVET. Business closures, serious cash flow problems and operational losses had impacts on employment and skills development and caused cuts in the offer of apprenticeship placements in enterprises. The net result of these negative impacts was a general decline in the quality of training and increased likelihood of students dropping out of education and training. In fact, the TVET dropout rate increased from 30 percent to 40 percent between 2019 and 2020 (TVEC 2020, 2021).

The macroeconomic crises that have followed in the pandemic's wake are likely to have exacerbated the difficulties faced by the skills development sector. Fuel shortages, transport constraints and power cuts have constrained children's travel to school and even their learning at home. Shortage of paper to print examination papers have postponed the holding of several examinations. Very specific interventions in remedial education and other tailor-made skills development programmes will be required to mitigate the devastating impacts that the pandemic and associated economic crisis will have on the productivity and income generating capacities of future generations of Sri Lankans.

3.7 Impact on poverty

The shock of the pandemic impacted on households primarily through the labour market as many vulnerable workers (informal sector workers, own account workers and casual workers) are not covered by job security measures and adequate safety nets. As detailed above, many such workers lost their jobs. A rapid survey of poor households conducted by the IPS[12] found that the pandemic-induced economic shock during the first wave of the pandemic impacted the employment of around 88 percent of those who had been working pre-COVID-19 (IPS, 2021). The second wave impacted the employment of around 76 percent. A further 40 percent of those employed in the pre-COVID-19 period experienced temporary salary/wage reductions. The decline in income was particularly acute among low wage earners. Based on the results of their survey, IPS estimated a 27 percent increase of the proportion of households with a monthly income of less than LKR 25,000 per month during the 1st wave.

The decline in household income due to job losses is likely to have increased the incidence of poverty, with COVID-19 estimated as having pushed over 500,000 people into poverty according to simulations by the World Bank. Table 3.2 shows that the incidence of poverty using the US$ 3.20 PPP poverty line rose to 11.7 percent in 2020, while extensive mitigation efforts likely helped absorb some of the impact of the shock. Estimates using the international poverty line (US $1.90 a day poverty line) suggest a similar trajectory. Moreover, the poverty gap, which measures the distance to the poverty line, is estimated to have increased from 17.9 percent in 2019 to 20.0 percent in 2020. So not only did COVID-19 increase the number of poor people; it also shoved them deeper into poverty (World Bank, 2021a).

12 The IPS' rapid assessment covered 300 Households representing 10 districts and 9 provinces and focused primarily on low-income households. The survey was conducted during April-May 2021.

▶ *Table 3.2: Poverty estimates for Sri Lanka, 2018-2023*

Criteria	2018	2019	2020	2021	2022	2023
Real GDP growth, at constant market prices	3.3	2.3	-3.6	3.4	2	2.1
International poverty rate ($1.9 in 2011 PPP)	0.7	0.6	1.2	1.1	1	0.9
Lower middle-income poverty rate ($3.2 in 2011 PPP	9.6	9.2	11.7	10.9	10.4	10
Upper middle-income poverty rate ($5.5 in 2011 PPP)	39.5	38.6	42.3	40.7	39.7	38.9

Source: World Bank (2021a).

The pandemic also saw the emergence of the new poor – those who fell into poverty because of the pandemic. The new poor are more likely to be in living in urban areas, be more educated and employed in industry and service sectors. Western Province accounted for the largest share of the new poor whereas it had the lowest poverty incidence before COVID-19. By district, the proportions of the new poor were higher in Kandy and Ratnapura districts which are highly rural and had the largest concentrations of the pre-pandemic poor. The proportions of the new poor who have completed primary education, the G.C.E. Ordinary Level (O/L) and the Advanced Level (A/L) are higher than the old poor.

With the pandemic and economic downturn impacting on employment and income, income inequalities are bound to have widened in the short-term. Given that the Gini coefficient was already high at 40 in 2019 (Department of Census and Statistics, 2022a), the pandemic and subsequent crises are widening income disparities even more and will help fuel social and political unrest in the months to come.

The increase in poverty comes against an institutional backdrop that has failed to implement much needed reforms in state structures to provide income support for the needy. It has long been known that the Samurdhi Programme, the government's main poverty alleviation programme has lacked effective targeting mechanisms that would enable the exit of beneficiaries who no longer needed assistance. As a result, the amount of assistance provided has had to be curtailed to control the budgetary cost of the programme, while some of those who need support, have been left out of it. The programme needs further reform to improve targeting. Relief measures adopted during the crisis have operated through other channels in an ad hoc way, particularly during the second wave, as IPS (2021) notes.

3.8 The government's policy responses to the pandemic

Chapter 2 described the macroeconomic stresses that had built up during the years after the war ended; lacklustre economic growth, the absence of significant transformation in production structures and the labour market, stagnating exports, declining government revenues and the widening fiscal deficit and the building up of a debt crisis. These comorbidities which developed after the war ended reveal the inadequate implementation of a coherent development strategy that recognized the direction in which the economy needs to move, and the policies needed to get it there.

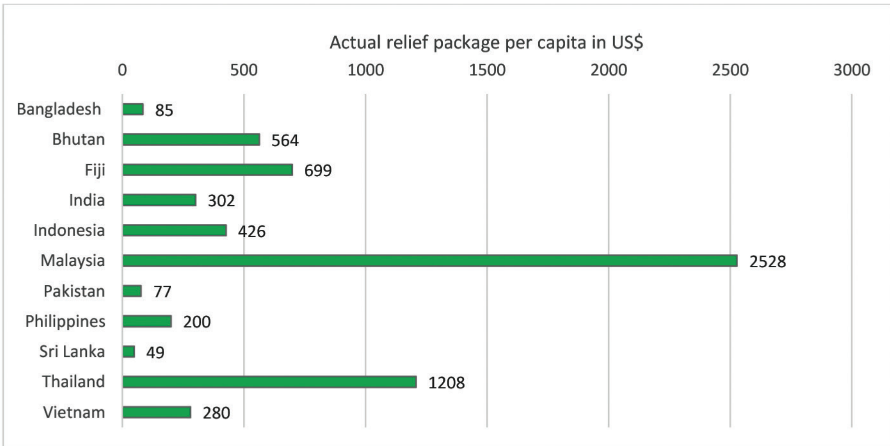
The overall response to the pandemic has largely been reactive and piecemeal, although the fiscal bind and looming debt crisis has left very little room to manoeuvre. This section draws heavily from the IMF's tracker on policy responses to COVID-19[13] for a brief overview of how the government has responded to the crisis, and the ILO COVID-19 country policy response database for an overview of key labour market policy responses.[14]

13 See https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#S. Accessed 28 November 2021.
14 See https://www.ilo.org/global/topics/coronavirus/regional-country/country-responses/lang--en/index.htm#LK. Accessed 23 December 2021.

The government imposed import restrictions on certain goods in response to the foreign exchange crisis. Commercial banks were prohibited from facilitating imports of vehicles. Capital outflows were restricted by suspending outward investment payments until July 2021. Forward foreign exchange contracts were restricted and exporters required to convert 25 percent of their foreign exchange earnings to Sri Lankan rupees. Outward remittances were limited, while inward remittances were exempted from certain regulations and taxes. Firms were permitted to borrow from abroad and foreign investors were allowed to purchase unlisted Sri Lankan debt securities. Commercial banks were permitted to purchase Sri Lanka International Sovereign Bonds (SL ISBs) subject to the funds being raised overseas and split evenly between new purchases of SL ISBs and Sri Lanka Development Bonds. The government also made several currency swaps, with China, India, and Bangladesh, to tide over the shortage in foreign exchange as debt repayments claimed an increasing share of export earnings.

The negative impact of the pandemic and associated lockdown on livelihoods and consumption has necessitated government intervention in protecting consumption levels of those affected. Cash transfers to vulnerable groups amounted to around 0.6 percent of GDP in 2020 and around 0.1 percent of GDP during the first six months of 2021. But these transfers have been largely inadequate (IPS, 2021). The ADB's (2021c) estimates of the per capita relief package that member countries provided affected citizens in 2020 show that Sri Lanka offered the least support (Figure 3.19).

Figure 3.19: Consumption support provided during the pandemic by Asian countries, 2020



Source: ADB 2021c.

A Task Force on Economic Revival and Poverty Eradication was established as well as a special fund for containment, mitigation, and social welfare spending, inviting local and foreign tax-free donations. At the same time, the government allocated up to 0.1 percent of GDP to contain the pandemic and allocated US$5 million (0.01 percent of GDP) to the SAARC COVID-19 Emergency Fund. To help businesses, the government extended the 2020 H1 payment deadlines for income tax, VAT, and certain other taxes to year-end. Income tax arrears of SMEs have been partially waived, with more relaxed payment terms approved and legal actions against non-payers suspended.

