



Covid 19 & Beyond- The impact on the Labour Market of Sri Lanka

SURVEY REPORT OF THE E-SURVEY CONDUCTED ON PRIVATE SECTOR ESTABLISHMENTS –MAY 2020

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Preface

'Covid 19' has taken the world by storm, challenging the norm of 'normal' in most aspects of life. The pandemic situation 'halted' almost all economic activities of Sri Lanka, impacting the labour market and all its participants in multiple ways. As the institution responsible for the enforcement of labour law and ensuring the maintenance of industrial peace, Department of Labour has been witnessing and experiencing the multiple challenges faced by the labour market of Sri Lanka since early March 2020. In this backdrop it was decided to conduct an 'e-survey' to gain the much needed insights to the actual situation of the labour market in order to make appropriate policy recommendations to the government.

It is a pleasure to note that the Department could carry out all the steps of this survey from designing the survey questionnaire to the writing of the report utilizing own human resources, and that the cost of this survey was limited to the multiple rounds of 'tea & coffee' and printing paper. Yet, it is stressed that the quality and the value of the survey and the survey findings which enabled the Department to make the timely recommendations is invaluable.

I wish to thank all 2764 respondents to the survey, and the state and private sector media who provided the much needed publicity for this survey which was conducted when the whole country was under curfew. The high level of response rate allowed the Department to gauge the actual situation of the labour market accurately.

It is sincerely hoped that the survey findings and the recommendations will aid the government to take appropriate and timely policy decisions to ensure the sustainability of the labour market.

A Wimalaweera,
Commissioner General of Labour,

Table of Contents

Preface	i
Table of Contents	ii
Executive Summary	iii
Report Recommendations	v
Chapter 1: Background situation.....	1
The global Covid 19 response	1
Sri Lanka and Covid 19	2
Labour Market of Sri Lanka	3
Impact of Covid 19 preventive measures on the labour market	4
Chapter 2 : Assessing the actual situation of the Labour market	6
Labour law of Sri Lanka and Covid 19	6
Need for assessing the actual situation	7
E-survey on employment and private sector business	7
Survey limitations:	8
Chapter 3 : Findings of the survey.....	9
Responder description – Geographical Spread	9
Responder Description: by industry	10
Status of Business operation.....	11
Status of employment	15
Payment of salary	16
Size of the business	18
Chapter 4 : Discussion of results and recommendations	24
Discussion of Results	24
Recommendations.....	29
References	31

Executive Summary

What started as an outbreak of pneumonia in Wuhan, China in December 2019 has since evolved to become an unprecedented global health crisis in the name of 'Covid 19, affecting most of the economic activities globally. Sri Lanka has been able to contain and control the 'first wave' of the pandemic successfully; these successful measures have inflicted negative impact to the economy tilting the labour market equilibrium substantially.

The economically active population of Sri Lanka was at 8.6 million, with 64.5 % males and 35.5 % females. Further, the private sector employs almost 3.5 million people whilst own account workers amount to 2.7 million. It is noteworthy to mention that 81.3 % of the private sector employees and 57.3 % of own account workers are employed in non-agriculture sector. The minimum economic activities carried out since Mid-March to date have impacted all stakeholders of the labour market. A significant cohort of the working population is without any form of social security, making them highly vulnerable in the event of loss of income. Labour market of Sri Lanka has suffered a similar fate to that of other countries fighting to contain the spread of 'Covid 19'

The existing legislation does not address the current pandemic situation, depriving both employees and employers alike of relief measures to be adopted in this situation. Hence, protecting employment whilst protecting businesses and ensuring sustainability has become a challenging task.

In order to assess the actual situation of the labour market and to identify the required interventions, an e-survey on private sector establishments affected due to 'Covid 19' using convenient sampling technique was carried out. Despite limitations which are common to

most e-surveys, the survey has provided valuable insights in to the prevailing situation of the labour market.

In summary, a total of 2764 establishments in the formal private sector had responded to the survey, with 58.59% of establishments belonging to the Colombo District. All 21 types of industries included in the the International Standard Industrial Classification of All Economic Activities (ISIC) have been captured, with the manufacturing sector taking the lead with a cohort of 28.65% from the total responded establishments. 53.00% of the establishments had their businesses 'closed' during the survey period (months of April, May), with only 3% of the establishments capable in functioning 'fully'. The total employment in these establishments in the month of February is 596,022, with a staggering 64.26% of the employees not in work during the survey period. Alarmingly, 1084 establishments had indicated that they would be unable to pay salaries to their employees. Unfortunately, the results indicate the commencement of lay-off/ termination strategies of establishments hinting at the rising unemployment figures of the country. Only 2% of the responded establishments have been successful in securing the working capital loans offered by financial institutions, with 48.11% of establishments awaiting the outcome of the applications.

Survey results indicate the strong relationships between the size of the establishments and the ability to operate the business during the survey period, 'status' of operation, ability to pay salary in future, and the total employment, with significant variations with respect to industries. These findings indicate the need for arriving at industry specific interventions to revive businesses with the aim of protecting both employment and business sustainability.

'Covid 19' health situation has not reached an equilibrium level which will allow for planning of long term interventions. The most feasible is the adoption of both short term and medium term strategies, with frequent adjustments to suit the evolving situation. Accordingly, short term recommendations targeting the employment protection and ease of financial burden from the employers are made, with medium term strategies aiming the achievement of social protection for all employees, long term industrial peace and employment creation. Survey recommendations

Report Recommendations

The uncertain manner in which 'Covid 19' is evolving does not make room to prepare concrete plans for revival of industries in the country. Yet, it is essential that immediate steps are taken to minimize the threat to the labour market, which is essential in the revival process of the country. Therefore two-fold recommendations are made; both short term and medium term. As the impact of 'Covid 19' has not reached an equilibrium, long term recommendations are not made.

Short term recommendations: to ease the financial burden on the employers that will sustain the businesses.

1. Retaining of employment, with deducted salaries for those who have been made to stay at home due to non-availability of work/short-term lay off strategies which ensure return to work to full time positions within a six-month period with the payment of certain percentage of wage instead of terminating them. Both the EPF and ETF contributions to be continued during this time – guaranteeing continued social security.
2. Establishments to be allowed to prorate payments according to the number of hours worked by each employee, if losses of business/ social distancing requirements have resulted in lower hours of work per employee.
3. Continue the granting of loans to provide working capital to the businesses at lower interest rates.
4. Allow for the employers to recover a portion of 'lost paid hours without work' in future having consent with Trade Unions or relevant parties.

