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Unemployment in Sri Lanka:

- Explanations, Constraints and Prospects for the Future

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List of Abbreviations

BOI	Board of Investment
DCS	Department of Census and Statistics
EPZs	Export Processing Zones
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
ILO	International Labour Organisation
IRQUE	Improving Relevance and Quality of Undergraduate Education
JVP	Janatja Vimukthi Peramuna
LFS	Labour Force Survey
LDC	Less Developed Countries
LTTE	Liberation Tigers of Tamil Elam
MPDI	Ministry of Policy Development and Implementation
NGO	Non Governmental Organisation
NIC	Newly Industrialising Countries
PA	Peoples Alliance
SIDA	Swedish International Development Cooperation Agency
SLFP	Sri Lankan Freedom Party
TEWA	Termination of Employment of Workmen Act
UNDP	United Nations Development Programme
UNP	United National Party

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1. Introduction

Sri Lanka may be described as a dual economy. On the one hand it has an independent, highly participative democracy, which already early in its independence, held a unique record in social development, as measured in health and education. On the other hand, it is a war torn country with a high level of unemployment, and where the economic growth is low in relation to its Asian neighbours. This has concerned policy makers, researchers and the international community for many decades. However, the overall unemployment rate is not exceptional in an international perspective. The interesting thing about Sri Lanka is that there exists a structural unemployment among the educated youth, which in spite of their relatively high level of education wait for a long time before entering the work force.

1.1 Purpose and Motivation

The problem in Sri Lanka is that there exists a mismatch between the demand for and supply of the educated labour force, which is reflected in youth unemployment. The objective of the study is to analyse this mismatch.

In this thesis we will:

1. Analyse what determines the unemployment and where it is concentrated.

2. Find out if the demand for certain type of educated labour is low and if that is the case, why?

3. Investigate how the imbalance between the demand for and supply of an educated labour force depends on governmental education policies, signals from the labour market as well as the public sector.

We will give a brief background of the country's experience and discuss other factors that might have lead to the current situation on the labour market, such as the independence, the ethnical conflict and the switch from import substitution to export promotion. We will also discuss Sri Lanka's political history of different parties and their impact of the economy. Another problem related to the labour market is the population growth and consequences from the introduction of universal free primary education. In a bigger section of the thesis we will account for the current situation of the labour market. A following section discusses the shortcomings of educational system in relation to the unemployment problem. In the end, we will account for what the World Bank and government have done and give some possible solutions to correct the market failures and discuss future prospects for Sri Lanka.

1.2 Material and Methodological discussion

We have made a case study of the country and tried to penetrate important factors that we believe are contributing to Sri Lanka's situation. We have done a so-called cumulative research since we have mainly used secondary sources. It has been hard to find up-to-date information about our main problem and have experienced problems with contradictory statistical surveys about the labour market. The problems arise from the fact that there is no straight forward way to define terms like employment and unemployment. Therefore we have chosen to discuss different definitions and their shortcomings in section three. Doing so, we hope to get reliability and validity of the topic examined.

Another problem has been to combine different conclusions from earlier research since they are written in different years using differing statistical surveys. We have thus tried to give the most balanced picture by accounting for all the different sources and their results and discuss their possible shortcomings. We have used material both from domestic sources as the government and the Central Bank as well as from independent researchers and the World Bank in order to give the broadest picture. The thesis will develop into an analysis of conclusions from earlier research combined with updated data. We will try to give a broader picture by accounting for all the different elements in the economy affecting each other in the problem concerned, namely the households, the governmental policies and the labour market.

The main statistical survey used in this thesis is *Sri Lanka Labour Force Survey* from the second and fourth quarter of 2003, produced by the Department of Census and Statistics. This is the newest information of the current situation in the country we could find, and it has also been the survey used most frequently in our references. The survey estimated a total of 15.6 million persons as defined as the working age population of Sri Lanka. It covers all provinces in the country in its national level estimates, with the exception of the Northern Province since there is an ongoing ethnical conflict in that area. A shortcoming is that the survey only covers the persons living in housing units and thereby excludes the population living in institutions.

