

Sri Lanka Labour Law & Employment Regulations

Overview

Sri Lanka

Sri Lanka's strategic location provides excellent opportunities to enter into free trade and partnership agreements with several of Asia's trade powerhouses. As of 2022, Sri Lanka has entered into Bilateral Investment Promotion and Protection Treaties (BITs) with 27 countries and 6 Agreements of Treaties with Investment Provisions (TIPs).

Capital: Colombo

Population: 21.92 million

Currency: Sri Lankan Rupee (Rs)

GDP Per Capita USD 3,682.04 (as of 2020)

1. Sri Lanka Labour Law

Labour Law in Sri Lanka encompasses all the rules an employer must follow when or after hiring employees. The public sector is governed by the Establishments Code, while three primary laws govern the private sector.

1. Shop and Office Employees Act – for shops and office employees
2. Wages Board Ordinance – employees related to any trade
3. Factories Ordinance – law for industrial trade – Act No.45 of 1942/Amendment Act (No.32 of 1984)/Amendment Act (No.19 of 2002)

2. Employment Contract

Employment contracts can be created through writing, word of mouth, or inferred from the parties' conduct. However, the contracts have to be in writing to be legally binding.

For employees who fall under the scope of Shop and Office Employees (Regulation of Employment & Remuneration) Act No 19 of 1954, the employer must provide the following in writing:

All contracts must include the following:

1. Name of employee, designation and nature of employment.
2. The grade to which the person is appointed (if any).
3. Basic remuneration and scale of remuneration (if any).
4. Whether remuneration is paid weekly, fortnightly or monthly.
5. Cost of living allowance or any other allowance (if any).
6. The period of probation or trial (if any) and the conditions governing that period of probation or trial.
7. Conditions governing employment and dismissal.
8. Regular hours of work.
9. The number of weekly holidays, annual holidays and casual and privilege leave (if any).

10. Overtime rate payable.
11. Provision of medical aid (if any).
12. Conditions governing any provident, pension scheme or gratuity scheme applicable to the employment.
13. Prospects of promotion.

Type of Contract	Specifications
Permanent Contract	<ul style="list-style-type: none"> • Issued for regular employment • Employees can work until the retirement age of 60 years
Fixed Term Contract	<ul style="list-style-type: none"> • Has a specific timeline • Usually practised for short-term IT projects or in the hospitality and construction industry
Consultancy Contract	<ul style="list-style-type: none"> • Project-based • Contract is automatically terminated once it is over
Probation	<ul style="list-style-type: none"> • No clear provision under the Labour Law, but six months on average • Employment of Trainees (Private sector) Act No. 8 of 1978 states that employers and workers may enter a contract of training for a maximum of one year

The Shop and Office Employees Act requires the employer to mention the period of probation clearly. The contract should also state the conditions of the probation and circumstances whereby the contract is terminated during probation.

3. Minimum Wage

According to amendments made in Section 3 of the National Minimum Wage of Workers Act, No. 3 of 2016, the minimum wage is as follows.

Minimum monthly salary of an employee

Twelve thousand five hundred rupees, Rs 12,500.00

National minimum daily wage of a worker

Five hundred rupees, Rs 500.00

Relevant Law	Monthly Wage (LKR)	Daily Wage (LKR)
Minimum Wages Act	12,500.00	500.00
Budgetary Relief 2005	1,000.00	40.00
Budgetary Relief 2016	2,500.00	100.00
Total Earnings	16,000.00	640.00

Budgetary Relief Allowance 2005

Employees with a monthly remuneration of Rs 20,000 and below will receive an allowance of Rs 1,000.

For workers who are paid a daily rate, they have an allowance payable of Rs 40.00 daily. The total payable allowance per month should not exceed Rs 1,000.

In the case of a worker employed on a per piece basis, the allowance payable for the month should not be less than 10% of the worker's current month's wage. The total allowance is also not to exceed Rs 1,000.

A worker whose monthly wage is between Rs 20,000 and Rs 21,000, is to be paid an allowance, that is the difference between Rs 21,000 and the wage they received for the month.

The total payable Budgetary Relief Allowance of an employee with a monthly wage of below Rs 20,000.00 is Rs 3,500.00.

Budgetary Relief Allowance 2016

Employees with a monthly remuneration of Rs 40,000 and below for the month of May 2015 are to receive an allowance of Rs 1,500.

From 1 January 2016, workers whose monthly wage is Rs 40,000 and below are to receive an allowance of Rs 1000 (based on Budgetary Relief Allowance of Workers Act, No. 4 of 2016)

The total payable Budgetary Relief Allowance of an employee whose monthly wages or salary is below Rs 40,000.00 is Rs 2,500.00.