Medium term recommendations

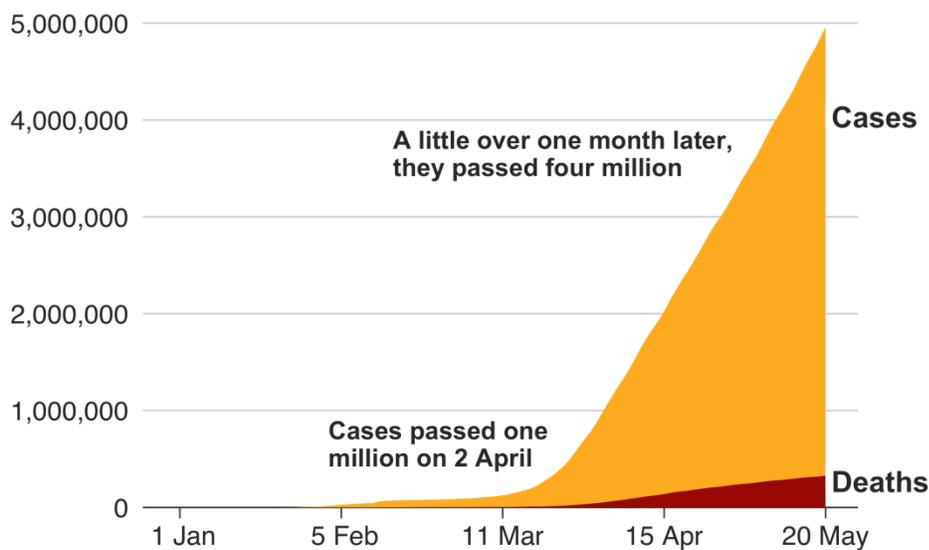
1. Establishment of a comprehensive integrated social security scheme including unemployment benefit scheme linked to reskilling, re-employment, and up-skilling.
2. The COVID 19 pandemic has provided an opportunity to create Sri Lanka as Health and Education hubs catering not only for the local demand but also for the rest of the world. This will create significant additional employment opportunities which could mitigate the increased unemployment due to pandemic and positive impact on the external sector of the country.
3. Strengthen social dialogue mechanism at enterprise and sectoral level to mitigate the negative impact of the labour market leading to industrial peace
4. Exploring and adopting strategies to modernize and diversifying agriculture (including fisheries), apparel and textile industries, and tourism sectors.

Chapter 1: Background situation

The global Covid 19 response

What started as an outbreak of pneumonia in Wuhan, China in December 2019 has since evolved to become an unprecedented global health crisis in the name of 'Covid 19'. It has brought all major economies to an almost standstill, impacting 213 countries and territories across the world. Covid 19 has claimed 276,253 lives whilst infecting more than 4,014,503 persons as at 09.05.2020. By 21.05.2020, the number of infected persons has increased to 5133743 persons, whilst claiming the lives of 331347.

Global coronavirus cases approach 5 million



Source: Johns Hopkins University, national health agencies. Data up to 20 May **BBC**

Figure 1: Global increase of Covid 19 cases and deaths

As shown in the graph above, the statistics do not indicate of any slowing down or flattening of the curve as at present. Whilst the pandemic situation does not indicate an end in the near future, the economic impact of 'covid 19' is estimated to be graver than that of the health crisis. The International Labour Organization (ILO) reports that 436 million enterprises, comprising of both employers and own account workers are currently facing

the 'high risk of disruption'. ILO further elaborates that 68 % of the global workforce are currently living in countries that recommends or require the closure of workplaces. This directly impacts the income, earning capacity, and the continuation of livelihoods of the global work force. Globally, manufacturing, accommodation and food services, wholesale and retail trade, and real estate and business activities have been identified as the hardest hit sectors of the economy. 389 million own account workers are operating in these four sectors, indicating the gravity of the crisis situation. The impact of Covid 19 on the informal economy has been severe. An estimated 1.6 billion informal economy workers are direly affected by the pandemic situation disrupting their daily earnings. It needs to be stated that significant opportunities are also available within this crisis, from new employment creation to increased opportunities in making businesses more agile.

Sri Lanka and Covid 19

Covid 19 has affected most of the economic activities all over the world. Supply chains have been disrupted and entire economies are collapsing. Many countries have locked down their economies to save lives and to contain and control the spread of COVID 19 pandemic. Simultaneously, the economies will be crippled and it seems that these economies will take many more months if not years to recover. Sri Lanka too is not an exception in this regard. Sri Lanka has been able to contain and control the 'first wave' of the pandemic successfully. Yet, these same measures have disrupted the economic activities in the country, and obstructed the earning opportunities of the masses. The steps taken by the government to re-open agriculture sector including tea, rubber and fisheries while protecting the lives from health point of view are commendable and have had significant impact on production, employment, and livelihoods in that sector to a greater extent.

However, industrial and services sectors have almost become a stand still. No exports except tea and health related products are taking place owing to none or lack of demand and due to inability of importing raw materials from the rest of the world. The tourism sector which was struggling to survive after Easter Sunday attack in 2019 has slumped further, with no indication of when it could revert to normalcy.

Remittances which were contributing from 8 to 9% of GDP is drastically declining and it is expected that a significant number of migrant workers will return due to non-availability of demand for their work in destination countries. Thus, the decreased demand for exports, tourism, and migrant workers coupled with loss of livelihoods will severely affect the external and internal sectors and the labour market of Sri Lanka. This scenario will result in laying off workers due to closing of business, leading to unprecedented levels of unemployment. Physical distancing and continued curfew has restricted the income earning opportunities of the daily wage workers and own account workers too. It is needed to be mindful that with continued physical distancing measures in place, revival of total employment will not take place in the immediate future. Similarly, the loss of income earning opportunities for almost two months have led to the closure of a significant percentage of small and medium scale enterprises. In summary, it can be said that Sri Lanka has been successful in fighting the first wave of Covid 19 pandemic, whilst inflicting negative impact to the economy, as has happened in multiple countries.

[Labour Market of Sri Lanka](#)

Estimates of the Department of Census and Statistics (DCS) indicate that in the 4th quarter of 2019, the economically active population was at 8.6 million, with 64.5 % males and 35.5 % females. Further, the segregation of employment in major sectors indicates 46% of employment in services sector, with 37% in industries and 27% in agriculture. Services sector includes 13 out of 21 key occupational clusters including the wholesale and retail trade, repair of motor vehicles and motor cycles, transportation and storage, accommodation and food services activities, education, public administration and defense. Manufacturing and construction are included in the industries sector.

Employment Status	Sri Lanka		Sector			
			Agriculture		Non-Agriculture	
	No.	%	No.	%	No.	%
Sri Lanka	8,181,442	100.0	2,215,128	27.1	5,966,314	72.9
Employee	4,680,553	100.0	670,808	14.3	4,009,745	85.7
Public	1,201,058	100.0	21,306	1.8	1,179,752	98.2
Private	3,479,494	100.0	649,502	18.7	2,829,993	81.3
Employer	202,962	100.0	29,024	14.3	173,939	85.7
Own Account Worker	2,711,964	100.0	1,158,717	42.7	1,553,246	57.3
Contributing Family Worker	585,963	100.0	356,579	60.9	229,384	39.1

Table 1 Distribution of economically active population, Sri Lanka (DCS, 2019)

The above table published by DCS in the Quarterly Report of Sri Lanka Labour Force Survey for the 4th quarter of 2019 indicates that private sector employs almost 3.5 million people whilst own account workers amount to 2.7 million. It is noteworthy to mention that 81.3 % of the private sector employees and 57.3 % of own account workers are employed in non-agriculture sector. The table further indicates the high occurrence of informal sector employment as well, which constitutes of more than 3.3 million employed population of the country. Further, a significant cohort of the working population is without any form of social security, making them highly vulnerable in the event of loss of income.