Most of our sources have used the Labour Force Survey, but from earlier years (mainly 1990, 1994 and 1995). We have thus tried to compare and replace their data with the newer survey from 2003. In a few sections in our thesis though, the discussion has been built on conclusions from those earlier years of the survey. We do not see this as a problem since the survey is made by the same department using the same definitions, with the only exception that they do not include the Eastern Province as the newer survey from 2003 does.

1.3 Theory

We have used the theories of unemployment, the labour market and human capital applicable to developing countries. By doing so we have tried to analyse how the labour market, the households and the governmental policies are influencing one another in the economy in relation to the problem of unemployment.

Explanations have been given from earlier research regarding the unemployment situation among the educated youth in Sri Lanka. The most important hypothesis developed is the prevalence of a skills mismatch where the education system is not providing what the labour market needs. Another explanation is that the public sector employment and wage policies operating in the country lead to a queuing behaviour among the population for the attractive jobs. A third hypothesis is that the existence of stringent labour market regulations prevents employment creation. Details are given in the next section.

2. Theoretical Framework

In order to explain the reasons behind the youth unemployment situation in a developing country such as Sri Lanka, we will in this section present a theoretical framework that explains how the labour market in developing countries works and the reasons for the investment decisions both taken by the household and policymakers. We will also discuss previous research regarding the Sri Lankan unemployment problem.

2.1 The Labour Market in Developing Countries

The labour market is functioning in terms of demand and supply of labour. As stated by Kelly (1992):

> Labour market outcomes are conditioned by the quantity and quality of labour inputs (skills, participations rates) and by the internal operations of the markets, which themselves are constrained by market structures, the availability of information or signals of disequilibrium, and the transactions costs which govern the flexibility of market responses to those signals. (Kelly, 1992:1)

In other words, the demand for labour depends on the functioning of the economy and the labour market. The supply side of educated labour is responding to the demand for labour in the labour market. This demand is strongly related to investments in human capital. It is important that the demand for and supply of labour is strongly related to one other, otherwise, the chance for mismatch is big.

The labour market in developing countries is often characterised by a fast growing supply of labour. In most low-income countries, the supply of labour is increasing at 2.5% per year or more (Perkins et al, 2001:282). The labour force is determined by three factors: the size of the population, its composition in terms of age groups and sexes and the labour force participation rates of these groups, which reflects social factors such as educational patterns and the women's willingness to work outside the home (ibid: 292). The rise in the number of potential workers is then, of course, closely related to the growth of the population. Since the health conditions has been improved in many developing countries the population growth has increased, which in turn has resulted in a faster labour force growth.

The largest share of the labour force in developing countries is occupied in the agricultural sector. Even though the significance of industry and service sector has increased, the agriculture is still the dominant sector (Lakshman, 1997:37). Another well-known feature of developing countries is that the wages are generally low and that differences in wages between workers are big depending on different skills and education. It is usual that a skilled worker earn about 40-100% more than their unskilled counterparts (Perkins et al, 2001:284).

A final characteristic of labour in developing countries is the underutilisation of available labour supply. This underutilisation means that people have some kind of jobs, and may even work for many hours, but their contribution to output is small (ibid).

The labour markets in LDCs are usually seen as imperfect markets, since competitive forces do not determine wages. The structure of labour markets consists of an urban formal sector, an urban informal sector and rural employment (ibid: 286). The urban formal sector consists of the government and large-scale enterprises. This is the sector where almost everyone would like to work because of compensation for greater stability, attractive benefits and prestige and, principally the most important, they pay the highest wages (ibid: 287). The wages are higher in this sector because it to a large extent hires people with secondary and university degree. Another reason is that the government pushes up the wages to a certain level, for instance through minimum wage laws. This minimum-wage legislation can improve the wages and working conditions for the workers if it is effectively used, but at the same time, it limits the possibility for firms to hire more workers since the costs of labour is rising. It also limits the creation of more enterprises. If we look at it in this way, minimum-wage laws harm the much larger group of labour that is either unemployed or work in the informal rural sectors (ibid:307).