4. Working Hours

Types of Act	Duration/Details
Shop and Office Employees Act	Regular working hours daily: Maximum of 8 hours Regular working hours weekly: Maximum of 45 hours
Wages Board	Working hours of a person above the age of 18 years: <ul style="list-style-type: none"> • 9 hours daily (exclusive of meal and rest breaks) • 48 hours weekly Working hours of a person between the age of 16 to 18 years: <ul style="list-style-type: none"> • Not to exceed 12 hours daily • Not to commence before 6 am and end after 6 pm
Factories Ordinance (Section 67)	Working hours of a person above the age of 18 years: <ul style="list-style-type: none"> • 9 hours daily (exclusive of meal and rest breaks) • 48 hours weekly Working hours of a person between the age of 16 to 18 years: <ul style="list-style-type: none"> • Not to exceed 12 hours daily • Not to commence before 6 am and end after 6 pm Working hours of a person below 18 years: <ul style="list-style-type: none"> • Cannot go beyond 8 pm, and • On one day of the week, cannot go beyond 1 pm Women and young persons: <ul style="list-style-type: none"> • Cannot be employed continuously for more than four and a half hours without a rest break of at least half an hour

Hours of Rest

Types of Act	Duration
Shop and Office Employees Act	<ul style="list-style-type: none">• Employees are entitled to a rest break if they work eight hours or more. No rest break is entitled on a shorter working day• Working hours do not include rest hours or meal breaks• Every employee is given one and a half-day of rest weekly• Weekly rest will be allowed with full remuneration if the employee has worked for no less than 28 hours, exclusive of any period of overtime work
Wages Board	<ul style="list-style-type: none">• Rest days differ according to each trade
Factories Ordinance (Section 67)	<ul style="list-style-type: none">• A young person shall not be employed in a factory on a Sunday• Every woman or young person employed in a factory shall be allowed six whole days as holidays on six consecutive weekdays per year

5. Overtime

Shop and Office Employees Act

In accordance with the Shop and Office Employees Act, normal working hours are 8 hours per day and 45 hours per week.

If a worker works beyond the stipulated working hours, they are entitled to overtime pay, 1.5 times the rate of his ordinary pay. The overtime hours in a week cannot exceed 12 hours.

Calculation: 1. Monthly remuneration x 1.5/240

2. Hourly Rate x 1.5

Wages Boards

Unlike under the Shop and Office Employees Act, there are no restrictions regarding overtime work under the decisions of the Wages Boards.

Overtime calculation changes according to the trade.

For example, baking:

Normal working day = (Monthly Rate/200)* 1.5

Short working day = (Monthly Rate/200)*1.75

Weekly Holiday = (Monthly Rate/200)*2.5

6. Types of Leave

Shop and Office Employees Act

Types of Leave	Length of Leave
Annual Leave	Employees with more than one year of service <ul style="list-style-type: none">• 14 days of paid leave after one year of service Employees with less than one year of service <ul style="list-style-type: none">• Ten days if employment starts on or after the first day of April but before the first day of July• Seven days if employment starts on or after the first day of July but before the first day of October• Four days if employment starts on or after the first day of October but before the end of December
Casual Leave	<ul style="list-style-type: none">• Seven days of leave yearly (pro-rated to one day for every two months of employment)
Maternity Leave	<ul style="list-style-type: none">• 12 weeks (84 days) of fully paid leave. Excluding weekly holidays, Poya days, and statutory holidays.<ul style="list-style-type: none">• 14 days before confinement (including the day of her confinement) and 70 days following the day of confinement• Leave is reduced to 28 days if the confinement does not result in the delivery of a live child• Under the Maternity Benefits Ordinance, 6/7th (86%) of a worker's wages are paid for the period• In the case of a stillborn birth, the mother is given 6-week maternity leave, irrespective of the prior number of children Nursing Time <ul style="list-style-type: none">• If the mother is nursing a child under one year of age, two nursing intervals in any period of nine hours.• Where a creche or other suitable place is provided for nursing by the employer, the mother is allowed no less than thirty minutes• Where no creche or other suitable place is provided, the mother is allowed no less than one hour, in addition to any meal or rest breaks stated by the law

Wages Board

The number of leave a worker is entitled to depend on the days stated by the relevant Wages Board.

Public Holidays

Organisations and individuals are to refer to annual government announcements for the public holiday dates. There are 24 national holidays in Sri Lanka in 2022.

Date	Public Holiday
January 14	Tamil Thai Pongal Day
January 17	Duruthu Full Moon Poya Day
February 4	National Day
February 16	Navam Full Moon Poya Day

March 1	Mahasivarathri Day
March 17	Madin Full Moon Poya Day
April 13	Day prior to Sinhala & Tamil New Year Day
April 14	Sinhala & Tamil New Year Day
April 15	Good Friday
April 16	Bak Full Moon Poya Day
May 1	May Day
May 3	Id-UI-Fitr/Ramazan Festival Day
May 15	Vesak Full Moon Poya Day
May 16	Day following Vesak Full Moon Poya Day
June 14	Poson Full Moon Poya Day
July 10	Id Ul-Alha/Hadji Festival Day
July 13	Esala Full Moon Poya Day
August 11	Nikini Full Moon Poya Day
September 10	Binara Full Moon Poya Day
October 9	Milad un-Nabi/Holy Prophet's Birthday/Vap Full Moon Poya Day
October 24	Deepavali Festival Day
November 7	Ill Full Moon Poya Day
December 7	Unduvap Full Moon Poya Day
December 25	Christmas Day