Impact of Covid 19 preventive measures on the labour market

Sri Lanka commenced adopting strict measures in containing and controlling the spread of Covid 19 since 15 March 2020. These measures included closing of borders for inbound passenger traffic, import restrictions, enforcing island wide curfew and ordering to adopt working from home practices for both private and private sector. Continuous police curfew enforced in the Western province and Puttlam district was not relaxed only from 11 May 2020, whilst the curfew in the Districts of Colombo and Gampaha was lifted only on the 26 May 2020. . The government of Sri Lanka has commenced to assist the general public who has lost their daily income through personal grants of 5000 LKR per family. It has been

declared that for the month of April, 1.7 million persons have been given this 5000 LKR allowance on the basis of loss of income. This commendable act of the government also indicates the loss of livelihood of 1.7 million Sri Lankans as well.

Assessing the situation, it can be summarized that the labour market of Sri Lanka has suffered a similar fate to that of other countries fighting to contain the spread of 'Covid 19'. In this context, employment protection has been threatened and the loss of income and businesses has threatened the business continuity. Since 85.7% of the employers are in the non-agriculture sector, the extent of the vulnerability and the resulting impact on the employment can be grave.

Chapter 2 : Assessing the actual situation of the Labour market

Labour law of Sri Lanka and Covid 19

The labour legislation of a country regulates the employer-employee relationship in general. The societal norm and the acceptance is are that the employee is the weaker party in this relationship. In Sri Lanka, the labour legislation has followed this same line of thinking, gifting the country with very protective labour laws. Further, existing laws are not equipped to address issues arising due to 'covid 19' as the possibility of a pandemic situation threatening the labour market was not foreseen when inking the laws, except in very few instances. Thus, employees and employers alike are deprived of relief measures to be adopted in this situation.

A pregnant employee is not in a position to request for special leave during this period from her employer even though the health guidelines have identified pregnant women to be in the risk group for 'Covid 19'. Similarly, an employer is not a position to seek relief to reduce salaries for employees who have not been given work due to reasons beyond his/her control. Moreover, even under this type of situation, employers must adhere to the provisions of the 'Termination of Employees Act, if they want to terminate employees due to the impact of 'Covid 19'. In addition, Shop and Office Employees Act restricts female employees being employed after 8.00 p.m. except in few specified industries and trades. As flexible working arrangements have not been defined and linked to the rights of the working people, employers are reluctant to adopt such types of working arrangements. Hence, this situation may incline the employers towards misuse of terms and conditions of employment indicating the possibility of elements of forced labour being infiltrated to the workplace.

It is envisaged that manpower supplying agencies will take the undue advantage of the evolving situation leading to the exploitation of workers and disadvantaging them. In Summary, there are no exceptions in labour laws which could be applied in situations like Covid 19. Therefore, protecting employment whilst protecting businesses and ensuring sustainability has become a challenging task.

Need for assessing the actual situation

Since the onset of pandemic situation, the Department of Labour has been receiving multiple complaints and requests from both the employees and employers seeking relief. These ranged from requests to stay home despite the workplace being open made by employees to requests to lay off employees who cannot be employed due to physical distancing restrictions made by employers. Similarly, a rising percentage of employees started complaining that they were not paid salary in this back drop. In order to assess the actual impact of the 'covid 19' on employment and private sector businesses accurate and timely data is essential. Accordingly, Department of Labour conducted an e- survey on private sector establishments affected due to 'Covid 19' using convenient sampling technique. The objective of this survey was to gather information on private sector establishments affected due to 'Covid 19' which will be used to provide effective, targeted and well-designed policy responses by the government.

E-survey on employment and private sector business

The e-survey asked employers about the extent of the impact on the business since the onset of Covid 19. Including if and how the business is being continued, total number of employees at the end of February 2020, the present number of employees, present situation of the establishment; whether it is closed, in partial operation or in full operation. Further, if the establishment is closed whether there is an intention to re-open and reasons for closer etc. In aiming to provide recommendations to the policy makers, the Department of Labour undertook a real time establishment survey. Hence, using a non-probability sampling technique (content sampling) a simple survey was developed and circulated among employers through email and other on line platforms. The survey was given wide publicity through print and online media, attracting more responses. Public sector institutions including statutory bodies and state defense apparatus were not included for this purpose as the respective employment is not covered by the labour enactments. This online survey was conducted from the 26.04.2020 to the 15.05.2020.

Data was gathered following the International Standard Industrial Classification of All Economic Activities (ISIC), the United Nations industry classification system to ensure easy data comparability. Adopting the above classification for data collection allowed for data comparability, which enabled the Department to forecast and make appropriate recommendations.

Survey limitations:

An employer responding to the survey depends on few key factors which are beyond the control of the Department of Labour.

1. Level and skill of internet usage – the survey was shared with the potential responding establishments through email. Even though wide publicity was given to the survey through both print and online media, the response of establishments depends on the ability to access and completed the survey link on the website of the Department. Therefore, the level of IT literacy and the internet usage is one salient limitation in this survey
2. As a convenient sampling method was adopted to select the responders, under or over representation of employers, employees can occur as the spread of sample is not even across the industries.
3. The employers' reluctance to reveal the actual situation, and the status of employment in their establishments – this would lead to both over and under representation of the current scenario, and receiving biased data threatening the accuracy of the estimates and the relevance of the recommendations.

The preventive measures adopted to contain the spread of Covid 19 did not allow any physical movement for data collection activities during the survey design or data collection period. Therefore, online survey was the only feasible method of data collection. Thus, it was decided to compare the data gathered with the available secondary data prior to making recommendations. Accordingly, the International Standard Industrial Classification of All Economic Activities (ISIC) was used for the questionnaire to ensure the ease of data comparability.

Chapter 3 : Findings of the survey

Responder description - Geographical Spread

In total, 2764 establishments have responded to the survey, which indicate that 58.29% of the responders were from the Colombo district and 15.27% from Gampaha district, both districts continue to be under curfew in order to contain the spread of virus. The annual report of the Central bank for the year 2018 reports that the contribution to the Gross Domestic Product (GDP) by the Western province is 37.2%, with the other provinces reporting percentages below 11%, indicating a higher industry concentration in the Western province. Thus, it can be said that the survey sample is representative of the industry spread geographically. 53% of the responded establishments have closed their businesses, 44 % of them in partial operation, whilst only 3% of the total responded establishments were functioning with full capacity.