The Central Bank of Sri Lanka (CBSL) reduced monetary policy rates by 200 basis points (bps) in March 2020. The statutory reserve ratio of commercial banks was lowered by 300 bps, the liquidity coverage and net stable funding ratios reduced to 90 percent, and the interest rate on CBSL advances to banks lowered by 650 bps. Commercial banks could not declare dividends, share buybacks, or increase payments to directors until end-2020. Debt repayment moratoria on bank loans for COVID-19 affected sectors were introduced in March 2020 and extended through September 2021. There were also three-month moratoria on small-value personal banking and leasing loans. The CBSL provided refinancing and concessional lending facilities of 1 percent of GDP, partially guaranteed, and introduced priority sector lending targets for bank credit to MSMEs. In addition, the construction sector was eligible to borrow from banks with government guarantees. The interest rate on credit cards, overdrafts and pawning facilities was capped. Financial institutions were also requested to reschedule non-performing loans, while capital conservation buffers and loan classification rules were relaxed.

The government initiated several labour market interventions as the economic impact of the pandemic bit, including measures to support enterprises, jobs, and incomes; protecting workers in the workplace; and promoting social dialogue among key stakeholder groups. However, given ballooning multiple crises that followed, these interventions could not address the key labour market challenges that the pandemic triggered and which subsequent economic crises intensified. Studies of the pandemic's impact on the operation of firms highlight the adequacy of labour market policy responses and the inefficiencies of policy support systems during the pandemic.[15] Many institutional structures did not have the agility and flexibility to respond effectively.

For example, while the pandemic disrupted both the demand and supply sides of the labour market, Sri Lanka's labour legislation did not have the capacity to address issues relating to employment, labour relations, and employee welfare arising out of a crisis of this nature (Wimalaweera 2020). Sri Lanka's labour laws do not cover work from home (WfH). They do not define flexible working arrangements and the rights of home-based workers. Part-time work is still not recognized by law even though both employers and unions have agreed to the necessary reforms. As a result, employers are reluctant to adopt innovative working arrangements which are necessary to come out of the crisis, grow beyond it, and prepare for the next crisis. Similarly, COVID-19 and the subsequent economic crises have given rise to a range of issues relating to compensation to employees during lockdown periods and in situations of serious liquidity problems. These institutional weaknesses may discourage resilience, flexibility, and the adaptability of the labour force on the supply side. On the other hand, they are likely to constrain the adoption of WfH practices by employers. The weaknesses in the legislative environment can even lead to the misuse of terms and conditions of employment and pave the way for conditions of forced labour to arise in some workplaces (Chandrasiri et al., 2020).

3.9 Summary conclusions

Sri Lanka has experienced four increasingly virulent waves of the pandemic. The first wave was controlled effectively, but the same level of control could not be maintained over the second wave due the greater virulence of the Alpha and Delta strains and political economy factors which confounded the policy response. Despite a weak start, the vaccination programme was rolled out at lightning speed.

The macroeconomic fallout of the pandemic on Sri Lanka's economy has been severe. The chronic macroeconomic challenges that prevailed at least since 2013 intensified its impact and Sri Lanka's economy shrank by a fifth between the fourth quarter of 2019 and the second quarter of 2021.

While in most countries, services contracted by much more given the impact of lockdown restrictions, in Sri Lanka industry declined by more. The agriculture sector held firm and provided employment of the last resort to workers displaced from the urban manufacturing and services sector at the beginning. But the ban of agro-chemicals and transition to organic farming during the third quarter of 2021 (even though reversed on 4 November 2021) negatively affected a sector where productivity was already low and threatened the food security of the nation.

15 For details see Chandrasiri et al. (2020) and Sujeeva (2021).

Exports recovered by mid-July 2020 to where they had been in the first quarter of 2019 which was still too low. Agricultural exports recovered more vigorously post lockdown in the first phase, but the ban on agrochemicals shrank their supply to international markets. The pandemic and associated restrictions on mobility and operations saw the closure of between a third and a half of formal sector firms who could respond to online surveys and telephone interviews in 2020. Closures and job losses were much higher among the micro, small and medium (MSM) enterprise sector which bore the brunt of the economic shock. Firms had limited success working from home. They found it difficult to monitor WFH, they were constrained by employees' limited access to IT related systems, infrastructure, and workspaces at home, and as in other countries, firms struggled with low output and lack of experience WFH. Many more firms have been forced to close operations after the external sector crisis worsened and choked off the supply of inputs and constrained transport and power supplies.

A nascent recovery in the second half of 2021 heralded by the vaccination drive petered out with the impact of the agrochemical ban on agriculture, the damaging management of the exchange rate, a highly accommodative monetary policy, and the use of foreign exchange reserves to repay debt. This resulted in multiple crises, which impacted on businesses, workers, and their families, manifesting in shortages of essential consumer goods including food, fuel, power, raw materials, and capital equipment on the one hand, and the disruption of key public services such as education and health on the other. The fiscal bind and looming debt crisis have also left the government very little room to manoeuvre. The economic crises have in turn generated political instability and further constrained timely decision-making about how to deal with the crisis.

The multiple crises have intensified long-standing worrisome features of the labour market: they have expanded unemployment, widened gender gaps in labour force participation, and given rise to job insecurity, uncertainty, and hardship. Sri Lanka lost more than 200,000 jobs to the pandemic between the fourth quarter 2019 and the second quarter 2021. Own account workers made up half of all job losses. The employment share of the informal sector increased because formal sector employment contracted more sharply. Although there was some recovery during the second half of 2021, extensive job losses among employers augured ill for the vigorous regeneration of jobs. In fact, the fragile economic recovery of the last quarter of 2021 is likely to have been snuffed out in the first quarter of 2022, due to the shortages in imported raw materials and constraints on power generation and transport which manifested in January 2022. Unemployment has always been significantly higher among women relative to males, while unemployment rates among young people, high at the best of times, rose to 30 percent of the 20-24 age cohort by the middle of 2021 and dropped to 24 percent by the end of the year. However, as the economic crises multiplied and worsened at the beginning of 2022, these indicators would have again regressed. The pandemic also impacted the skills development sector. Efforts to provide education and training online were constrained mainly due to problems of infrastructure access particularly outside of Western Province. Enrolment and completion of TVET courses in 2020 relative to 2019 declined by 50 and 57 percent respectively. However, the imposition of power cuts in 2022 are likely to have disrupted even these limited measures.

The decline in household income due to job losses is likely to have increased the incidence of poverty, with COVID-19 estimated as having pushed over 500,000 people into poverty. The pandemic also saw the emergence of the new poor - those who fell into poverty because of the pandemic – among the more educated and employed in industry and service sectors particularly in urban areas and Western Province, the latter which accounted for the largest share of the new poor. These negative developments would have worsened in 2022 as the economic crises intensified. The next chapter sets out the pillars of a pro-active policy framework that can help Sri Lanka come out of the multiple economic crises and transform its production structures to bring about job-rich growth.

4. Growing out of the crises and beyond

4.1 Introduction

Sri Lanka's current economic crisis is unprecedented, characterized by ballooning public debt, expanding fiscal and current account deficits, evaporating investor confidence and crippling foreign exchange shortages. The pandemic has brought to a head the macroeconomic stresses that had built up over the decade that preceded it. Policy missteps taken during the pandemic years also contributed to the foreign exchange and external debt crises, accelerating inflation, making scarce essential foodstuffs, pharmaceuticals, gas, diesel and other raw materials and inputs for production, and debilitating power cuts. The ballooning crises have withered the fragile economic recovery that the successful vaccination drive enabled. Key economic activities in both the formal and informal sectors have also collapsed. Public services are also affected, especially the health sector, which is running out of essential drugs and equipment. If not mitigated, the health sector crisis will increase morbidity, erode human capital, and further increase healthcare costs. Widespread economic hardship following the loss of livelihoods and income even among the middle classes have aggravated socio-political tensions and stoked political instability across the country. The latter have further confounded timely decision-making and the rapid putting into place damage control and remedial policy measures.

The multiple crises have highlighted the need to focus on interdependent policy fundamentals: grow exports to create employment and generate the foreign exchange needed to repay external debt; manage government finances and restore investor confidence; and maintain competitiveness by diversifying and upgrading production structures and developing the skills to work them. Coming out of the crisis will require a policy framework that recognizes and accepts these basic principles.