Statutory Holidays	Weekly Holidays	Public Holidays
1. Tamil Thai-Pongal Day 2. The National Day 3. Day Prior to Sinhala and Tamil New Year Day 4. Sinhala and Tamil New Year Day 5. May Day 6. Day following Vesak Day 7. Milad Un Nabi (Prophet Muhammad's Birth Day)	Saturdays and Sundays	1. All full moon (Poya) days 2. Mahasivarathri Day 3. Good Friday 4. Ramazan Festival Day 5. Hadji Festival 6. Deepavali Festival Day

7. Statutory Contributions

Superannuation

Superannuation in the private sector employees takes the form of Provident Fund, Trust Fund, and Gratuity.

Employees Provident Fund (EPF) is the largest superannuation fund in Sri Lanka for private-sector employees. EPF was established under the EPF Act No.15 of 1958 as a mandatory defined contribution retirement scheme for the private and semi-government sector employees who do not enjoy pension benefits.

Contribution Rate

Employees Provident Fund (EPF) (EPF Act No.15 of 1958)	Employee Trust Fund (ETF) (Employees Trust Fund Act No.46 of 1980)
Employer 12% of monthly salary Employee 8% of monthly salary Benefits 1. When someone reaches the retirement age and cease employment 2. Female employees leaving employment on grounds of marriage 3. Cessation of employment due to total incapacitation 4. Cessation of employment on leaving to a foreign country for permanent residency 5. When engaged in a Permanent Pensionable Post in Government or Local Government Service 6. Obtaining refund benefits when government institutions become corporations, closure of corporations, and retrenchment of excess staff, nationalization, and resignation consequent on conversion into companies.	Employer 3% of monthly salary Benefits EPF required a compulsory age to be reached to claim the fund balance; however, these points are to be noted: 1. Cessation of employment is compulsory if a withdrawal claim is to be made. 2. Reasons for cessation could be retirement, resignation, dismissal, vacation of post, etc. 3. An ETF member is not entitled to make a second/subsequent claim until a lapse of 5 years from the date of previous withdrawal of fund balance.

Monthly EPF & ETF contributions are to be made on or before the last working day of the following month. Otherwise, surcharges will be imposed against the employer according to the delay

Period of Delay	Surcharge Rate
01 days – 10 days	5%
11 days – 01 months	15%
01 months – 03 months	20%
03 months – 06 months	30%
06 months – 12 months	40%
More than 12 months	50%

Gratuity

Every employer who employs or has employed 15 or more workers any day during a 12 months period is liable to pay gratuity after a worker's termination. To receive the gratuity, the worker must have a service period of at least five years.

In the event of a worker's death, the worker's heirs will be the ones to receive the gratuity.

Gratuity calculation: Half a month's wages or salary for each year of completed service (Upon Resignation/ Termination)

Penalty

If the payment of gratuity is not made within 30 days after the worker's termination, the employer will be penalised.

Not exceeding 01 month from the due date,	10% of the sum due
01 to 03 months	15% of the sum due
03 to 06 months	20% of the sum due
06 to 12 months	25% of the sum due
Exceeding 12 months	30% of the sum due

8. Termination and Severance

Termination of Employment of Workmen (Special Provisions) Act, No.45 of 1971 (TEWA)

Termination of Employment of Workmen (Special Provisions) Amendment Act No. 29 OF 2021

This Act makes provisions in respect of a worker's service termination in certain employments.

No employer shall terminate the scheduled employment of an employee without:

- the prior consent in writing of the worker; or
- the prior written approval of the Commissioner

The word termination in the Act has been given a special meaning:

- Any employer who terminates an employee because of punishment imposed by disciplinary action is to notify the worker of their termination reason before the second working day after termination occurs.
- Where an employer terminates the scheduled employment of any workman because of punishment imposed by way of disciplinary action, the employer shall notify such workman in writing the reasons for the termination of employment before the expiry of the second working day after the date of such termination
- Non-employment of the workman, whether temporarily or permanently
- Non-employment of the workman in such employment in consequence of the closure by his employer of any trade, industry or business.
- Any sum of money (up to Rs 2.5 million) to be paid as compensation to a workman on decision made by the Commissioner under this Act shall be computed in accordance with such formula is to be determined by the Commissioner, in consultation with the Minister, by Order published in the gazette.

Formula for Payment of Compensation		
Column I Number of Year(s) of Service Completed at the Date of Termination	Column II Number of Months Salary to be paid as Compensation for each Year of Service	Column III Maximum Compensation (Cumulative)
1 to 5	2.5	12.5 month
6 to 14	2.0	30.5 months
15 to 19	1.5	38.0 months
20 to 24	1.0	43.0 months
25 to 34	0.5	48.0 months

Age of Retirement (Minimum Retirement Age of Workers Act, No. 28 of 2021)

The minimum age of retirement in Sri Lanka is 60 years old. However, employees who are 55 years old as of 2021 can still enjoy the benefits of the Employees Provident Fund (EPF).