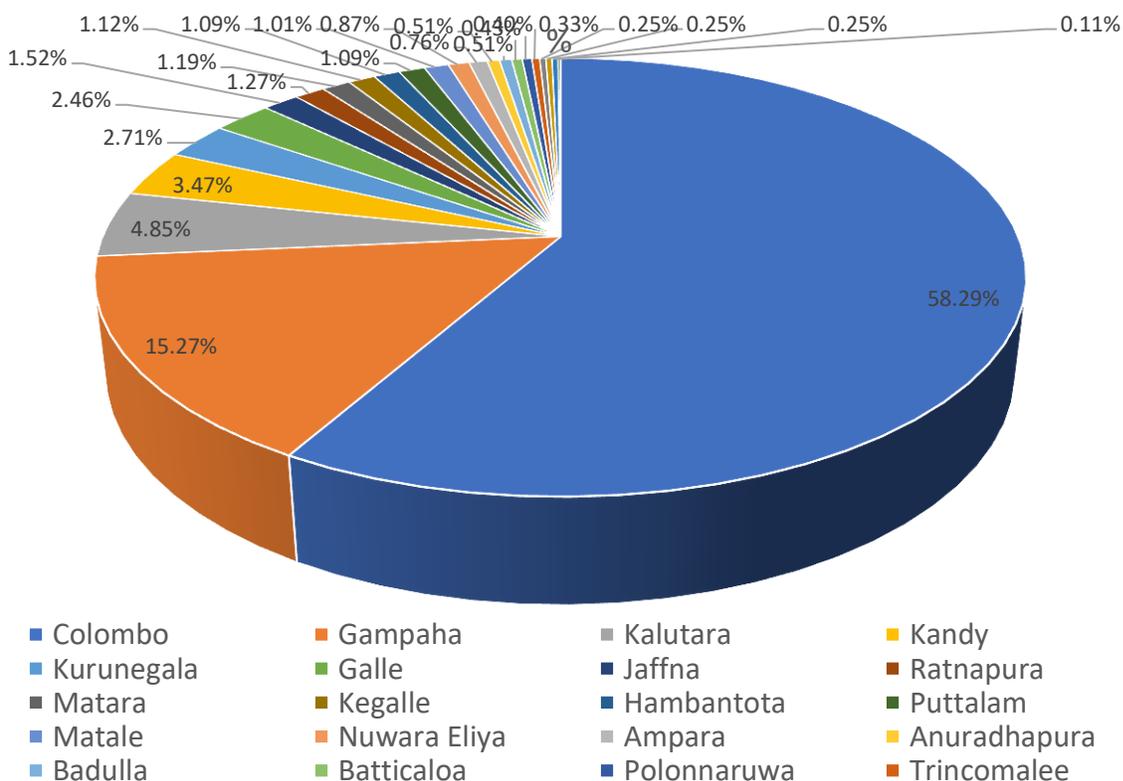


Figure 2: Geographical Spread of the industries

Responder Description: by industry

As shown in table 2, all 21 types of industries have been captured through this survey with the highest representation from the Manufacturing sector at 28.65%. Further segregation indicates that the more than 75% of the respondents from the manufacturing sector represent the sub category of Garment and Textile industry. 'Other Service Activities' accounted for 27.68% of respondents. Establishments in the 'Accommodation and Food Services Activities' accounted for 9.62% of the responders.

	Data from the Survey May 2020			Annual Industry Survey 2018	
Industry Nature	No of responses in the survey	% from the total respondent	% from the 4 types of industries in the sample	Number of establishments	% from the 4 types
Manufacturing	792	28.65%	95.19%	17719	85.45%
Electricity, gas, steam and air conditioning supply	25	0.90%	3.00%	135	0.65%
Mining & quarrying	8	0.29%	0.96%	2532	12.21%
Water supply, sewerage, waste and remediation activities	7	0.25%	0.84%	351	1.49%
Total	832	30.09%	100.00%	20737	100%

Table 2: Comparison of establishments with industry Survey 2018

Caution must be exercised when utilizing these industry specific data to generalize to the country specific industry levels as data has only been collected from the non- state sector establishments, which represent formal private sector of the country. For example, the annual survey of industries conducted for the year 2018 by the DCS, contain the statistics relevant to the industries of Manufacturing, Electricity, gas, steam and air conditioning supply, Mining & quarrying, and Water supply, sewerage, waste and remediation activities. In comparison, it can be said that the survey respondents over represent the

manufacturing industry by about 10 %. This difference can be attributed to the varying responding rates from each industry, and also to the exclusion of the state establishments. The usage of information technology would have also impacted the responses. Therefore, it would be advisable not to compare the inter-industry relationships within these four types. Yet, within the industry comparisons for the manufacturing sector and respective forecasting is feasible as there is a significant sample from the manufacturing industry.

Industry Nature	No	%
Manufacturing	792	28.65%
Other service activities	765	27.68%
Accommodation and food services activities	266	9.62%
Wholesale and retail trade, repair of motor vehicles and motor cycles	212	7.67%
Information and communication	128	4.63%
Construction	112	4.05%
Education	90	3.26%
Professional, scientific and technical activities	62	2.24%
Agriculture, forestry and fishing	55	1.99%
Transportation and storage	54	1.95%
Human health and social work activities	45	1.63%
Financial and insurance activities	40	1.45%
Administrative and support service activities	30	1.09%
Real estate activities	28	1.01%
Arts, entertainment and recreation	26	0.94%
Electricity, gas, steam and air conditioning supply	25	0.90%
Activities of households as employers; undifferentiated goods and services - producing activities of households for own use	16	0.58%
Mining & quarrying	8	0.29%
Water supply, sewerage, waste and remediation activities	7	0.25%
Activities of extra territorial organizations & bodies	2	0.07%
Public administration and defense compulsory social security	1	0.04%
Total	2764	100.00%

Table 3 :Distribution of survey respondents according to industry

Status of Business operation

Table 4 indicates that 29.69% of the establishments that have closed their businesses belong to the 'other service activities'. Similarly, 23.07% of the establishments in the 'manufacturing' industry have closed the businesses. Interestingly, comparing the numbers of closed businesses within the industry itself reveals that; 75% of the establishments in the 'education' industry are closed, whilst 68.87% of 'whole sale and retail trade, repair of motor vehicles and motor cycles' establishments have also closed. The comparison of

establishments in relation to the level of operation within the industry itself is given below. Industries with less than 50 responses have been disregarded in this analysis to maintain the accuracy and to avoid misleading forecasts.

Despite manufacturing sector having the highest number of closed establishments as a percentage of total establishments, 'education' sector is observed to be the industry with the highest percentage of closed establishments. Further, it is observed that the percentage of closed industries within the industry is more than 60 % in the industries of Accommodation and food services activities, wholesale and retail trade, repair of motor vehicles and motor cycles, Construction, Education, Professional, scientific and technical activities. This indicates the need for the introduction of sector targeted interventions to revive businesses.

Agriculture, forestry and fishing industry indicates the highest percentages for both the 'in operation with under capacity' and 'in full operation' categories of businesses, indicating a higher level of resilience in during this period, 72.73 % and 14.55% respectively. A similar trend is observed in the 'Information and communication' industry with the percentage of establishments in operation with under capacity being 49.22%, and the percentage for 'in full operation' being 10.16%.