According to the efficiency wage theory, workers' productivity is a positive function of the wage paid. In other words, better-paid workers may be more productive. At the same time, if the wages are not competitive, the labour tends to produce at a lower rate. The high wages contribute to the fact that most people would like to work in the formal sector. Not everyone can find a job there though, and this leads to a queue of workers that rather stay unemployed than taking a job outside the formal sector (ibid:289). However, such behaviour can be pursued only by those who can afford to remain unemployed while they search/wait for a job in the urban formal sector. The poor people cannot afford this type of behaviour and therefore have to take the less preferred jobs that are offered.

Alongside with the urban formal sector is the urban informal sector. This sector is characterised by a large number of small enterprises and service activities. These tend to operate like monopolistically competitive firms with ease of entry, excess capacity and competition that drives the profits down to the average supply price (Todaro, Smith, 2003:325). Because it is easy to enter, the urban informal sector market tends to be in equilibrium (Perkins et al, 2001:290). However, the wage level is considerably lower than in the formal sector.

The last sector is the rural labour market. Rural employment in LDCs means work by family members for a share in the output of a family enterprise, that is, not for wages. Even if they work primarily in the agriculture, they often need to rely on small-scale non-agricultural activities in order to provide supplements to agriculture income (ibid:291). In this sector the wages are very low, even lower than the one paid in the urban informal sector.

In the developing countries the main cause of the employment problem has been the rapid population growth and labour force relative to the natural resources. But problems also have

occurred on the demand side of the labour market. Even when, for instance, the capital stock has increased faster than the labour force, the capital stock has been developed in ways that has kept labour absorption below its potential. However, in order to address the employment problem, little can be done on the supply-side. Of course the government can reduce the growth of labour by limiting population growth, but that will be in a long run perspective.

In order to solve the problems in a shorter term, the policy makers must therefore concentrate on the demand side. There are many different kinds of policy that affect the economies ability to create jobs for a growing labour force. The demand curve for labour shifts for example outwards due to industrial policy, foreign trade and educational policies. It is also possible to increase the demand for labour by moving down, along the demand curve for labour. This is kind of labour creating policy is therefore to adjust the wage rate.

Once it was widely believed that by increasing the supply of skilled labour, the employment would expand, generally through an increased absorption of complementary unskilled labour. The effect on the general employment is hard to determine, but for the skilled labour force, there is a risk for unemployment since there might be too many of them in relation to the production structure in the country (ibid: 306).

As stated before, the demand for educated labour is dependent upon economic growth and the overall demand for labour, whereas the supply side for educated labour is responding to the demand for labour in the labour market.

2.2 The Human Capital Approach

In order to create economic growth and economic development, the economy of a country needs to create money through producing goods and services. An economy can produce at different kinds of rates, and the more skilled, productive and educated the country's labour force is, the faster and better it will produce the certain kinds of goods. There are mainly three factors that determine the labour productivity, or quality, in developing countries. One of these is people's attitudes and values. These are shaped by experiences in the home, in school, and on the job (Perkins et al, 2001:281-2). A second is the health and nutrition of the working population. The healthier population, the higher productivity can be achieved (ibid:282). Finally, the last factor that affects the productivity in an economy is human capital. The more human capital, the better is the productivity in the economy.

The human capital approach includes education, health and other human capacities that can raise productivity when it is increased (Todaro and Smith, 2003:369). Education gives people a better understanding of themselves and the surrounding and thereby improves the quality of their lives and leads to benefits both for the individual and the society. It also raises people's creativity and productivity and promotes technological achievements and entrepreneurship, which has been demonstrated in several countries throughout the world. Even though no country has ever achieved sustained economic development without substantial investments in human capital, it is important to note that education by itself does not guarantee successful development (Lopéz, Thomas, Wang, 1998:2).

The human capital approach focuses on investments in education and health and its indirect ability to increase utility by increasing incomes. Even though there are other utility rising returns from such investments, they are neglected in this approach. Investments in human capital both have social rates of return, which means benefits to the society, and private rates of return, contributing to the individual (ibid). Decisions regarding human capital investments are thus made both at a micro level, in the households, and at a macro level, by policy makers in the government and by employers in the private sector. All the decision makers want to improve the utility in terms of higher income and productivity.

