UN WOMEN

INCREASING THE DEMAND FOR WOMEN WORKERS IN SRI LANKA'S FORMAL MANUFACTURING, TRADE AND SERVICES SECTORS

The study analysed data from private formal enterprises in the manufacturing, trade, and service sectors to understand the attributes of firms that demand relatively more women workers. This policy brief describes the data and methods used for the analysis, summarises its findings, and draws out their policy implications.[1]

OVERVIEW

Most Sri Lankan women are either unable or unwilling to engage in paid work:

36%
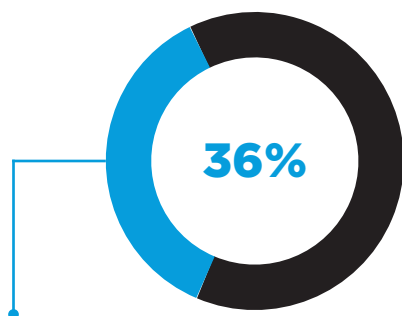
only 36 percent of women of the working age cohort were either employed or seeking work in 2019.

Supply-side analyses have identified unpaid care and household work, skills deficits, and gender discrimination as underlying supply-side factors.[2] Demand-related elements such as the characteristics of the firm and attitudes of management are largely unexplored. It is this gap in information that the study addressed by applying the microeconomic theory of the firm to primary and secondary survey data from formal manufacturing and service enterprises, to understand the factors associated with their demand for women workers. A basic model of

demand with the core variables of capital intensity and labour productivity was estimated and then augmented with firm and industry specific characteristics, attributes of the local labour market and employers' perceptions about hiring women and the institutional environment.

The analysis found that gender-based segregation of the labour market along sectoral and occupational lines powerfully conditions the relative demand for women workers.

Exporting firms do not necessarily demand more women workers, reflecting the weak export orientation of Sri Lanka's economy in recent years. The employer's gender, their perceptions about women's skills and attitudes, the prevalence of prescriptive social norms and key provisions in the legal framework are important. Women workers in middle-level occupations have the highest skills deficits, particularly in English language skills, capacity to learn and problem solving. Firms lag in the application of modern technology and digital technology in business operations.

1. UN Women. 2022. "Gender Disparities and Labour Market Challenges: The Demand for Women Workers in Sri Lanka".

2. See Gunatilaka (2013, 2016); Gunewardena (2015); Solotaroff et al. (2018); Samarakoon and Mayadunne (2018); and Seneviratne (2019a; 2019b).

The findings suggest that the following policy measures can help support the creation of employment opportunities for women, including those with disabilities, in formal manufacturing and service enterprises:

Macroeconomic, industrial, and trade policies to spur export-led economic growth, diversify productive structures and promote productive efficiency.

Measures to enhance women's acquisition of middle-level occupational skills, particularly English language skills and the capacity to learn and solve problems.

Policies that promote the following: **small and medium firms; female entrepreneurship, ownership, and management; the retention of women workers after marriage.**

Labour law reforms that facilitate **flexible working hours and nightwork for women and socialise the costs of maternity benefits.**

Policies that promote **digitisation, automation, work from home and re-skilling of workers.**

Supportive interventions that make employers **confident about hiring women with disabilities.**

BACKGROUND

Sri Lanka is a small, lower-middle income economy with a population of 21.9 million and per capita income of US$ 3682 in 2020. Economic liberalisation began in 1977 and transformed its plantation economy, but the country's production base yet remains largely undiversified and dominated by low productivity sectors. For example, where 90 percent of exports consisted of plantation crops before liberalisation, manufactures now dominate the country's exports; however, 40 percent of export revenue comes solely from textiles and garments. The labour market has transformed more slowly, and employment remains concentrated in relatively unproductive sectors.[3]

Agriculture still engages nearly a third of the country's workforce, with a quarter in the industrial sector, and **67 percent of all workers** being informally engaged in 2019. Women's participation in the paid workforce at 36 percent was among the lowest in the region,[4] while high levels of educated youth unemployment are worrisome features as the population ages rapidly and skills

67%
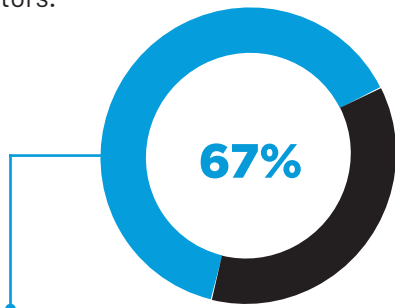
development systems meet only some of the employers' needs.[5]

While Sri Lanka's rate of economic expansion during most years of the conflict (1983 to 2009) were reasonable and commendable for five years following the war, growth decelerated from 2013 onwards. The Easter attacks of 2019 and the COVID-19 pandemic have since caused the economy to contract.