A matter of concern is the inability of at least one organization in the transport and storage sector to be in full operation, despite essential goods transport and storage has been encouraged and promoted throughout the crisis management period. Though this can also be due to the fully operating establishments having not responded, it can also be that this sector lacks formal establishments and is operated through informal establishments.

It should also be noted that 'Manufacturing' and 'other service categories' have had a significant percentage of the establishments in 'operation with under capacity'. Yet, as a percentage of total establishments these two industries account for 56.33% of closed businesses indicating the impact these sectors are having in the total employment and in the economy.

A point of concern again is the limited percentage of industries in the education sector to operate in operation. The revelation that 2 establishments that have responded have managed to conduct their business in 'full operation' level indicates the huge potential this industry has in sustain in the 'new normal' future. Out of the 90 establishments that have responded in this sector, only 22 businesses have managed to continue their operations in under capacity level.

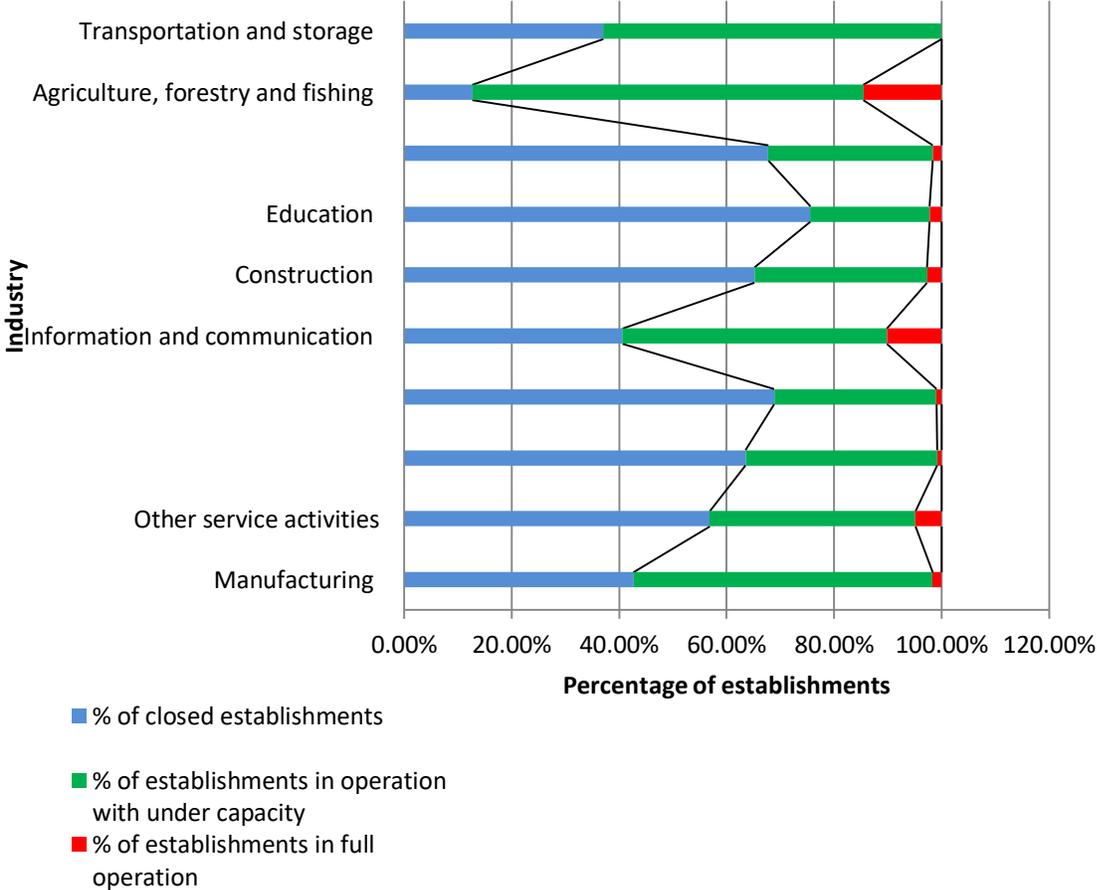


Figure 3 Status of business operation

Industry Nature	number of establishments	% of establishments from the total establishments	number of closed industries	% of closed establishments	number of establishments in operation with under capacity	% of establishments in operation with under capacity	number of establishments in full operation	% of establishments in full operation
Manufacturing	792	28.65%	338	42.68%	441	55.68%	13	1.64%
Other service activities	765	27.68%	435	56.86%	293	38.30%	37	4.84%
Accommodation and food services activities	266	9.62%	169	63.53%	95	35.71%	2	0.75%
Wholesale and retail trade, repair of motor vehicles and motor cycles	212	7.67%	146	68.87%	64	30.19%	2	0.94%
Information and communication	128	4.63%	52	40.63%	63	49.22%	13	10.16%
Construction	112	4.05%	73	65.18%	36	32.14%	3	2.68%
Education	90	3.26%	68	75.56%	20	22.22%	2	2.22%
Professional, scientific and technical activities	62	2.24%	42	67.74%	19	30.65%	1	1.61%
Agriculture, forestry and fishing	55	1.99%	7	12.73%	40	72.73%	8	14.55%
Transportation and storage	54	1.95%	20	37.04%	34	62.96%	0	0.00%

Table 4 :Status of business operation in April - May 2020

Status of employment

A total of 596022 workers have been employed in the responded establishments in February, 2020 whereas this number has reduced to 213011 by May 2020, indicating that 64.26 % of employees are not in work by May 2020. 63.15% percent of the employees who were captured through this

Industry Nature	Number of employee in February 2020	% of employee from total employment	not in work in May 2020	% from the employment in February
Manufacturing	376388	63.15%	263612	70.04%
Other service activities	64188	10.77%	37109	57.81%
Wholesale and retail trade, repair of motor vehicles and motor cycles	32849	5.51%	20048	61.03%
Agriculture, forestry and fishing	30268	5.08%	4026	13.30%
Accommodation and food services activities	24324	4.08%	19730	81.11%
Financial and insurance activities	14478	2.43%	8937	61.73%
Information and communication	14015	2.35%	2834	20.22%
Administrative and support service activities	11447	1.92%	6911	60.37%
Construction	8509	1.43%	7463	87.71%
Education	6589	1.11%	2967	45.03%
Transportation and storage	4741	0.80%	3303	69.67%
Human health and social work activities	2526	0.42%	1844	73.00%
Professional, scientific and technical activities	2166	0.36%	1632	75.35%
Real estate activities	1390	0.23%	1259	90.58%

Table 5 : Status of employment in comparison to industry

survey were from the manufacturing sector, 376388 in numbers of which 263612 of them were not in work by May 2020.