2.3 Linking Education to the Labour Market

Two fundamental economic processes are mainly concerned in the ongoing public discussion about education and economic development in general, and education and employment in particular. The first is the interaction between economically motivated demands and politically responsive supplies in the process of deciding how many school places are needed, who will get access to these places and what kind of instruction they receive. The second is the distinction between social and private benefits and costs of different levels of education and what these differences mean to the educational strategy (Todaro and Smith, 2003:379).

If we start at the micro level, the amount of schooling the individual receives is determined by supply and demand, just like any other commodity or service (ibid:380). The amount of schooling desired is determined in the households by the prospects of future earnings, which are supposed to be higher than without education, and the likelihood of getting a modern sector job. The educational costs, both direct and indirect, are the other factors affecting the decision, and the derived benefits are then weighed against the costs in order to decide whether or not to send the children to school. There are also other factors that have a major impact on the education demanded such as cultural traditions, gender roles, social status, education of parents and size of the family (ibid). In a developing country such as Sri Lanka, most people demand education because it is the only way to get a high wage modern sector employment. *The labour market is thus signalling to the households how much education is needed* to get this type of employment.

If we turn to the supply side and macro level, the amount of school places at primary, secondary and university levels are largely determined by the *political policy makers who, in turn, are influenced by the aggregate private demand for education*. The amount of the education demanded is in other words largely determining the supply (ibid). The amount demanded in turn is though, as mentioned above, linked to the labour market. The amount of education supplied is also determined by the social return, that is. how much it can raise the productivity of the people and thereby raise the economic growth of the country (ibid:381).

In developing countries, the anticipated private benefits from more education are large compared to having little or no education and the private direct and indirect educational costs are relatively low. If the labour *market is tight, people tend to demand more education* to be able to secure employment (ibid). As the demand rises, there is a lot of pressure on the

government to expand the educational facilities . The rising educational levels in the country drives the job requirements up so that the prospects of getting a job is determined by an academic diploma, even though that educational background may not be necessary to be able to manage the work. *"The diploma degree does become basic requirements for employment, they no longer provide entree into a high pay job nor do they provide the education they were intended to signify"*. (ibid s. 382). As an effect, this will exclude people with only primary education from the labour market. It might even exclude students that have the educational qualifications, but are pre-empted by others with even more education. At the same time, individuals with relatively high education tend to resist taking jobs that they feel are under their dignity. They might even prefer to stay unemployed for some time waiting for so-called good jobs (ibid). In other words, there exits a *mismatch* between the expectations of educational returns and the jobs available.

A consequence might be that people overqualify themselves through even more years of schooling and the higher education system will become an absorber for people that are unable to get an employment. This is an expensive form of unemployment compensation. The result will be a situation with unemployment among people who are both highly educated and highly vocal. This is a serious misallocation of the country's resources since they do not contribute productively to the society. These resources could instead be invested in projects that are needed in the society. For instance, to improve the quality of primary education in rural areas (ibid).

As for the employers of the private sector, one has to remember that investment in human capital is a kind of interdependence. Only one firm cannot invest in it since it is impossible for the company to hinder the skilled workers to leave for other firms with higher wages. Therefore, the public sector should be the financier in skills development rather than a manager and that firms should be encouraged to provide training linked to the labour market funded by the state (Kelly 1992:16)

In order to avoid situations with high rates of unemployment, it is therefore very important that the demand equals the supply of an educated labour force otherwise this mismatch phenomenon might appear.

2.4 Previous Research

Before we start the discussion about previous research, we want to make one thing clear: The word *"mismatch"* is used frequently in earlier research about the Sri Lankan unemployment problem, and we believe that it is important to explain the different contexts in which this term exists. We do this since we had some troubles to make a distinction between them. In fact, there exists a mismatch on the labour market where the demand for educated labour is less than the supply of it. This is an empirical fact, since this mismatch is reflected in the high rate of unemployed educated youth. In other words, there are fewer jobs with educational requirements than the supply of educated workers. The logical outcome of this is unemployment. There are, however, different kinds of hypothesises developed to explain this

kind of mismatch and one of them is called *the Mismatch theory*. Confusing? -Maybe a little bit! We will try to give a brief summary of the different explanations below.