However, there are many challenges on the path of achieving these objectives, not least among them the debilitating impact of the present crisis on the capabilities and functionings of most Sri Lankans, as many struggle for survival. The crises have also impacted the already constrained capabilities and functioning of institutions, through which they need to be addressed. As schools and educational facilities have remained closed for months, students from distressed families are in danger of permanently falling out of the education system. Meanwhile, small, and medium enterprises have been the most affected, their small assets bases making their recovery highly uncertain. Many of the self-employed in these enterprises may have already lost their capital. Even those workers still with jobs have seen their real wages plummet due to high inflation, while the liquidation of capital and assets and policy uncertainty blight the recovery of businesses. A recent opinion tracker survey indicated that one out of two educated youth want to emigrate (IHP, 2021),[16] an ominous sign in a rapidly aging population.

One of Sri Lanka's most important development priorities must be to grow its stock of decent jobs and ensure inclusive access to them, particularly by women and young people. To achieve this, Sri Lanka needs to jump-start and accelerate its economic transformation, but without compromising the country's environmental capital. Deeper structural transformation must be wrought through better market integration that raises productive efficiency and generates decent employment opportunities. This in turn requires private sector confidence and investment and developing the productive capacity of entrepreneurs and workers so that they can grow businesses, access jobs, and increase earnings.

This chapter proposes a comprehensive policy framework that draws heavily from the recent literature that has focused on Sri Lanka's major economic problems and post-pandemic economic recovery.[17] It

16 For example, about 48 percent of youth (18-29) desire to migrate and by education qualifications this ratio is 53 percent and 45 percent among individuals with degree and above and A-Level and above qualifications respectively.

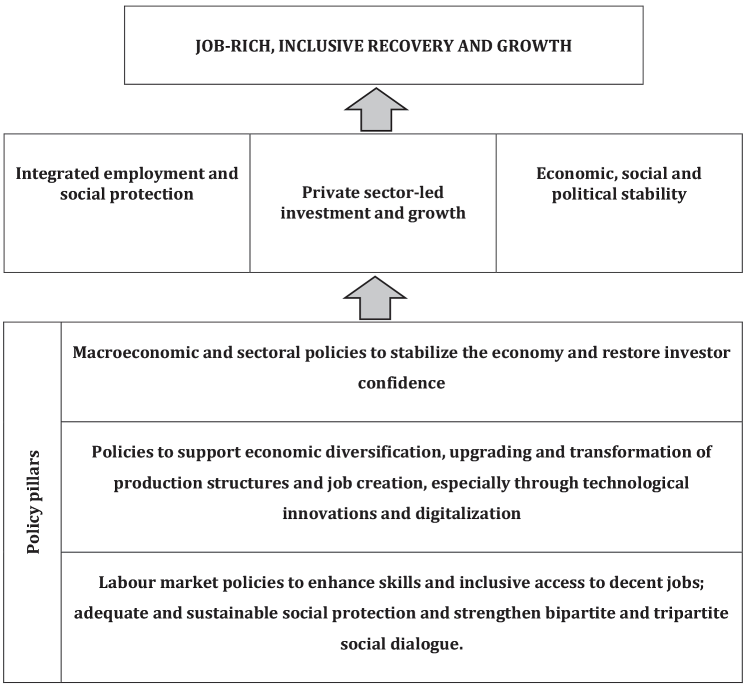
17 ILO (2021), IMF (2021a), World Bank (2021a and 2021b).

emphasizes job-rich growth through private investment on the one hand and increasing the productivity and employability of workers and entrepreneurs who can access these jobs on the other. The private sector's involvement is essential: market-orientation and competitiveness are attributes of a healthy private sector. Besides, a vibrant private sector can help increase tax revenues and help enlarge the government's fiscal space to facilitate that process of job-rich growth. Investment by the private sector and enhancing the productivity of workers and entrepreneurs in turn require greater factor and product market efficiency, including skills development. Social dialogue is crucial to ensure an inclusive approach. As also highlighted above, gender dimensions and deficits relating to such groups as young people need to be addressed in the design and implementation of recovery strategies. This integrated employment and social protection strategy for growth rests on the following dimensions:

- Macroeconomic and sectoral policies to stabilize the economy and restore investor confidence.
- Policies to support private sector-led economic diversification, upgrading and transforming production structures and job creation, especially through the adoption of advanced technologies including digitalization.
- Labour market and skills policies to enhance access to decent jobs, with a social protection system that lifts people out of poverty and protects workers during transitions.

Figure 4.1 illustrates this policy framework.

Figure 4.1: A Comprehensive Policy Framework for Job-Rich Recovery and Growth



Source: Developed by the authors.

In what follows, we propose interventions under the three broad policy pillars. The rest of the chapter is structured accordingly with detailed policies suggested under these heads.

4.2 Macroeconomic policies to stabilize the economy and restore investor confidence

Debt restructuring to ensure the supply of essentials and restore investor confidence

Sri Lanka's current macroeconomic predicament is characterised by depleted international reserves, the inability to finance essential imports, heavy debt commitments and a debt default, a rapidly depreciating exchange rate, crippling shortages of essential imports and rising inflationary pressures. As discussed in Chapter 2, many of these symptoms of structural macroeconomic stresses were evident before COVID-19 struck and are rooted in a political economy ratchet that has prevented narrowing the fiscal deficit to sustainable levels. Policy makers have therefore leaned on unsustainable monetary policy interventions, including debt financing of government spending and yield curve control measures, to keep borrowing costs down despite high inflation.

Urgent policy measures are needed to address risks to debt sustainability and external stability in the short term. Sri Lanka repaid the interest and capital repayments due in January 2022 by running down its foreign reserves. The resulting shortages of foreign exchange have given rise to on-going shortages of essential commodities such as gas, petrol, and diesel, affecting households, businesses, and even public services. In April 2022, Sri Lanka's government officially suspended the repayment of debt. Therefore, it will not make the repayment of US$1 billion due in July 2022. The most immediate priority, therefore, is to obtain bridge finance to purchase essential imports such as food stuffs, gas, diesel and petroleum, and pharmaceuticals until balance of payments support from the IMF, together with a debt restructuring agreement, is worked out. The government has also appointed financial and legal advisors, Lazard and Clifford Chance to begin talks on restructuring foreign debt. Policy makers will also need to remain alert to the financial stability risks posed by a possible build-up of nonperforming loans and corporate debt, especially foreign currency denominated debt.

While the Budget of 2022 recognizes the need to attract foreign direct investment and portfolio investment, links between the short-term Road Map declared by the Central Bank and the Budget of 2022 are missing. There are no long-term funding plans which are essential for banks and industries to formulate their business strategies. Without such plans, foreign exchange shortages have become endemic, in turn generating shortages of essential consumption and investment goods, especially as remittances are slowing and coming to a standstill while the gas, diesel and power crises throttle exports and the full recovery of the tourism sector. The lack of specific strategies and timelines on how to manage the debt crisis and bridge the foreign funding crisis will further erode macroeconomic credibility and turn away investors.

Increasing revenue and channelling expenditure to priority sectors to manage the current macroeconomic crisis

In the medium and long term, policy makers need to chart a credible fiscal policy path that focuses on reducing the fiscal deficit and ensuring debt sustainability and thereby signal to potential investors that they are committed to ensuring macroeconomic stability. Fiscal consolidation requires, a) strengthening revenue mobilization, and b) making appropriate expenditure policy choices (IPS, 2021). The authorities need to find alternative sources and means to raise revenue, by improving the efficiency of tax collection. They also need to improve the efficiency of public expenditure. To make appropriate policy choices, Sri Lanka needs to be pragmatic and focus on policies that promote job rich growth not only for human development but also to dampen political instability and distributional strife. As the pandemic subsides, opportunities for growth will re-emerge. But global trade systems and supply chains will then be more flexible, digital, and inter-connected with multiple production centres. Sri Lanka needs to be able to leverage these new economic opportunities by intensifying trade and promoting exports, especially as trade promotes access to modern technology, new markets, and job growth.

4.3 Export-led growth through the upgrading and transformation of production structures

An economy can adopt three strategies to generate economic growth and create jobs. They are investment-led growth, consumption-led growth, and export-led growth. Of the three, investment-led growth strategies promote shifts to higher productivity, but this strategy remains out of Sri Lanka's reach, given that current macroeconomic conditions both globally and locally are not conducive. In fact, local conditions for investment-led growth have not been favourable for nearly two decades, while serious resource constraints and mounting socio-political tensions during the first quarter of 2022 have worsened the investment climate. Consumption-led growth can also generate economic growth among the poor and improve their living standards, but opportunities to do so in the current economic climate of resource constraints, collapsing incomes and livelihoods, are also limited.

