

Daily Wage Determinants of Informal Sector Workers in Sri Lanka

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Introduction

The employees of every country can be identified as formal sector and informal sector employees⁷. In most of the developing countries' the predominant sector is the informal sector. Sri Lankan national definition of the informal sector states that an institute is informal if there is no registration of the institute under the employees' provident fund and/or Inland Revenue Department, no formal accounts maintained and the number of regular employees less than 10 (DCS, 2017). Employees of the informal sector have to face many difficulties. Currently, there is no formal mechanism established for the informal sector pay and benefits schemes in Sri Lanka.

Aruntilaka (2004) states that the market forces decide that wages of the informal sector of Sri Lanka. A study by Gunatilaka (2008) shows that the ability to earn in this sector can change according to the area of employment. These statements confirm the research by Saget in 2006 on wage in the informal economy in Brazil, India, Indonesia and South

⁷ International Conference of Labor Statisticians (2003) define informal employment as own account workers and employers employed in their own informal sector enterprises, family workers, members of informal producers' cooperatives, and employees holding informal jobs.

Africa for Sri Lanka as well. According to Banerjee (2014) the wages of the informal sector should be decided through the trade liberalization policies. Cho and Cho (2011) deduce that the gender wage gap of the informal sector is the worst.

Objectives

This research examines the functionality of the existing informal structures used in determining informal sector wages in Sri Lanka and compares the available structures with the existing systems in other countries. Based on the above country comparison results, this study proposes essential factors to be incorporated in determining a methodology for a fair wage for daily informal sector workers, acceptable for Sri Lanka.

Methodology

This study is based on primary data and secondary data. A total sample of 108 employees and employers were selected from the informal sector from Anuradhapura and Mullaitivu districts by using multistage sampling in 2016. Sample consisted of 54 employers and 54 employees with a representation from agricultural (36), industry (36) and service (36) sectors. Two separate questionnaires were administered among employers and employees to collect the primary data and the secondary data were collected from published documents from several institutions. For the data analysis, descriptive method and multiple regression estimation were used.

Results and Discussion

According to the National Minimum Wages Act No. 3 of 2016, for the first time in the country, a mandatory national minimum daily wage of Rs. 400 was fixed payable to all workers by all employers in the country. The daily wages between the two districts differ by sector and gender (given in figure 1.1). In the agricultural sector the daily wage in Anuradhapura is 49 % higher than Mullaitivu. The average overall

daily wage is 191 % higher than national minimum daily wage of 2016. Lowest average female daily wage (Rs. 833) is also 9 7% higher. There is a considerable variation by district compared to the national minimum daily wage.

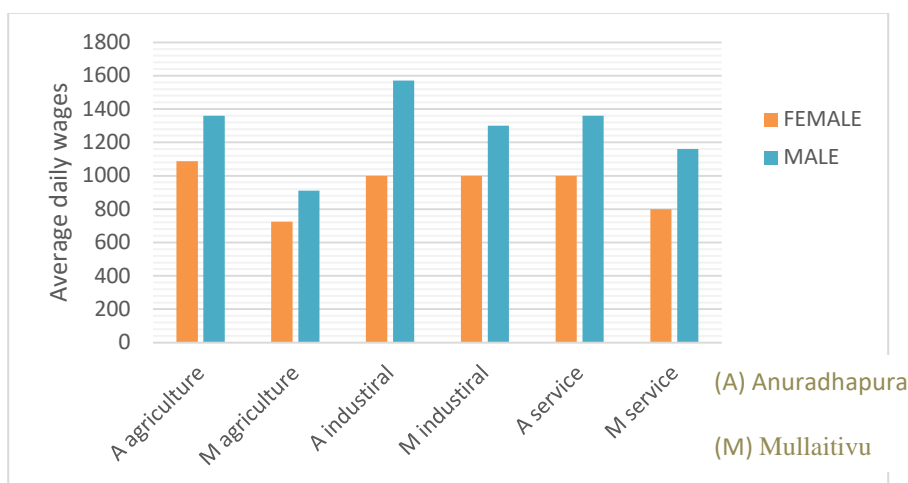


Figure 1: Gender Daily Wage Differential by District and Sector -2016

A multiple regression model was used to determine the factors that affect the daily wage of the employee. Five separate regression models were estimated for the surveyed data (One for each district, Employees, Employers and overall sample- given in Table 1). According to overall sample regression results, districts, gender, labor supply demand, wage of nearby areas, hours of work, experience, service sector and agriculture sector had a statistically significant impact in determining informal sector wages. Besides that, for Anuradhapura district number of working hours, experience, wage of nearby areas, labor supply and demand, gender and additional benefits determine the wages of the informal sector. For Mullaitivu, wage of the nearby areas, labor supply and demand, gender and service sector had an impact on a workers' daily payment. Among the variables significant for Mullaitivu, only service sector variable was not among the significant variables for Anuradhapura district. According to regression results of this study, different factors influence the daily wage levels in each district. The