The high rate of unemployment in Sri Lanka have concerned researchers, policymakers and the international community for a long time, which has resulted in a lot of research and literature in the topic. Several explanations have been proposed and the most accepted explanation though is the *Skills Mismatch hypothesis.* It was first articulated by the International Labour Organization (ILO) in the 1970s and was further researched by Glewwe (1987) and Dickens and Lang (1996) (ref in Bell et al 1999:3). This theory suggests that the educational system of Sri Lanka does not produce the skills that are valued by the employers. At the same time it raises the expectations of those who acquire them. This means that the unemployed are not interested in the available jobs. At the same time the employers will not hire them since they lack the skills needed. This hypothesis argues that the reason for the high rate of unemployment among the first job seekers is that this group has just finished school, and has therefore not developed the skills needed out of earlier work experiences. This theory suggests that in order to defeat the unemployment problem, the educational system needs to be reformed through skills development and vocational training with more connection to the labour market (ibid).

However, Bell et al is questioning the Skills Mismatch Hypothesis because none of the analyses have any empirical evidence that educations attainment raises the expectations of income even more than the actual income, which they mean are a critical foundation for the Skills Mismatch Hypothesis. Aturupane (1997) showed in a study that the private returns to schooling are high, especially at the highest rates of education, which goes in the opposite direction of the skills mismatch theory and shows that the educational system is well geared towards the labour market. (Ref in Rama 1999:4). Still, Bell et al argues, that conclusion does not object the fact that some of the unemployed do not have the skills most commonly required by currently available jobs. They call this a 'functional' mismatch that exists because of structural obstacles like wage rigidities and governments employment and pay policies (Bell et al, 1999:ii).

Another explanation to the unemployment problem is the *Queing hypothesis linked to public sector employment and wage policies.* This theory is also suggested by Glewwe (1987), and was developed by Bowen (1990) and Dickens and Lang (1996). They argue that public sector workers have a lower wage than those in the private sector in a well functioning labour market. This is so because of compensation for greater stability, attractive benefits and prestige and lower work efforts that exists in the public sector. This is not the case in Sri Lanka though, were the public servants both get all the mentioned benefits and a higher pay. As a consequence, the fresh graduates prefer to wait for the jobs in the public sector and thereby choose to stay unemployed for a while instead of taking jobs outside the public sector (Bell et al, 199:3). This hypothesis can therefore be seen as a *mismatch between expectations and available jobs.* The solution to this type of problem is to reform the way the public sector recruits their staff and establish wage policies to stop this queuing behaviour (ref in Bell et al, 1999:3).

Even this part is questioned. Rama claims that there is no hard evidence to support the claim that public sector jobs are more attractive than the private sector ones. He claims that Glewwe compared average earnings across sectors and skills, to show that the government pays more. This comparision was for broad groups of workers though, and not for individuals with similar characteristics. The data were from 1969 and Rama claims that the relative earnings might have changed (Rama 1999:5). Bell et al on the other hand, argues that strong job preferences partly explain the unemployment problem since they found that when using a narrow definition of unemployment where only those who reported as willing to take any job are considered as unemployed, the overall unemployment rate fall dramatically. (Bell et al, 1999:ii). They also find that there is substantial evidence of labour market segmentation which provides a rationale for the unemployed to wait for so-called "good" jobs (ibid).

The third explanation is that the *labour market regulations create a wedge*. This explanation is connected with Rama (1994) and suggests that the labour market regulations discourage employers to hire new staff in their enterprises since they make it very hard to terminate unwanted workers. The Termination of Workmen Act (TEWA) is regulating enterprises with at least 15 employees and provides life long tenure. Small firms with less than 15 workers have on the other hand no job security at all. The same goes for the Export Processing Zones (EPZs). This is a duality that means that the unemployed prefer to wait for the regulated jobs. The solution would be to reduce the wedge between TEWA protected and the unprotected jobs (ibid).

As the reader probably have noticed, the theories "be or not to be" is depending on the data used, and how to interpret it. Since we have not made any surveys ourselves it is hard to know what data to rely on. The conclusions are hard to isolate between the different explanations. They are all connected and the outcomes influence each other. We have been using some of the outcomes from most of the different surveys discussed above. In the coming sectors we will discuss all the possible factors influencing the unemployment problem in Sri Lanka, and in relation to that analyse pros and cons of the hypothesises discussed above.