But even before these shocks, Sri Lanka was underachieving in economic growth mainly due to persistent and serious macroeconomic imbalances.

Driven by political imperatives, the economic policy framework looked to public expenditure rather than export generation to underpin economic expansion and the growth of incomes. Declining public revenues led to unsustainable fiscal deficits financed through a rising debt to GDP ratio, while monetary policy to contain the latter eroded export competitiveness. Declining productivity growth also played its part: total factor productivity in Sri Lanka grew at 3.5 percent per year during the period 1990 to 1995, slid to 1.3 percent between 1995 and 2000 and limped along at 1.0 percent thereafter until 2017.[6]

DATA AND METHODS

The study investigated the factors associated with the relative demand for women workers in the private formal sector by estimating a model of labour demand based on microeconomic theory extended to capture the impact of firm and industry specific factors, influence of policy variables and employers' perceptions. The analysis used both primary and secondary data. The secondary data was from the Department of Census and Statistics' (DCS) Economic Census 2013 and the nationally representative Annual Survey of Industries of 2016. This data was from a nationally representative sample of formal firms in industry and services with adequate

coverage of key sub-sectors such as Food and Beverages; Textiles and Garments; Rubber and Plastics; and Chemicals in manufacturing, along with five major sub-sectors in services: Trade; Finance, banking, insurance, and real estate; Hospitality; and Education, health, and social services. The primary data was collected during the period November 2020 to January 2021 through a structured questionnaire administered to a cross-section of 566 firms representing large, medium, and small-scale firms operating in key sub-sectors of the manufacturing and services sectors.

3. World Bank (2019).

4. Department of Census and Statistics (2020).

5. Dunder et al. (2014).

6. Asian Productivity Organization (APO). 2019. Productivity Data Book 2019. Tokyo: APO.

FINDINGS

The gender-based segregation of the labour market along sectoral and occupational lines powerfully condition the relative demand for women workers. Sub-sectors such as food and beverages, textiles and garments, and education, health and social services sectors exerted the strongest demand, but mainly for low-skilled jobs.

Firms with managers who believed that women lacked the necessary skills for their business, and that societal attitudes which prescribed the kind of jobs women were capable of demanded relatively fewer women workers.

Male managers tended to hire fewer women than female managers, while female proprietors were more likely to employ women.

Employers see women workers in middle-level occupations as having the highest skills deficits, particularly in English language skills, capacity to learn and problem solving.

Most employers seem willing to employ women with disabilities but are constrained by lack of experience and opportunities for training them.

Export orientation is not associated with an increased demand for women workers, reflecting the weak export orientation of Sri Lanka's economy in recent times.

Employers in shops and offices who were **legally constrained from offering flexible working hours and nightwork for women could not finance maternity benefits,** and so hired relatively fewer women.

Employers preferred to employ women if they perceived them as more skilled than men, more loyal to the firm, more hardworking, more honest, and more conscientious.
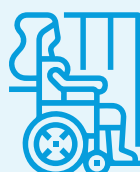
Firms seem to lag in the application of modern and digital technology in business operations and do not seem to be positioning themselves to use the COVID-19 crisis as an opportunity to apply modern technologies in reskilling workers.

Firms which sought to work from home during the pandemic were **constrained by employees' limited access to IT-related systems, infrastructure, and workspaces at home, low output, and lack of experience in this form of work.**

A substantial proportion of women remain employed after marriage **and even want to return if they had left.**

Firm and industry-level factors influencing the demand for women workers

Firms demand labour depending on how productive it is. Hence, a positive relationship between **labour productivity** and labour demand can be expected.

But the study found that firms' relative demand for women workers was higher when productivity was lower. This can be explained by the concentration of women workers in low-skilled occupations and low productivity sectors.

As **capital intensity** in the firm rises, the demand for labour can either increase or decline depending on what type of labour is needed to work with it, or what type of labour can be replaced with more capital. The results do not suggest any complementarity between capital and the relative demand for women workers in either manufacturing or services, other than for the demand for skilled and unskilled women workers in the textiles and garments, and chemicals sub-sectors, and for unskilled women in the rubber and plastics and hospitality sectors. The generally weak relationship between capital and labour could be due to the data on fixed capital not reflecting the true value of plant and machinery, and of investments in modern technology such as ICT.