That leaves export-led growth as the only currently viable strategy, notwithstanding a weak global trading environment. In fact, Sri Lanka implemented export-led growth policies when it first liberalized its economy in 1977. But since then, apart from a second push to export in the early 1990s under an IMF-led structural-adjustment programme, the country drifted towards an implicit, import substituting approach that resulted in a narrow industrial base, technological backwardness, low productivity, low investments, weak integration with global production systems, and serious balance of payments problems. Non-tradables such as construction, domestic trade, finance, real estate business and speculative deals have been favoured to the detriment of exports. Even the Board of Investment (BOI) which is assigned with the task of promoting export-oriented foreign direct investments (EOFDI), has been granting generous incentive packages to the non-tradable sector, particularly infrastructure projects that include housing, property development, shops and offices, healthcare, and power generation. Monetary policy (interest rates and the exchange rate) has supported government consumption rather than business expansion, and exporters have lost the gains that could have transmitted through free market movements of export/import activities.

The current policy of restricting imports in the wake of COVID-19 and the dollar crisis is neither realistic nor sustainable. It is damaging for export-oriented manufacturing industry because the bulk of the country's imports are intermediate and capital goods and restricting imports directly affects production, particularly in the manufacturing sector. For instance, in February 2021, 87 percent of imports were intermediate (49 percent) and capital goods (14 percent) essential for domestic production. They included fuel, fertiliser, chemicals, raw materials, and machinery for manufacture. Import controls disrupt input supply and damage the export performance of industries that use foreign raw material and intermediate inputs.[18] The worst affected manufacturing subsectors are; a) manufacture of textiles, wearing apparel and leather related products; b) manufacture of rubber and plastic products; c) manufacture of chemical products; d) manufacture of machinery and equipment; e) manufacture of food, beverages, and tobacco products. These five sub sectors account for 11.5 percent of GDP and 51 percent of total exports. In fact, import controls can worsen the very crisis in foreign exchange that policy makers hope to mitigate with them.

18 For details see IPS (2021), pp.66-69.

Right now, a strong export-led growth strategy appears to be the only viable and practical way out of the chronic external imbalances that characterize Sri Lanka's current crisis. As a small, resource-poor economy that is dependent on imports of commodities and raw materials that it cannot produce cost-effectively itself, Sri Lanka has always needed to export to meet its import bills. Export earnings are also needed to repay growing external debt. And, given that Sri Lanka's small domestic market does not provide opportunities for economies of scale in production, there is a strong economic rationale to focus on exports, target the larger global market and obtain scale economies in production in that way.

Admittedly, export-led growth strategies have their own limitations as they can expose countries to worsening working conditions and environmental sustainability. However, these problems need to be addressed through better regulation and policies although this requires strong and efficient institutions which do take time to develop and evolve. Nevertheless, while the causal relationship between export growth and economic growth has not been empirically established, many studies have found that trade liberalization is associated with increasing labour demand (for example, see Los et al., 2015, for China; Vianna, 2016, for Latin American countries; and Kiyota, 2016, for China, Indonesia, Japan, and Korea). So, even if the current global trading climate is not helpful, Sri Lanka will need to position its production structures and look to exports to generate employment and hopefully, economic growth, as prospects for investment or consumption-led growth in the present circumstances are even less conducive.

Given the emerging trends of global production sharing systems, Sri Lanka needs to transition its production structures from IR 2.5 to IR 3.0 and IR 4.0 by investing in advanced technologies and developing the digital skills of its workforce so that the economy can develop a competitive portfolio of export products and services. Low-tech and low-skilled products currently dominate Sri Lanka's export structure as its production system is based on technologies related to IR 2.5.[19] Advanced technologies can be acquired through EOFDI and therefore, the present anti-export policy bias needs to be speedily eliminated through appropriate reforms.

There are several subsectors with high export potential that have already been identified in a recent study by the BOI (2017). The study entitled *Targeting Sectors for Investment and Export Promotion*,[20] suggests 30 priority subsectors with export growth potential. The identification of these priority sectors was based on several composite indices including job creation potential and job quality potential of each subsector. Of these 30 sub-sectors 27 are in manufacturing while the rest are in the services sector. Moreover, 12 sectors demonstrate high potential for job creation with high quality jobs (Annex 2). Another 8 subsectors also indicate high potential for job-creation: tourism, fabricated metal products, furniture, textiles, wood products, paper products, printing& media and other products. Similarly, the list of priority sectors identified by the *National Export Strategy* (NES, 2018-22) includes six major sub-sectors: IT–BPM, wellness tourism, boating industry, spices, and concentrates, processed food and beverages and electrical and electronic components.

Once the global pandemic abates, tourism has the potential to generate job rich growth given its capacity to absorb labour and generate much needed foreign exchange. It is also a sector that Sri Lanka has comparative and competitive advantages given its historic first mover advantages in the region and its diverse range of scenic and cultural attractions that are easily accessible. While the sector is dominated by private establishments of varying size offering finely differentiated travel experiences, monetary and fiscal support, and well-informed interventions in areas such as skills development and destination marketing can help a speedy recovery of the sector. A tourism sector that is focused on sustainability can also incentivize stakeholders to help reverse the damage that ill-informed and short-

19 Paper presented by Ajith de Alwis on "Reimagining Manufacturing Sri Lanka needs a New Normal," at the Annual Sessions of Sri Lanka Economic Association (SLEA) Annual Sessions - 2021 Technical Sessions - November 13, 2021.

20 The study was carried out by a team of researchers led by Ricardo Hausmann (Harvard Center for International Development, CID).

sighted land use practices have wrought on the landscape and help preserve and restore Sri Lanka's enviable endowment of natural beauty.

COVID-19 has forced some structural transformation of the economy towards digitalization. The resort to digital solutions during the pandemic has mitigated to some extent the negative effects of mobility restrictions on firms and households and have helped nudge on some level of economic recovery. In the medium to long term, Sri Lanka needs to increasingly adopt and exploit these technologies for job growth (World Bank, 2021c). But this requires high-speed networks and internet access across the island and investments in improving digital literacy. Both require a range of interventions including ICT infrastructure development, investment in the digital capacities of instructors in education and training institutions to develop the ICT-related skills of the workforce, especially of young people. These measures can also help enhance distance learning in school education, technical education, vocational training, and higher education. They can also promote business recovery by enabling teleworking. Further, digitalization can promote business recovery of micro, small and medium- sized enterprises.

Export-oriented growth policies that seek to transform and upgrade production structures need to focus on: a) preparing a road map to convert Sri Lanka to a high-tech economy; b) increasing public investment in R&D activities; c) offering incentives for private sector investments in R&D; d) investing in STEM education in schools and the TVET sector to generate the necessary skills; and, e) encouraging higher education sector involvement in industry-related R&D work by strengthening university-industry linkages. We elaborate the skills development component in the next subsection.

4.4 Labour market, social protection and skills policies to generate decent jobs and inclusive access to them

Remedial education and skills development

While learning outcomes in fundamental skills were weak even before the pandemic struck, COVID-19 and the subsequent economic crises have thrown existing mechanisms for the delivery of general education and job-oriented skills training into disarray as Chapter 3 showed. The impact on general education has been particularly severe. The pandemic kept children out of school during 2020 and 2021, while the fuel and power shortages associated with the dollar crisis at the beginning of 2022 and subsequent social unrest and the imposition of curfews, have disrupted the resumption of school education since then. Efforts to provide online education and training during the pandemic have exposed a deep digital divide, between centre and periphery, between urban and rural areas, and between girls and boys. Zonally differentiated long power cuts introduced in early 2022 have further restricted virtual learning alternatives. Meanwhile, the collapse in real incomes due to the rising cost of living will create nutritional deficiencies which will retard the cognitive development of poor children, their ability to learn, and their productivity and income earning capacity in the future.