The percentage of employees who are in the 'not in work category' in comparison to the total employment in February 2020 is a staggering 64.26%. Repeating the previous trend, manufacturing sector has recorded the highest volume of 'not in work' employees. Consideration of employee percentages within the industries indicates that the 'real estate activities' has the highest percentage of not in work employees, 90.58%. (It should be noted that the industries with less than 1000 total employment in February 2020 have been disregarded for this purpose) followed by Construction and Accommodation and Food services activities. 'Agriculture, forestry and fishing' has recorded the lowest percentage of 'not in work' status at 13.13%. The information and communication industry has also recorded a low 20.22 % of 'not in work' employees. Both these sectors indicate higher levels of job security owing to the nature of the business, and the essential nature of the industry during the pandemic situation in the country.

Payment of salary

A total of 1084 establishments have indicated that they are unable to pay salaries to their employees currently. 58.12 % of these establishments are in the manufacturing and 'other service category', indicating the need of prioritizing these sectors for industry level relief. The total employment included in this cohort is 160645, which is 26.95 % of the total employees included in this survey. It is observed that the employment protection of this cohort of employees and the social protection and welfare needs of a larger cohort of the population is at risk due to the employers' inability to pay salary.

The sectors of Education and Administrative and support service activities have comparatively smaller number of establishments which have indicated the inability to pay salaries. Yet, the total employment covered in these two sub groups of 'unable to pay salary' is significantly high in absolute terms. Therefore, innovative operation in these sectors will allow for better employment, business sustainability levels.

Industry Nature	Employers		Employees	
	No	%	No	%
Manufacturing	343	31.64%	99753	62.10%
Other service activities	287	26.48%	29066	18.09%
Wholesale and retail trade, repair of motor vehicles and motor cycles	99	9.13%	3558	2.21%
Accommodation and food services activities	85	7.84%	5726	3.56%
Construction	56	5.17%	3223	2.01%
Education	53	4.89%	4658	2.90%
Information and communication	40	3.69%	639	0.40%
Transportation and storage	17	1.57%	1821	1.13%
Professional, scientific and technical activities	16	1.48%	798	0.50%
Agriculture, forestry and fishing	15	1.38%	1037	0.65%
Human health and social work activities	13	1.20%	450	0.28%
Administrative and support service activities	11	1.01%	8540	5.32%
Arts, entertainment and recreation	11	1.01%	87	0.05%
Activities of households as employers; undifferentiated goods and services - producing activities of households for own use	9	0.83%	96	0.06%
Real estate activities	8	0.74%	71	0.04%
Electricity, gas, steam and air conditioning supply	6	0.55%	62	0.04%
Financial and insurance activities	6	0.55%	637	0.40%
Mining & quarrying	6	0.55%	131	0.08%

Water supply, sewerage, waste and remediation activities	3	0.28%	292	0.18%
Total	1084	100.00%	160645	100.00%

Table 6 : Distribution of employers and employees of establishments which are unable to pay salary

7.84% of the 1084 establishments who cannot pay salaries are in the accommodation and the food services industry. The statistics indicate that 19730 (81.11%) employees in this industry are not in work, with only 5726 (29.02%) of the not in work employees being included in the establishments which are unable to pay salary. In comparison to the February employment level, 5726 employees account for 23.54% of the respective industry employment.

Alarming, the statistics for the ‘Manufacturing’ industry indicates a much higher percentage of employees, 37.84% who are included in the unable to pay salary category. These 99753 employees comprise 26.50% of the total employment in manufacturing industry. This number accounts for 37% of workers in not in work category in that particular industry. Exploring both the manufacturing and the accommodation and food services sectors further, it is indicated that around 60% of workers have the possibility of getting their salary (full, basic or some percentage) for couple of months may be up to end of June 2020 even though they are not in work. Yet, the fact that employers will not be able to continue this for a longer period must be kept in mind, whilst the introduction of a suitable relief package is essential to ensure business continuity..

Despite ‘Accommodation and food services’ having significantly lower levels of business operations in comparison to the manufacturing industry, employees in the manufacturing industry are being subjected to more vulnerability with regard to loss of direct income.

Size of the business

All respondents have indicated the size of the establishment. Accordingly, 40.2 % of the establishments have had less than 15 employees in February 2020. Only 8.5% of the establishments had employed more than 500 employees in February 2020. The status of business operation indicated that 1465 establishments were fully closed, 764 of such establishments had employed 15 or less in February (Table 7).

Size of the establishments by No of employees	Fully Closed		Operations with Under capacity		Operations with Full Capacity		No of Establishments Responded	
	Number	%	Number	%	Number	%	Number	%
01 -15	764	52.15%	302	25.06%	45	47.87%	1111	40.20%
16-50	382	26.08%	278	23.07%	15	15.96%	675	24.42%
51 -250	233	15.90%	332	27.55%	24	25.53%	589	21.31%
251 -500	47	3.21%	103	8.55%	3	3.19%	153	5.54%
More than 500	39	2.66%	190	15.77%	7	7.45%	236	8.54%
Total	1,465	100%	1205	100%	94	100%	2,764	100%

Table 7 : Status of business operation vs the size of establishment

Interestingly, the number of employees in the establishment (size of the establishment) indicates an inversely proportionate relationship with the status of 'closed', whilst it is a positive relationship with the status of 'operating with under capacity' (Figure 4). This indicates significant impact of 'Covid 19' on the small and medium scale establishments.

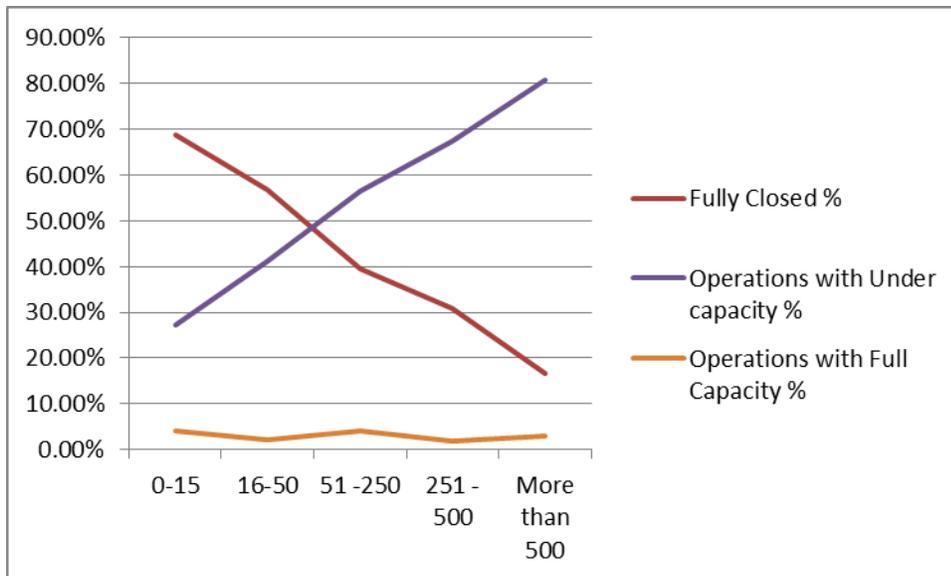


Figure 4: Number of employees vs the status of business operation

It should also be highlighted that the percentage employment does not vary contrastingly with the size of the establishment. Yet, the numbers of employees in the larger establishments indicate magnitude of the impact if these establishments are not in a position to remunerate their employees. In summary, 64 % of the total employment in February 2020 is not in work at present (Table 9). The corresponding question relating to the ability to pay salaries in future has attracted that 1084 employer are incapable of paying salaries in future. The total employment included in this category is 160645, 26.95 % of the total recorded employment in February 2020. This figure is 41.94% of the number of employees who are not in work.