As unit wage costs rise, firms prefer to employ skilled men rather than skilled women and unskilled women rather than unskilled men, other things equal.

Firms with greater shares of unskilled workers and clerical workers prefer to employ women rather than men at least partly due to women's wages being lower than men's wages. The relatively high demand for low-skilled women workers may also be influenced by the occupational structures of sub-sectors in manufacturing and services and the relatively low capital, R&D, and possible technological intensity, of their operations.

The findings confirm the gender-based segregation of occupations observed around the world and in Sri Lanka, and reveal the presence of gender-based wage discrimination in industry and services sectors that others have found.[7] But the findings also reflect the relatively undiversified nature of the country's economy as policy has drifted away from export promotion and become more inward-looking.

Small and medium-scale firms (SMEs) demand relatively more women workers than large firms. But that too, mainly for unskilled workers. SMEs also have limited access to capital given its high cost, and this may drive them to substitute unskilled women workers for capital.

Firms with at least one female working proprietor demand more unskilled female workers.

Firms investing in **research and development** do not necessarily hire more women, whether skilled or unskilled. This is likely due to the low levels of R&D investment in Sri Lanka.[8] Firms using **advanced technologies** such as cloud software, mobile devices, digital payments, robotics, and 3D printers tended to demand more women, but the results were significant only for mobile devices and applications. However, firms which used digital media, advertising platforms and social media (social networking and collaboration platforms) tended to demand fewer women workers than men. **Firms invest more in training men than women, particularly external training.** These biases probably arise from the heavy concentration of women in low-skilled

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7. See Gunewardena et al. (2008).

8. WEF, (2019). R&D investments as a percent of GDP was 0.11 percent and ranked at 111th position out of 141 countries in 2019.

occupations and is likely to constrain women's opportunities for career advancement, relative to men.

Nevertheless, if production structures in manufacturing become more technology and R&D-intensive, the relative demand for skilled women workers may expand. Currently, Sri Lanka seems to be only at an early stage of adopting modern technologies. Only 35 percent of employers agreed that their firms were heading towards a digitised system of operations while only 28 percent agreed that their firms were moving towards an automated system of production. Only 60 percent of firms use Third Industrial Revolution technologies and less than 20 percent use technologies from the Fourth Industrial Revolution.[9]

Exporting firms did not necessarily hire more women, but employers who saw **government policies** as constraining business were less likely to hire women workers in trade and services, irrespective of the type of skill demanded. These results are to be expected given the inward-oriented trade policies, poor links with global value chain systems and low rates of export-oriented foreign direct investment that have characterised Sri Lanka's economy in recent times.

Employers' perceptions

If employers thought that women were more skilled than men, more loyal to the firm, worked harder, were more honest and conscientious, their firms were likely to employ relatively more women. In fact, employers acknowledged considerable skill gaps among women workers in middle-level occupations, particularly in English language skills, capacity to learn and problem solving.

Perceived legislative constraints that prevented them from offering flexible working hours and nightwork to women, along with the costs of providing maternity benefits made them less likely to hire them.[10]

These constraints may be one aspect of the negative and significant influence that government policies are perceived by employers in trade and services to constrain business operations. Nevertheless, there is also considerable evidence of gender-biased discrimination by employers: **while three-fourths of respondents were men, being men made them significantly less likely to hire women.**

Coping with COVID-19

An overwhelming 90 percent of firms in the primary sample were impacted by the restrictions imposed by the pandemic, while a third of the impacted had completely closed operations during the lockdown. Nearly 60 percent had closed partially, and a further 9 percent had resorted to working from home.

Between 2019 and 2020, women's employment in the study's sample of firms declined by 8 percent and the employment of males by 4 percent.

The gender and sector-wise changes in employment were due to how the lockdown and restrictions in mobility impacted the operations of different sub-sectors. Although some firms worked from home during the lockdown, employees' limited access to IT-related systems, infrastructure, and workspaces at home, and the lack of experience working from home, constrained operations.

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9. Robotics, artificial intelligence, and 3D printing.

10. Also see Ranaraja and Hassendeen (2016).

Increasing firms' demand for women workers

There are many reasons why Sri Lanka needs to increase women's participation in the paid workforce. First, women's access to employment and the resources in women's hands increase human capital and capabilities within households and promote economic growth.[11] Second, employment provides material returns to the skills that women, their parents and successive governments have invested in, and provides savings to be used in old age as the population ages and feminises. Third, if women do not enter the paid workforce in sufficiently large numbers and the entry of foreign migrant workers is also restricted, labour shortages will increase wage costs and choke off economic growth.