Since the crises have impacted children and young people at different stages of their education and skills development cycle, a differentiated and pragmatic approach is needed. For most children in the primary and lower secondary school cycles, 'catching up' by completing all the subject syllabi will be out of the question and, arguably, not even necessary. Besides, they cannot afford to lose any more time. For these children, remedial education programmes can equalize opportunities as they have been found to bring about positive changes in students' learning achievements plus improvements in social, psychological, economic, and career development (Yolak, et al., 2019). In Sri Lanka, remedial education can focus on imparting core skills in reading, writing and arithmetic. Its provision can also incorporate elements of the much lauded Finnish education system[21] which continuously assesses the functional outcomes of education in a non-competitive learning environment to measure success, rather than on examination results that are assumed to accurately proxy the achievement of those functional outcomes. This approach is more likely to enable children to become more functionally educated, employable and productive more quickly, compared to the current education system. The current education system is noted for its poor work-life balance and rote memorization, which has left children unable to analyse and understand problems and think independently about how to solve them. Moreover, as acquiring technology and entrepreneurship-related skills are important, it may make sense to enable children to acquire these skills themselves through interventions such as makerspaces, defined as collaborative workspace inside a school, library, or separate public/private facilities for making, learning, exploring, and sharing and uses high tech to no tech tools.[22] The collaboration of private technology firms, science and technology faculties in the regional universities, and the zonal education system, with the lead provided by private firms, maybe a workable consulting, coordination, implementation and funding arrangement that can be explored. Remedial education measures may have to be combined with social protection interventions such as the provision of nutritious mid-day meals at school or at other remedial education centres.

Broadly, developing the skills necessary to generate decent jobs on the one hand, and to upgrade and diversify production structures on the other need to focus on: i) designing demand-driven education and skills development programmes in consultation with industry; ii) implementing them in a timely manner so that new entrants to the labour market do not waste time in the education and training system; ii) improving the accreditation and recognition of skills development programme especially online programmes; and iii) increasing efforts to reskill and upskill workers to upgrade production structures, increase productivity and employ them in decent jobs.

All available resources and expertise should be mustered to reform the general education system and reverse the decline in core competencies. Without these fundamental skills in place, it will be difficult to build workplace skills at a later stage in the individual's education and training cycle. A culture of education which promotes intellectual curiosity, ability to conceptualize and analyse problems and issues, creativity, and entrepreneurship should be nurtured. The following supportive interventions based on new technologies can help develop the necessary skills as well as technologically upgrade production structures: i) Invest in ICT infrastructure development and ensure affordable connectivity; ii) Invest in developing and maintaining easy access to distance learning platforms and learning spaces for general education and TVET; iii) Promote public-private partnerships in education and training with the application of ICT technology; and iv) Ensure equal and inclusive access to skills development opportunities for both new entrants to the labour market and existing workforce.

The pandemic and subsequent economic crises have exacerbated the problem of educated youth unemployment. In fact, the severity of the macroeconomic crisis can undermine social cohesion and pull young people into yet another youth insurrection that Sri Lanka can ill afford. Hence, job rich economic recovery strategies need to provide employment and business development services to prevent excessive unemployment and ensure inclusive recovery. Policy makers need to strengthen labour market institutions and facilitate employment service providers.

21 See https://www.weforum.org/agenda/2018/09/10-reasons-why-finlands-education-system-is-the-best-in-the-world. Accessed 17 May 2022.

22 See https://www.makerspaces.com/what-is-a-makerspace/. Accessed 17 May 2022.

Support for informal sector workers

Informal sector firms are engaged in the sectors hardest hit by pandemic-related restrictions, such as restaurants and face-to-face service sector activities. They are also disadvantaged in terms of access to capital and face higher average debt ratios which severely limit their capacity to maintain output and recover after the pandemic (ILO, 2021c). In Sri Lanka, most of the informal sector firms have not been able to access stimulus packages due to regulatory requirements and the limited fiscal capacity of the government to reach them. These firms must be resuscitated to restore the livelihoods of the large number of informal sector workers who lost their jobs during the pandemic. Interventions to improve productivity and facilitate the transition to the formal economy are needed in the areas of, a) developing digital skills, b) assistance in improving market access, and c) facilitating access to business coaching and other business development services.

Modernizing institutional arrangements to ensure decent working conditions and social dialogue

The Department of Labour permitted temporary work adjustments to address the problems to businesses caused by the social mobility restrictions imposed to contain spread of the virus (Wimalaweera, 2020). However, growing out of the crisis requires more formal arrangements sanctioned by law to accommodate modern work arrangements such as flexible working hours, working from home, extended sick leave for workers, and revisions to paid sick leave. These measures are also likely to encourage women to enter the paid labour force, a necessary condition for job-rich growth in the context of an aging population as we discuss in what follows. Nevertheless, workers employed in new forms of ICT-related work, such as gig work, can also be vulnerable to exploitation by employers as the employer-employee relationship is often blurred and the workplace undefined. Sri Lanka’s labour laws need further reforms to ensure decent work conditions in new types of jobs.

Existing tripartite structures for social dialogue should also be strengthened. For example, the government initiated the Tripartite Task Force chaired by the Minister of Skills Development, Employment and Labour for the specific purpose of carrying out social dialogue during the pandemic. This mechanism needs to be formalized within institutional structures and given a wider mandate to facilitate social dialogue for recovery and growth (ILO, 2020b).

Fostering women’s entry into the labour market

The international literature attests that women’s double burden of paid and unpaid work has increased with the lockdowns, and proportionately more of them have lost jobs because of the pandemic than men. Gender-based violence and worsening mental health has also disproportionately affected women. Thus, there is a strong need for gender-sensitive recovery programmes with a firm commitment to redress long-standing inequalities along several dimensions of employment. Interventions in five main areas are needed: a) Improve the supply of child care, elders care and the care of persons with disabilities, safe transport, and flexible work arrangements for women; b) Introduce gender-responsive labour market policies (e.g. employment retention measures to prevent women from losing their jobs; wage subsidies with specific gender balance requirements supportive of women’s re-entry into employment; policies that support women’s employability and job-readiness, help in acquiring digital skills, etc.); and c) Introduce labour law reforms that facilitate flexible working hours and night work for women and socialize the costs of maternity benefits.

Social protection and labour market institutions

Existing institutional measures to protect those who lose jobs in crises like the present one and shore up the consumption of those who lost income are inadequate. The Termination of Employment of Workmen (sic) Act (TEWA) only covers the retrenchment of workers in firms with at least 15 workers and cannot protect workers in firms that go bankrupt as they are likely to do in economy-wide crises such as the present one. Meanwhile, the government's main consumption transfer programme, the Samurdhi Programme, suffers from under coverage and leakage. Both systems need reform and augmented with an unemployment benefit insurance scheme. Samurdhi needs to develop eligibility criteria that are sufficiently sensitive to varying local conditions and heterogeneous communities against a backdrop of variable economic growth. Ratification of the selection by the communities themselves through participatory processes and assisted by trained facilitators can ensure the legitimacy of the selection process.

Apart from the limited resources allocated for relief measures, the current coverage of labour market policies with respect to critical elements that ILO has recognized, such as job creation, social protection, social dialogue, protecting vulnerable groups, skills development, promoting innovative employment practices and business recovery, are limited and incomplete (ILO, 2021e). These labour market-related dimensions of recovery and growth need to be strengthened in a job rich economic recovery programme that is based on the diversification and transformation of Sri Lanka's production structures through technological innovations and digitalization.

4.5 Policy sequence

Most of the policy interventions recommended under the three policy pillars are short-term and requires immediate action from key stakeholder groups due to three main reasons: a) the severity of Sri Lanka's chronic macroeconomic stresses and full-blown crisis; b) the urgency of structural transformation to enhance productive efficiency and export-orientation in a population that is rapidly aging; and c) the severity of COVID-19's impact and the impact of the economic crisis on workers and their families. For example, fiscal consolidation under the first pillar requires three major short-term interventions: a) debt restructuring; b) strengthening revenue mobilization; c) making appropriate expenditure policy choices. Along with bridge financing, these measures will help ease current shortages of essential commodities and production inputs and restore investor confidence.

The success of the other two major interventions (export-led growth/job creation and labour market policy) depends entirely on macroeconomic stability which requires immediate attention and intervention. Also, some interventions (e.g. strengthening revenue mobilization) need to be continued even in the medium-term due to major structural problems in government finances. Similarly, export-led growth strategies require immediate policy responses in the areas of foreign direct investment, digitalization of production systems, skills development, and speedy recovery of tourism industry. Some of these interventions also require medium-term support due to policy failures in the past, in the areas of investment promotion and the upgrading of education and training systems (TVET). In addition, promoting investments in R&D needs to be treated as a medium-term intervention due to resource constraints faced by public and private sector organizations.

Finally, COVID-19 and the multiple economic crises have had devastating impacts on vulnerable groups, micro, small and medium scale enterprises, and has exacerbated poverty and economic and social inequality. As a result, policy interventions to address the labour market crisis and the intensification of poverty are urgently needed and targeted action programmes integrated with macroeconomic and export-led growth strategies. The key policy areas requiring short, medium, and long-term strategies and interventions are summarized in Table 4.1.