153702 employees have been captured as those included in establishments who cannot pay salary, when size of the establishment is considered. There is a difference in the number of establishments and the number of employees in the industry wise segregation and the size of the establishment' wise segregation (Table 8 & Table 9). This difference is attributed to non- responsive questions by employers. It is observed that a significant impact on the survey findings does not occur due to this variance.

As indicated in the 'status of operation' the number of employers who cannot pay salary decreases as the size of the establishment increases. Again, the sheer numbers of

employment included in the establishments with larger number of employees indicate the gravity and the spread of impact within the employment.

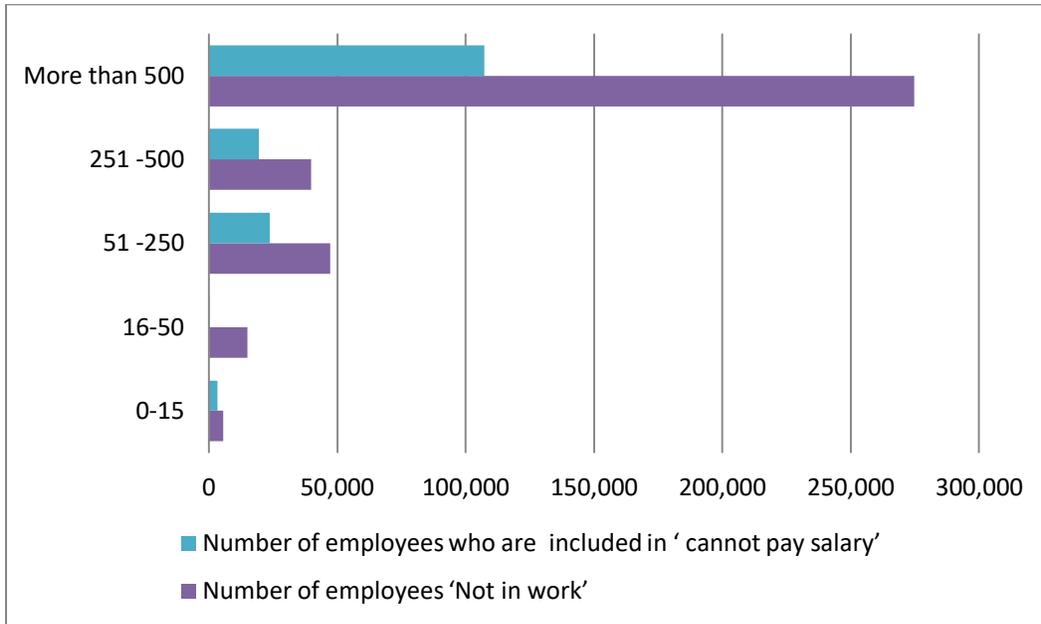


Figure 5 : Number of employees included in establishment which are incapable of paying salary

Industry Nature	Employers		Employees	
	No	%	No	%
Manufacturing	343	31.64%	99753	62.10%
Other service activities	287	26.48%	29066	18.09%
Wholesale and retail trade, repair of motor vehicles and motor cycles	99	9.13%	3558	2.21%
Accommodation and food services activities	85	7.84%	5726	3.56%
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Financial and insurance activities	6	0.55%	637	0.40%
Mining & quarrying	6	0.55%	131	0.08%
Water supply, sewerage, waste and remediation activities	3	0.28%	292	0.18%
Total	1084	100.00%	160645	100.00%

Table 8 : Industry wise distribution of 'unable to pay salary in future'

Employees in establishment	Number of employees in February	Number of employees in May 2020	Number of employees 'Not in work'	Number of employers who cannot pay salary	Number of employees who are included in 'cannot pay salary'
0-15	7,461	1,956	5,505	520	3266
16-50	20,151	5,118	15,033	241	70
51 -250	69,523	22,180	47,343	197	23621
251 -500	55,440	15,662	39,778	55	19537
More than 500	443,447	168,569	274,878	71	107208
Total	596,022	213,485	382,537	1084	153702

Table 9 : portion of employees not in work vs the size of the industry

Chapter 4 : Discussion of results and recommendations

Discussion of Results

The survey indicates that 53% of the businesses are closed whilst a further 44% of businesses were working with under capacity. 64% of the employees captured through the survey were not in work, indicating the threat of unemployment. It is observed that the decision to return the country into normalcy will positively impact the economy and the labour market as 61.01% of respondents have identified 'curfew' as the reason for closing the business or for partial operation. A significant cohort of responders has indicated that the restrictions of movements between districts have resulted in closure of businesses. As these restrictions are expected to be relaxed, the impact of same on businesses will mostly be short-term. It is also noted that 97% of the businesses that are closed intend to open their businesses. This will of continuing businesses will strengthen the government's efforts on reviving the economy.

One of the salient findings in the survey is the relationship the size of the establishment has with the ability to pay salaries, business continuation, and the termination decisions. Establishments with 0- 15 numbers of employees have more business closures, more occurrences of inability to pay salaries to the employees, lack of working capital to continue to recommence the business. In contrast, the number of terminations occurred in this category is significantly lower than in the establishments with more than 500 employees.

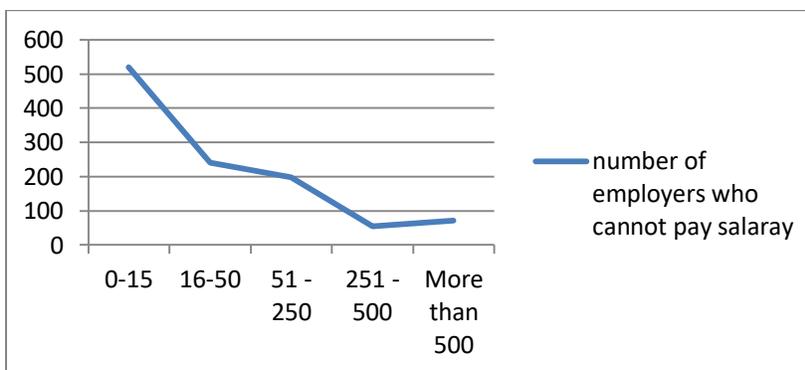


Figure 6 : Ability to pay salaries in comparison to the size of the employment

The Department of Census and Statistics utilizes three criteria to define informal sector, the number of employees being one determining criteria. As further estimated in the Annual Labour force survey of 2018, the percentage of employment in the informal sector is 58.7%. It is further estimated that the total employment in the informal sector is at 4,705,780. Employment in the informal agriculture is estimated to be 1798001 whilst the non-agriculture sector employment is at 2,907,779. Even though the total employment captured through the survey in establishments with less than 15 employees is only 7461 (1.25%) survey findings on this category need to be considered when measures are taken to revive the informal sector businesses.