The findings of this study suggest critical ways to increase the demand for women workers by a concerted, coordinated effort by government, the private sector, and the non-governmental sector involving a process of, (a) raising awareness, policy dialogue and formulation; (b) the design of strategic interventions; and (c) implementation of interventions and monitoring.

The third of these is critical for success given Sri Lanka's poor track record in implementing policy reforms and action programmes. The responsibility for each of these three sets of tasks can be assigned to committees made up of interested and responsible representatives comprising of public, private, and non-governmental entities with a stake in the overarching objective of increasing women's participation in the paid workforce. Meanwhile, policies and programmes to promote the adoption of new technologies must be revamped to reduce the digital divide and promote productive efficiency.

The policy implications arising from the findings of this study were summarised in the overview. The matrix below suggests policy areas and associated interventions by three different groups of stakeholders that may help increase relative demand for women workers and women with disabilities in the formal manufacturing, trade, and services sectors.

11. Kabeer (2012).

Table1: Policies and responsibilities

Subject area	Policies	Responsibility
Trade and investment	• Introduce outward-oriented trade and industry policy • Encourage export-oriented foreign direct investment • Promote global value chain-based trade systems	Government
Employment	• Promote the employment of women and persons with disabilities • Encourage reallocation of labour towards more productive sectors • Promote decent work practices	Government
Productivity	• Initiate productivity enhancement programmes at sectoral and subsectoral level	Government, private sector, NGOs, and donors
Wage determination	• Encourage performance/productivity-based wage fixing mechanisms	Government and private sector
Skills development	• Reform and revitalise secondary education to increase the capacity to learn, English language and problem-solving skills. • Encourage TVET training providers to introduce new programmes targeted at high-growth sectors • Expansion of industry-linked internships; school-based business incubator programs • Conduct skills development programmes to improve ICT skills of MSME employees • Support TVET by public and private sectors by designing new courses and outreach with a focus on enhancing the employability of women employment • Support career counseling and placement function of TVET providers with Career Guidance Officers • Provide scholarships for girls to attend TVET courses in nontraditional fields, e.g. electrical and electronics, food and beverages, tourism and hospitality	Government, private sector, NGOs, and donors
Research and Development (R&D)	• Encourage R&D investments especially in the application of modern ICT • Provide incentives to technologically upgrade production structures	Government and private sector
Digitalisation	• Ensure access to internet facilities for all enterprises irrespective of location and size	Government
Legislative environment	• Amend laws to encourage flexible employment and night work in shops and offices • Help subsidise costs of maternity benefits	Government
Micro, small and medium-scale enterprise development	• Provide credit facilities for MSMEs to improve their ICT facilities • Conduct skills development programmes to improve ICT skills of MSME employees	Government, NGOs, and donors

Table1: Policies and responsibilities [continued]

Subject area	Policies	Responsibility
Development of women entrepreneurs	• Support business development and financial services for MSMEs run by women, especially in semi-urban and rural areas	Government, NGOs, and donors
Employability of persons with disabilities	• Raise awareness about the potential socio-economic benefits of employing persons with disabilities • Provide support for employers to build their disability confidence • Provide advice and assistance to develop infrastructure and facilities for employees with disabilities, e.g. toilets and ramps • Maintain a database on employees with • disabilities covering all subsectors of the economy • Prepare a compendium on good practices in disability	Government, NGOs, and donors
Decent working conditions	• Monitoring and enforcing laws on occupational health and safety and sexual harassment • Provide gender certification and ethical branding for firms through the Sri Lanka Institute of Standards.	Government, private sector
Support for childcare	• Ensure provision of well-monitored, accessible, and affordable childcare at community level	Government, private sector, NGOs, and donors
Reduce gender bias in recruitment and career development opportunities	• Invest in the capacity of talented women employees to move up the management hierarchy to take up positions of responsibility and decision-making • Ensure representation of female staff members on selection panels of recruitment, performance review and wage fixing	Government, private sector, NGOs, and donors
Family sensitive policies	• Provide or support accessible and affordable childcare • Promote part-time work, flexible hours and job sharing to encourage participation of married women in workforce • Re-employment and reskilling of married females	Government, private sector, NGOs
Raise awareness and sensitise stakeholders and citizens	• Conduct awareness-raising programmes on social and economic benefits of inclusive employment targeted at the corporate sector e.g. public seminars, blogs, video clips, etc. • Increase social acceptance and awareness of the benefits of paid childcare through media campaigns	NGOs, donors

Source and notes: UN Women, 2022.

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