Table 4.1: Time frame of policy interventions necessary for economic recovery and job-rich growth

Policy intervention	Time frame		
	Short	Medium	Long
Address current macroeconomic crisis through bridge financing, debt restructuring, fiscal consolidation and improved fiscal space	√	√	√
Restore investor confidence	√		
Reformulate investment, industry, and trade policies to support export-led growth, technological transformation, productive efficiency and job creation, especially for MSMEs	√	√	√
Increase R&D and infrastructure investments with a clear focus on 3IR and 4IR technology		√	√
Demand-driven skills development and adjustment to a post-COVID-19 economy	√	√	
Social dialogue and legislative reform to support flexible arrangements while protecting workers	√	√	
Promote policies that foster women's entry into the labor market and support other hard-hit groups	√	√	√
Expand access to adequate social protection to workers and families (including institutional reforms)	√	√	√

4.6 Summary conclusions

COVID-19 has brutally exposed the economic vulnerability of Sri Lanka's economy, long affected by macroeconomic imbalances. In fact, unprecedented external crises have followed in the wake of the pandemic. Among the key challenges are declining output growth, stagnant and low value-added export structures and ballooning external debt. Over 200,000 jobs have been lost between the last quarter of 2019 and the second quarter of 2021, women have lost proportionately more, and jobs and income losses have been mainly among the poor and vulnerable. The crisis also pushed over 500,000 people into poverty. A weak recovery in the last quarter of 2021 has been snuffed out with burgeoning dollar, debt, and commodity crises. SMEs were the most affected during the pandemic and will find it most difficult to recover in the subsequent economic meltdown. Existing learning and skills development crises have intensified and will affect individuals' employability, income generating capacities, and their ability to contribute to economic recovery and growth if remedial measures are not taken immediately.

However, the crisis is also an opportunity to undertake the structural reforms needed for recovery and job-rich growth. This chapter suggests a comprehensive policy framework of three pillars: restoring macroeconomic stability; export-oriented growth and transformation of production structures with advanced technologies; and labour market policies including those focused on developing demand-driven skills and legislative reforms, which will facilitate women's entry into the paid workforce. Institutional measures needed to promote social dialogue, provide social protection for those who lose their jobs in crises such as the present one, and consumption support for those who lose income, are also urgently needed.

5. Conclusion

Sri Lanka currently faces multiple external crises, the combined result of long-standing macroeconomic imbalances, the impact of COVID-19 and critical policy missteps which made a bad situation much worse. Shortages in essential commodities such as gas, diesel and power created by the dollar crisis have impacted businesses, households, livelihoods, and the generation of human capital necessary for recovery and growth in the future. The economic crisis has also triggered a crisis of political instability and business confidence, which will affect the speed at which remedial policy measures are designed and implemented. The deteriorating macroeconomic situation suggests that economic recovery will be a long drawn-out process requiring a range of interventions sequenced over the short, medium, and long-term. On the positive side, the economic crisis represents an opportunity to undertake long overdue but necessary structural reforms, which can no longer be avoided or postponed. And the pandemic has also forced the introduction and adoption of new technology which can be deepened to fast forward Sri Lanka's structural transformation. Above all, the crisis reminds all stakeholders that development is ultimately about enhancing the capabilities and functionings of human beings which had been compromised before the pandemic and were debilitated in the crisis that followed. This point has generally been overlooked, not just in Sri Lanka but in many parts of the world.

This study of the labour market implications of Sri Lanka's multiple external crises is based on a review of the literature and descriptive analysis of published data. It has argued that the accumulated macroeconomic imbalances of the past decade at least made the country vulnerable to the worst economic impacts of COVID-19 and key policy missteps thereafter aggravated the economic crises and have now triggered a political crisis. The study's main findings from the perspective of the impact of the crises on the labour market are that:

1. Macroeconomic problems, which had been building for some time and which the pandemic aggravated, will impede economic recovery and set it back further if not urgently attended to.
2. MSMEs have lost the most in terms of loss of turnover, profits, and investment.
3. The economy lost 200,000 jobs to the crisis between the last quarter of 2019 and the second quarter of 2021. Own-account workers were the most affected. A weak recovery thereafter withered away with the onset of the dollar crisis in early 2022.
4. Proportionately more women lost jobs than men and this trend is likely to continue.
5. With jobs and earnings lost, over 500,000 people estimated to have fallen into poverty because of the crisis.
6. The economic crises have aggravated the existing learning and skills development crisis.
7. The existing policy framework on investment, industrial development and trade needs to be strengthened so it is conducive for economic recovery, transformation, and sustainable growth.
8. The existing policy framework on employment, skills development and social protection should be enhanced to deliver inclusive and job-rich growth during the post-pandemic/crisis recovery period.
9. Existing institutional support systems need further capacity and resources to promote job rich growth particularly in providing opportunities for skills development and facilitating employment opportunities for vulnerable groups such as women, disabled persons, and informal sector workers.

The underlying economic imbalances need urgent treatment, with a clear and comprehensive policy framework that focuses on short, medium, and long-term solutions and directly addresses the underlying causes. Policy makers need to adopt a credible policy package that will enable recovery and growth. The period of economic convalescence can be utilized to fast track the economic transformation that has been long overdue, to deliver job-rich growth for sustainable recovery and more.

This study proposes several interventions to ensure a human-centric transformation of Sri Lanka's economy and labour market. They are based on the principle that forward-thinking, focused, and inclusive investments in human capital will support the path to recovery and most importantly, mitigate the adverse political fallout of painful but necessary adjustment policies. This study recommends a comprehensive policy framework for a job-rich and inclusive recovery and transformation structured around the three priorities: (i) Macroeconomic policies ensure the uninterrupted supply of essential commodities, restore economic stability and investor confidence; (ii) Policies to support private sector-led economic diversification and job creation; and (iii) Labour market, social protection and skills policies to promote decent jobs and inclusive access to them.

These broad interventions need articulation through specific policies and strategies to produce a coherent and comprehensive programme to enable Sri Lanka to transform and grow out of the present crisis and reduce its vulnerability to other crises in the future.

However, right now Sri Lanka stands at a critical crossroad of its political and economic future. The series of economic shocks that the country faced since 2018, each one worse than the other, has now culminated in multiple economic crises and mass citizens' protests. Fearing for their futures, young people are leading the protests, demanding an overhaul of the political system. While the technical solutions to the economic crisis are well known, a fundamental pre-condition for their implementation is a stable and credible government. How soon and how successfully Sri Lanka navigates its current political crisis will determine its ability to manage its multiple economic crises. Sri Lanka must not miss this opportunity for fundamental course correction to secure the developmental future of its people.

References

ADB, 2021a. Policy Actions for COVID-19 Economic Recovery: A Compendium of Policy Briefs, Manila.

ADB, 2021b. COVID-19 Policy data base. https://covid19policy.adb.org/policy-measures/SRI

ADB, 2021c. *One year of Living with COVID-19: An Assessment of how ADB Members Fought the Pandemic in 2020*, Manila.

ADBI, 2021. COVID-19 Impacts and Policy Options: An Asian Perspective, Manila.

ADVOCATA, 2021. The State of State Enterprises in Sri Lanka: Systemic Misgovernance, A Discussion. Colombo: ADVOCATA INSTITUTE. https://www.research.advocata.org/wp-content/uploads/2019/03/THE-STATE-OF-STATE-ENTERPRISES-IN-SRI-LANKA-PS-1.pdf

Agrawal, S., De Smet, A., Lacroix, S. and Reic, A. 2020. To *emerge stronger from the COVID-19 crisis, companies should start reskilling their workforces now.* McKinsey and Company. https://www.mckinsey.com/~/media/mckinsey/business%20functions/organization/our%20insights/to%20emerge%20stronger%20from%20the%20covid%2019%20crisis%20companies%20should%20start%20reskilling%20their%20workforces%20now/to-emerge-stronger-from-the-covid-19-crisis.pdf

Asian Development Bank. 2018. *Tracer Study Sri Lanka: Public Training Institutions in 2016*. Manila.

Athukorala, P. 2021. Sri Lanka and the IMF: Myth and reality – Part 3, Financial Times (26.10.21) https://www.ft.lk/columns/Sri-Lanka-and-the-IMF-Myth-and-reality-Part-3/4-723783

Board of Investment Sri Lanka (BOI), Export Development Board (EDB) and Harvard Center for International Development (CID), 2017. Targeting Sectors for Investment and Export Promotion. Available at https://srilanka.growthlab.cid.harvard.edu/files/sri-lanka/files/sri_lanka_report_on_sector_targeting_exercise.pdf?m=1525360334

Central Bank of Sri Lanka, 2019. *Annual Report 2018*. Colombo: Central Bank of Sri Lanka.