3. Definitions of Key Words

In this section we intend to give the reader a conception of the key words used in this thesis. Since they do not have any straight forward definitions, we will also discuss their shortcomings

The population can be divided into two categories, namely the economically active population or labour force, and the economically inactive population. In our thesis, we will mainly use the statistics from the *Sri Lankan Labour Force Study* (which we will identify as LFS hereafter*)* from the second and fourth quarter of 2003. Therefore we find it appropriate to use their definitions even though we find them questionable on a few grounds. Official unemployment, employment and labour force characteristics in the LFS are based on internationally comparable concepts and definitions recommended by the ILO (Sri Lanka Labour Force Study, 2003).

3.1 Employment and the Labour Force

Identification of the labour force often have definitional problems in developing countries and consequently the distinction between economically active persons and economically inactive persons is sometimes not clear-cut (Central Bank of Sri Lanka, 1991).

LFS counts all persons of age 10 years and over to be in the working age. Here they divide the labour market into different groups. *Paid employees* are those getting a certain salary for the work they perform. People are considered as *employers* if they have at least one employee under them. *Own account workers* are carrying out economic activity without having any paid employees under them, and *unpaid family workers* are workers making a contribution to the economic activities in their own household without wages or salaries. (Labour Force study, Second Quarter, 2003)

A person is considered as being employed when she works at least *one hour* during the reference week (ibid). Persons temporarily away from work due to illness, bad weather or labour dispute are still considered as employed (Central Bank of Sri Lankan Annual report, 2003:153). Since the data has been collected only from the household sector, persons residing institutional dwellings such as hostels, defence services camps and police barracks were not represented in the sample and is considered as unemployed, which of course gives a different picture of the employment situation than the reality.

These definitions can be questioned on several grounds. One can point out that one hour of work per week is too low to be considered as employment. The same goes for the definition

about the working age. Children between 10 and 14 years can be seen as too young to be a part of the labour force. The “unpaid family workers” can also be questioned as a part of the labour force since the reason for working in the family enterprise might be because they can not find another job (ibid). These definitions are in other words very broad.
Therefore, in a few of their comparisons the LFS have attempted to produce some alternative measures of their key term where they are only counting the persons over 15 years of age while not considering the unpaid family workers. Those among them who are seeking for other occupations are therefore considered as unemployed while the rest of them are looked upon as economically inactive. (ibid)

3.2 Unemployment

The Department of Census and Statistics (DCS), which is responsible for the LFS, defines a person as unemployed based on if he or she is available for work, is actively looking for work and has worked less than one hour the preceding week (Bell et al, 1999:2) The rate of unemployment is defined as the number of unemployed persons as a percentage of the total labour force (Central Bank of Sri Lanka, 1999:62).

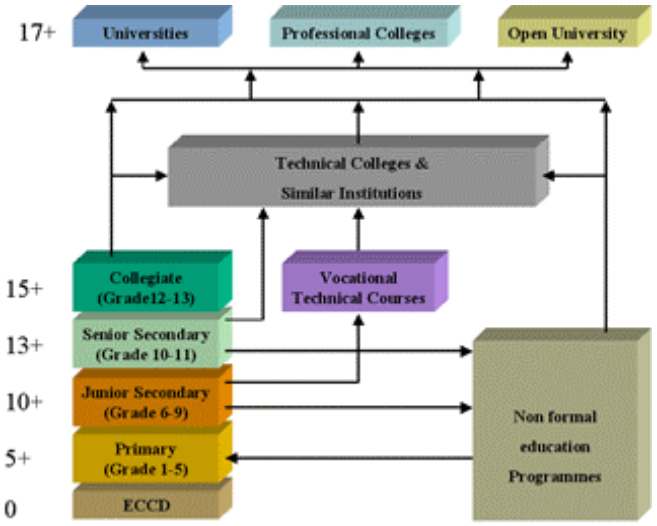
3.3 Education

The education system in Sri Lanka is divided into Primary, Junior Secondary, Senior Secondary and Collegiate level. The educational system is summarised in figure 3.1 below. The *primary level* is the first five years in school, grades 6-9 accounts for the *Junior Secondary education* while the *Senior Secondary level* is represented by grades 9-11. This level is also called the *GCE Ordinary Level* after international standards. Sri Lanka has common school curriculum in school up to year 11. After that the education is divided into three streams, namely science, arts and commerce. This takes place in years 12-13, which is called *GCE Advanced Level* or *Collegiate level.*