level of education and age of the employee had no impact on wage in the informal sector employment.

This research studied informal sector wage determination structures of several countries in the world (Brazil, India, Indonesia and South Africa). The study found that the countries use different criteria to determine the level of informal sector daily wage. These countries had used criteria such as occupation, power to form groups, collective agreements and social security benefits. In most of the countries, the informal sector wage is determined based on various characteristics of the locality such as the districts and states. Furthermore, some labor regulations, such as the minimum wage in Sri Lanka are applicable to formal as well as the informal sector jobs. However, since there is no contractual binding (This can have positive impact on the salary and the other benefits of informal sector worker.) between the employers and employees in the informal sector, there is no mechanism to go for litigation. And also this study found informal sector employees can be divided mainly into two categories as casual workers and seasonal workers. The employers and employees lack knowledge on the wages and other benefits.

Conclusion and Policy Implications

This study identifies a set of essential factors to be considered in determining the informal sector minimum daily wage for informal sector worker in Sri Lanka. Policy makers must take into account the following factors such as district/state of the employment, industry of employment, wage of nearby areas, labor supply and demand and gender in determining the informal sector wage. Based on these identified, influencing factors, the government can introduce a mechanism to determine the informal sector wage, new saving systems, insurances, pension systems for informal sector. The employers and employees must be well-informed about their expected daily wage and other benefits. There are some labor regulations that are formally constituted, equally for both the formal and informal sector jobs.

However, when implemented there are areas that require policy makers' attention to rectify possible short-comings that can impede the benefits to the informal sector workers.

Table 1: Informal Sector Wage Determinants - 2016

Variable Variable –Daily Wages)	(Dependent District	Anuradhapura District	Mullaitivu District	Employees	Employers	Overall Sample
Hours of work	.0055 (0.002**)	.00339 (0.191)	.00469 (0.066***)	.00392 (0.129)	.0043 (0.012**)	
Age	.00049 (0.347)	-.00080 (0.136)	.00042 (0.479)	.0003 (0.617)	.00036 (0.364)	
Experience	4.64e-06 (0.003**)	-3.94e-06 (0.208)	-3.92e-06 (0.072***)	-2.11e-06 (0.346)	-3.06e-06 (0.037**)	
Extra benefits	-.0001 (0.09***)	.00008 (0.370)	.00007 (0.426)	-.00006 (0.510)	-.00006 (0.270)	
Wage of nearby areas	.00017 (0.000*)	.00034 (0.000*)	.00029 (0.000*)	.0027 (0.000*)	.00028 (0.000*)	
Labor supply and demand	.0045 (0.001*)	.01135 (0.000*)	.00695 (0.004**)	.0073 (0.003**)	.00714 (0.000*)	
Level of education	.00066 (0.578)	.00223 (0.210)	.00123 (0.450)	.0322 (0.020**)	.00154 (0.162)	
Gender	.0434 (0.000*)	.02144 (0.074**)	.04152 (0.003**)	.0018 (0.277)	.0367 (0.000*)	
District	(not use for regression)	(not use for regression)	-.04496 (0.001*)	-.037 (0.004**)	-.0409 (0.000*)	
Agriculture sector	.0117 (0.214)	-.02045 (0.205)	-.01929 (0.153)	-.0146 (0.283)	-.0168 (0.06***)	
Service sector	-.0178 (0.105)	-.04940 (0.023**)	-.03627 (0.048**)	-.0257 (0.160)	-.03095 (0.011**)	
R-squared	0.9503	0.9511	0.9383	0.9272	0.9318	
Adj R-squared	0.9387	0.9398	0.9222	0.9081	0.92404	

Note: the P-value is given in the brackets. * denotes 1 % significant, ** denotes 5 % significant and *** denotes 10 % significant levels.

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