Central Bank of Sri Lanka, 2022. *Annual Report 2021*. Colombo: Central Bank of Sri Lanka.

Central Bank of Sri Lanka, 2021a. *Annual Report 2020*. Colombo: Central Bank of Sri Lanka.

Central Bank of Sri Lanka, 2021b. *Economic and Social Statistics of Sri Lanka 2020*. Colombo: Central Bank of Sri Lanka.

Central Bank of Sri Lanka, 2021c. *"Recent Economic Developments: Highlights of 2021 and Prospects for 2022,"* Press Release.11.11.21. Colombo: Central Bank of Sri Lanka.

Central Bank of Sri Lanka, 2021d. *The Six Month Road Map for Ensuring Macro economic and Financial Stability,* Central Bank of Sri Lanka, Colombo.

Chandrasiri, S. and De Mel, S., 2019. Significance of institutional and policy support on productivity: Evidence from Sri Lankan manufacturing. 2018. *International Journal of Creative Research and Studies.* Vol. 2. No 5: 9-25.

Chandrasiri, S., 2012. Promoting Employment Intensive Growth in Sri Lanka: An Assessment of Key Sectors. ILO, Country Office for Colombo and Maldives. Colombo. www.ilo.org/wcmsp5/groups/public/---ed_emp/.../wcms_212722.pdf

Chandrasiri, S., R. Gunatilaka, S. Wijesekera, D. R. Kumara, A. Gunasekera and C. Premarathne. 2020. *An Initial Assessment of the Impact of Covid-19 on Members of The Employers' Federation of Ceylon*, Colombo: Employers' Federation of Ceylon.

De Silva, W. I., and R. de Silva. 2015. *Sri Lanka: 25 million people and implications, Population and Housing Projections,* UNFPA. Colombo: NCAS.

Department of Census and Statistics. 2017. *Sri Lanka Labor Demand Survey, 2017*. Colombo: Department of Census and Statistics.

Department of Census and Statistics. 2017. *Sri Lanka Labor Force Survey Annual Report 2017*. Colombo.

Department of Census and Statistics. 2020a. *Sri Lanka Labor Force Survey Annual Report 2019.* Colombo.

Department of Labour. 2020b. Survey to Assess the Impact of COVID‑19 (MSME sector), Colombo.

Department of Census and Statistics. 2021. *Computer Literacy Statistics – 2020* (First six months), Colombo.

Department of Census and Statistics. 2022a. *Household Income and Expenditure Survey 2019: Final Report.* Colombo: Department of Census and Statistics.

Department of Census and Statistics. 2022b. *Poverty indicators-2019*. Colombo: Department of Census and Statistics.

Diao, Xinshen, Margaret McMillan, and Dani Rodrik. 2017. *"The Recent Growth Boom in Developing Countries: A Structural Change Perspective."* NBER Working Paper 23132, Cambridge, MA: National Bureau for Economic Research,.

Dundar, H., B. Millot, M. Riboud, M. Shojo, S. Goyal, and D. Raju. 2017. *Sri Lanka Education Sector Assessment.* Washington, DC: World Bank Group.

Dundar, H., B. Millot, Y. Savchenko, H. Aturupane, and T. Piyasiri. 2014. *Building the Skills for Economic Growth and Competitiveness in Sri Lanka*. Washington, DC: World Bank Group.

Export Development Board (EDB), 2018. The National Export Strategy (NES) of Sri Lanka (2018-2022), Ministry of Development Strategies and International Trade, Colombo.

Export Development Board (EDB), 2019. National Export Strategy- 2019, Colombo.

Export Development Board (EDB), 2021.Export Performance, 2020. Colombo.

Gamage A.U., Kenneth A., Samarawickrama M. and de Silva A. 2021. The economics of COVID-19 in Sri Lanka: Direct and Indirect costs, in COVID 19: Impact, Mitigation, Opportunities and Building Resilience, Ed. by Senarathne et al., 2021. NSF, Colombo: 211-221.

Gunatilaka, R. 2013. *Women's Participation in Sri Lanka's Labour Force: Trends, Drivers and Constraints*. Colombo: ILO.

Gunatilaka, R. 2016. *Women's Activity Outcomes, Preferences and Time Use in Western Sri Lanka*. In, ILO (eds) *Factors Affecting Women's Labour Force Participation in Sri Lanka*. Colombo: ILO.

Gunatilaka, R. and Chandrasiri, S. forthcoming. *The Relative Demand for Women's Labour in Sri Lanka's Formal Enterprises,* Colombo: UNWOMEN.

Gunewardena, D. 2015. *Why aren't Sri Lankan women translating their educational gains into workforce advantages?* The 2015 ECHIDNA Global Scholars Working Paper. Washington D.C.: Centre for Universal Education at Brookings.

Gunewardena, D., 2010. An Analysis of Gender and Ethnic Wage Differentials among Youth in Sri Lanka. In: Gunatilaka R, Meyer M & Vodopivec M (eds.) *The Challenge of Youth Employment in Sri Lanka.* pp. 217-241. Washington D.C.: The World Bank.

Gunewardena, D., Abeyrathna, D., Ellagala, A., Rajakaruna, K., and Rajendran, S. 2008, *Glass Ceilings, Sticky Floors or Sticky Doors? A Quantile Regression Approach to Exploring Gender Wage Gaps in Sri Lanka*, PMMA Working Paper 2008-04, Poverty and Economic Policy Research Network.

Hayashi, R., Garcia,M., Jayasundara, H.D.S.A., Balasuriya,A and Hirokawa,T.2021. *COVID-19 Impact on Technical and Vocational Education and Training in Sri Lanka*, ADB Briefs, No 168. March 2021. Manila: Asian Development Bank.

IDA, 2019. Special Theme: *Jobs and Economic Transformation*, World Bank Group, Washington, DC.: IDA.

IFC, 2021a. *Gendered Impacts of COVID-19 on Employment in the Private Sector, Sri Lanka*, Washington, D.C.: IFC.

IFC, 2021b. Gendered Impacts of COVID-19 on Small and Medium sized Enterprises in Sri Lanka, Washington, D.C.: IFC.

Institute for Health Policy (IHP), 2021. *Sri Lanka Opinion Tracker Survey* (SLOTS), 2021. Colombo: IHP

ILO. *Covid-19 and the World of Work: Country Policy Responses.* https://www.ilo.org/global/topics/coronavirus/regional-country/country-responses/lang--en/index.htm#LK.

ILO, 2019. The ILO Centenary Declaration for the Future of Work, June, 2019. Geneva.

ILO, 2020a. The gender divide in skills development: Progress, challenges and policy options for empowering women, Policy Brief, August, 2020. Geneva.

ILO, 2020b. COVID -19 and World of Work, Country Policy Responses, Geneva.

ILO, 2021a. *Skills Development in the time of COVID-19: Taking Stock of the Initial Responses in Technical and Vocational Education and Training*, January 2021. Geneva.

ILO, 2021b. *An uneven and gender-unequal COVID-19 recovery: Update on gender and employment trends*, October 2021. Geneva.

ILO, 2021c. *ILO Monitor: COVID-19 and the world of work*. Eighth edition, October 2021. Geneva: ILOILO, 2021d. Working from home: From invisibility to decent work, 2021. Geneva: ILOILO, 2021e. Global Call to Action for a human-centred recovery from the COVID-19 crisis that is inclusive, sustainable, and resilient, Geneva.

ILO-ADB. 2020. Tackling the COVID-19 youth employment crisis in Asia and the Pacific. Bangkok: International Labour Organization. Manila: Asian Development Bank. https://www.adb.org/sites/default/files/publication/626046/covid-19-youth-employment-crisis-asia-pacific.pdf

IMF, 2021a. Policy Advice to Asia in the COVID-19 Era, No. 21/04, Washington, DC.

IMF, 2021b. Policy responses to COVID-19, Policy Tracker, July. 2021. Washington, D.C.

Institute of Policy Studies, Sri Lanka (IPS). 2021. *State of the Economy Report 2021*. Colombo: Institute of Policy Studies.

International Monetary Fund (IMF). 2021. Policy Responses to COVID-19. Policy Tracker. https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19.

Institute of Policy Studies (IPS), 2021. *Sri Lanka State of the Economy*, 2021, Colombo.