In the same manner, the annual industry survey estimated that 1,479,770 persons are employed in the 'industries' sector, with 1,400,830 employees in the 'manufacturing sector' (DCS, 2017). As mentioned in chapter 3, the industry wise spread does not closely resemble the DCS estimates for the 4 industries. The annual survey further reports that 46% of employees of the manufacturing industry is in the informal sector. Considering the fact that the apparel and textile industry within the manufacturing sector contributes 6 % to the Gross Domestic Product (GDP), with a share of almost 40 % of the total exports, it is essential to take steps to sustain the manufacturing industry of the country. The significantly high level of employment in the manufacturing industry reaffirms this need further.

It was further revealed that the agriculture sector related businesses have faced the 'Covid 19' with much more resilience than the other sectors, with the lowest levels of employees not in work and highest percentages of 'fully operational' and 'in operation with under capacity' categories amongst others. This lesser levels of negative impact on both employment and business continuity coupled with national efforts in increasing and improving the agriculture sector will attract more labour force participants towards agriculture. The high possibility in labour surplus and excess food production need to be addressed in a productive manner to ensure that labour exploitation/ low wages do not occur and that surplus production does not lead to reduced return on investments to the employers.

The data collected on the termination levels and payment of salaries indicate the real time hardships faced by the establishments. Early stage termination, salary deductions, and future plans to reduce staff in all types of establishments point towards the necessity of addressing these needs whilst ensuring that employment protection and social security is guaranteed.

Employees in establishment	permanent	Probationary	Contract	Part-time	Casual	Total
0-15	188	134	198	164	147	831
16-50	159	255	332	104	220	1070
51 -250	188	660	707	95	601	2251
251 -500	80	860	118	114	515	1687
More than 500	1027	6475	942	116	277	8837
Total terminated	1642	8384	2297	593	1760	14676
Total terminations planned	18721	13700	3936	568	108	37033

Table 10 : Current and future plan of termination

As indicated in the table 10, the job losses have commenced to occur within the labour market. The total termination that has taken place already amounts to 14676, a 2.46% of the total employment captured in the survey. Alarmingly, the proposed terminations to occur are 37033, making the short term termination from the survey sample to be 51709, a significant 8.68% of the total cohort of employment. As this corresponds to the formal sector employment, it can be estimated that around 300000 employees will be terminated in the formal private sector in the short term if the status of businesses continue in the same manner. As under representation of the future plans can be expected in the survey responses this number can increase further. In this context, it is inevitable that the current rate of unemployment in Sri Lanka will increase significantly in this context. With the influx of returning migrant employees excess labour supply will be available in the country, which in a way will disadvantage the unskilled and less experienced job seekers. This scenario will also impact the salary and wage levels, lowering the daily/weekly/monthly

wages. In contrast, during and post Covid19 Labour demand in Sri Lanka will largely be determined by the methods of social distancing, cost reduction, ensuring health and safety of workers, and the business sustainability. The current trends indicate that labour demand will shrink significantly due to these reasons threatening both labour force participants and future entrants.

As the global unemployment rates are also increasing, job losses abroad will also impact the local situation. This context will pave way for increased labour supply, which will in turn lead to lower wages and under payment as the bargaining ability of job seekers/ employees alike will be threatened by the increased competition for employment opportunities. The vulnerable groups in the labour force will be the most impacted including women, youth, and differently abled.

Projecting this scenario to the current labour force which will significantly be increased with the returning migrants, indicates the requirement of larger scale employment creation programmes, which will provide employment opportunities to the increased unemployed persons. It is suggested that avenues of creating more employment opportunities are explored specially within industries that seem to have managed to operate their businesses despite covid 19, (Agriculture and information & Communication industries) and in industries that must be revived through innovative measures to ensure continued development and sustainability in the country (Education, construction).

'Covid 19' related uncertainties globally are making a significant portion of Sri Lankan students abroad to return to Sri Lanka. It must also be mentioned that the annual number of students who migrate overseas for education was estimated to be around 12000 in year 2017. Even though the numbers will definitely decrease this year due to travel restrictions and health and safety concerns the demand for higher education will not decrease. Therefore the education sector is perceived as an industry with huge potential for development with the ability for large scale employment creation opportunities. Standardized and quality educational opportunities will attract foreign students as well with the possibility of diverting the lost foreign exchange through a new avenue. It is also

noteworthy to mention that the 'Mahinda Chinthana' national Policy framework had identified a 5-hub concept for development, education being one.

The businesses belonging to the manufacturing, accommodation and food services, and 'other service categories' are amongst the top three industries when the percentages of 'closed businesses', working with under capacity, employees not in work, which cannot pay salaries to affected employees are considered. Interestingly, the industries in manufacturing and other service categories also have the higher percentages of fully operational establishments as well. Therefore, it is envisaged that the manufacturing and other service sector establishments will have opportunities and the ability to diversify their businesses despite the 'covid 19' pandemic situation.

It is essential that employment opportunities abroad are also sourced, to cater to the increased labour supply levels within the country, leaving no stone unturned.

Recommendations

The uncertain manner in which 'Covid 19' is evolving does not make room to prepare concrete plans for revival of industries in the country. Yet, it is essential that immediate steps are taken to minimize the threat to the labour market, which is essential in the revival process of the country. Therefore two-fold recommendations are made; both short term and medium term. As the impact of 'Covid 19' has not reached an equilibrium, long term recommendations are not made.

Short term recommendations: to ease the financial burden on the employers that will sustain the businesses.

- 1 Retaining of employment, with deducted salaries for those who have been made to stay at home due to non-availability of work/short-term lay off strategies which ensure return to work to full time positions within a six-month period with the payment of certain percentage of wage instead of terminating them. Both the EPF and ETF contributions to be continued during this time – guaranteeing continued social security.
- 2 Establishments to be allowed to prorate payments according to the number of hours worked by each employee, if losses of business/ social distancing requirements have resulted in lower hours of work per employee.
- 3 Continue the granting of loans to provide working capital to the businesses at lower interest rates.
- 4 Allow for the employers to recover a portion of 'lost paid hours without work' in future having consent with Trade Unions or relevant parties.

Medium term recommendations

1. Establishment of a comprehensive integrated social security scheme including unemployment benefit scheme linked to reskilling, re-employment, and up-skilling.
2. The COVID 19 pandemic has provided an opportunity to create Sri Lanka as Health and Education hubs catering not only for the local demand but also for the rest of the world. This will create significant additional employment opportunities which could mitigate the increased unemployment due to pandemic and positive impact on the external sector of the country.
3. Strengthen social dialogue mechanism at enterprise and sectoral level to mitigate the negative impact of the labour market leading to industrial peace
4. Exploring and adopting strategies to modernize and diversifying agriculture (including fisheries), apparel and textile industries, and tourism sectors.

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