Kabeer, N., Razavi, S. and Rodgers, Y. M. (2021) Feminist Economic Perspectives on the COVID-19 Pandemic, *Feminist Economics*, 27:1-2, 1-29, DOI: 10.1080/13545701.2021.1876906

Kandasamy, N., Perera, B and Soldatic, K. 2021. COVID-19 from the margins: Gendered-Disability experiences in Sri Lanka, *Disability and the Global South*, Vol. 8. No.1: 1923-34.

Kiyota, K. 2016. "Exports and Employment in China, Indonesia, Japan, and Korea". In: *Asian Economic Papers* 15.1, pp. 57–72.

KPMG, 2021. *Budget Analaysis 2022: Towards Resurgence*, November 2021. Colombo.

Liyanagunawardena, T.R. and Williams, S.A. 2021. Emergency Remote Education: Experience from Sri Lanka during Covid-19, *Asian Journal of Distant Education*, Vol.1. No.1.

Los, B., Timmer, M.P and J. de Vries Gaaitzen. 2015. How Important are Exports for Job Growth in China? A Demand-side Analysis". In: *Journal of Comparative Economics* 43.1, pp. 19–32.

Lowy Institute, 2021. Covid Performance Index, Retried November 18th, 2021. https://interactives.lowyinstitute.org/features/covid-performance/

McKinsey Global Institute. 2021. *COVID-19 crisis, companies should start reskilling their workforces now*, McKinsey Global Institute, McKinsey.com.

Ministry of Health (2021). Coronavirus Disease 2019 (COVID-19), Situation Report, Colombo.

National Education Research and Evaluation Centre (NEREC). 2015. *National Report: National Assessment of Students Completing Grade 8 in Year 2014 in Sri Lanka*. Colombo: Ministry of Education.

________. 2017b. *Patterns and Trends in Achievement, TIMSS: National Assessment of Students Completing Grade 8 in Year 2016 in Sri Lanka*. Colombo: Ministry of Education.

_________. 2017a. National Report: National Assessment of Students Completing Grade 8 in Year 2016 in Sri Lanka. Colombo: Ministry of Education.

Nordhagen,S., Igbeka,U., Rowlands,H., Sabbas Shine, R., Heneghan, E. and Tench, J. 2021. 'COVID-19 and small enterprises in the food supply chain: Early impacts and implications for longer-term food system resilience in low- and middle-income countries', *World Development*, 141, 2021. Available online 29 January 2021.

Senaratne, Ranjith, Amaratunga, Dilanthi, Mendis, Shanthi, Athukorala, Prema-chandra. 2021. COVID 19: *Impact, Mitigation, Opportunities and Building Resilience from Adversity to Serendipity: Perspectives of global relevance based on research, experience, and successes in combating COVID-19 in Sri Lanka*, Colombo: National Science Foundation. http://www.nsf.ac.lk/images/pdf/COVID_Volume_NSF.pdf

Sujeeva, J. 2021. "COVID-19 Impact on the Local Economy of Arugam Bay with a Special focus on Surf Tourism," in *COVID - 19 Pandemic and Socio-Economic Issues: An Experience of Sri Lanka,* published by the Department of Economics and Statistics, Faculty of Arts and Culture, South-eastern University of Sri Lanka, Oluvil, ISBN: 978-624-5736-22-5 (E-Copy): 11-29.

TVEC. 2020. *Labour Market Information Bulletin*, December 2019. Colombo: TVEC.

TVEC. 2021. *Labour Market Information Bulletin*, December 2020. Colombo. TVEC.

UNICEF, 2021. Situation Analysis on the Effects of and Responses to COVID-19 on the Education Sector in Asia, Sri Lanka case Study, UNICEF/Sri Lanka, Colombo.

Vianna, A. C. 2016. "The Impact of Exports to China on Latin American Growth". In: *Journal of Asian Economics* 47.1, pp. 58–66.

Wattegama , C. 2021. Digital Economy of Sri Lanka: National Goals and Lessons from the South, UNCTAD/BRI PROJECT/RP15, UNCTAD.

Weerakoon, D. 2017. "Sri Lanka's debt troubles in the new development finance landscape", *Third World Thematics*: A TWQ Journal, DOI: 10.1080/23802014.2017.1395711

Weerakoon, D. 2021. Impact of the COVID-19 Pandemic on the SDGs in Sri Lanka and the potential for regional cooperation, UNESCAP, Delhi.

WEF, 2019. *The Global Competitiveness Report*, 2019. Geneva.

Wimalaweera, A. 2020. Covid-19 & Beyond- The impact on the Labour Market of Sri Lanka, Colombo: Department of Labour Sri Lanka, May 2020.

World Bank, 2021a. *Sri Lanka Development Update*, 2021. Colombo.

World Bank, 2021b. *Sri Lanka Poverty Assessment: Accelerating Economic Transformation*, Washington, D.C.

World Bank, 2021c. *Sri Lanka Poverty Assessment: Accelerating Economic Transformation*, Washington, D.C.

World Bank, 2021c. *Shifting Gears: Digitization and Services-Led Development. South Asia Economic Focus*, Fall 2021. Washington, DC: World Bank. https://openknowledge.worldbank.org/handle/10986/36317

World Bank. 2021b. *Shifting Gears. Digitization and Services-led Development*. South Asia Economic Focus, Fall 2021. Washington D.C: World Bank.

World Economic Forum, 2020a. *The Future of Jobs Report* – 2020, Geneva.

World Economic Forum, 2020b. *The Global Competitiveness Report, Special Edition, 2020*. Geneva. Yolak, B.B., Kiziltepe, Z and Seggie, F.N. 2019. The Contribution of Remedial Courses on the Academic and Social Lives of Secondary School Students, Journal of Education, Vol.199(1): 24-34.

Annex 1: Percentage of computer owned households by sector, province, and survey year (1st half, 2020)

	Desktop (%)			Desktop or Laptop (%)		
Sector/Province	**2018**	**2019**	**2020**	**2018**	**2019**	**2020**
Sri Lanka	10.5	8.8	8.1	22.9	22.2	22.2
Urban	15.5	14.4	11.3	39.5	38.3	36.3
Rural	9.9	8.1	7.8	20.3	19.9	20.2
Estate	2.2	0.9	1.9	4.9	3.8	3.4
Province						
Western	14.6	12.6	11.6	33.4	34.7	33.8
Central	11.8	9.3	7.1	22.5	20.6	19.3
Southern	9.5	7.3	7.6	20.8	16.6	20.7
Northern	7.9	7.5	4.2	21.2	18	15
Eastern	5.7	7	3.2	13.5	14.2	11
North-Western	9.5	7.3	7.7	20.8	20.3	19.8
North-Central	7.8	4.4	4.3	17.1	13.4	15.4
Uva	5.1	3.7	5.5	10.7	12.9	13.5
Sabaragamuwa	10.8	10	11.6	19.7	19.6	21.5

Source: DCS (2021d), Computer Literacy Statistics – 2020 (First six months), Colombo.

▶ *Annex 2: Export-led growth sector prioritization in terms of job creation and job quality*

Sectors	Assessment	
	Job creation	*Job quality*
Very high or high		
Electronics	High	Very high
Software and IT	High	Very high
Education	Very high	High
Transport equipment (ships, motorcycles, other)	High	High
Wearing apparel	Very high	High
High and average		
Industrial Machinery and Equipment	High	Average
Transport equipment (motor vehicles and trailers)	Average	High
Electrical equipment	High	Average
Other products (medical, decorative, recreational)	High	Average
Footwear, leather, travel goods and related	Very high	Average
Paper products	High	Average
Printing and recorded media	High	Average
Very High, High and Low		
Accommodation and food services (tourism)	High	Low
Fabricated metal products	High	Low
Chemical products	Low	High
Finance and insurance	Low	Very high
Refined petroleum and coke products	Very low	High
Furniture	High	Low
Textiles	Very high	Low
Products of wood, cork and straw except furniture	Very high	Very low
Tobacco	Very low	High
Average		
Business administration and support (BPO)	Average	Average
Basic metals	Average	Average
Average and low		
Food products	Low	Low
Cement, ceramics, glass and other metal products	Average	Low
Transportation and storage (logistics)	Low	Low
Rubber and plastic products	Average	Low
Pharmaceutical products	Low	Average
Construction	Average	Low
Beverages	Low	Average

Source: BOI, EDB and CID (2017).

International Labour Organization
Country Office for Sri Lanka and the Maldives
202-204, Bauddhaloka Mawatha
Colombo - 7, Sri Lanka
Tel: +94 11 259 2525
Fax: +94 11 250 0865

ISBN 978-92-2-037223-4
9 789220 372234