Unlike most countries in the region, Sri Lanka introduced *non formal* strategies to meet educational needs of non-school going children only recently in 1981. These centres attempt to equip children with literacy and numeracy skills and those kinds of core competencies that will help them to entry the formal school. It is organised into three levels with courses both for children with no schooling experiences and those that have dropped out from different levels in primary classes. (ibid: 11).

In Sri Lanka, higher education institutions are almost synonymous with universities. Entry to universities is thus highly competitive and is based on performance at the GCE Advanced Level examination. Alternative opportunities or higher education are minimal (Jayaweera, 1993:17).

Figure 3.1: Education system in Sri Lanka



Source: Ministry of Education, Sri Lanka 2001,http://www.gov.lk/moe/education/newera.htm

Vocational training- While general education provides a base for skill training to meet development needs and university education is directed to professional and high level employment, the vocational education sector is more directly working between education and the labour market. (ibid: 26). This is a training provided by different institutions in order to provide pre- employment training which in the end awards the graduate with a certificate on the skills obtained.

Tertiary education- This is higher education represented in the upper area of the figure, like universities and technical colleges.

4. Background

In this section we intend to give a brief overview of the factors that has had certain impact on the current labour market situation.

4.1 Independence

Sri Lanka became independent the fourth of February 1948 after several years of British ruling. The process of independence was peaceful and there was no widespread violence and little social unrest (U.S. Library of Congress). The country is often seen as unique since it has experienced the development of legal, social and political institutions during the colonial rule (Ahmad, 1999:8).

4.2 Political Parties

After the independence there were mainly two political parties prevailing in Sri Lanka – the United National Party (UNP) with libertarian ideology and the Sri Lankan Freedom Party (SLFP) with socialist ideology (Lakshman, 1997:5). Between 1948 and 1956 the UNP was in power and it mainly supported a free liberal market-oriented policy. In 1956 to 1965 the SLFP took over the power. The SLFP made a major policy shift from an open export economy to a protected economy in both the industry and agriculture. In 1965 the UNP came back and once again shifted the policy towards an open liberal export economy. This resulted in that a full liberalisation programme started in 1977 (Ahmad, 1999:9). The reforms aimed at generating growth and creating employment opportunities. In the early years the effects of the reform were positive for economic growth, but the economic expansion has been slowed down by the ethnical conflict that erupted in 1983 (Hettige, 2000). The UNP continued to keep the power more or less until 1994 when the Peoples Alliance (PA) took over and a new era began. The PA has followed the same policy towards a market- oriented economy as the UNP, but with more emphasis on social equality and poverty alleviation (Ahmad, 1999:9).

In short, the development strategies, economic policies and socio-economic performance have largely been influenced by the political ideology of the parties in power. For all political parties in Sri Lanka economic growth with equity and human resource development are the professed goals, but the means to achieve the goals differs a great deal between the parties.

4.3 From Import Substitution to Export Promotion

In 1977 the transformation began from an inward-looking socialist system[1] towards a market economy[2] based on liberalised trade, foreign exchange and investment arrangements in Sri Lanka. (World Bank, 2004). The export-oriented production resulted in an increase of job opportunities in the labour-intensive industries producing simple manufactures. It was mainly young female workers that were in demand in these industries (Lakshman, 1997:248). In comparison with the present day Newly Industrialising Countries (NICs) the transformation took place relatively late in Sri Lanka. This lateness in transformation depends mainly on the governing political ideology coupled with various endogenous and exogenous economic factors (Lakshman, 1997:8). Since the transformation, gross domestic product has grown at a moderate rate of 4 to 6 percent a year, with the exception of 2001 when Sri Lanka for the first time since their independence experienced negative growth. Today a gradual recovery has begun and the economy continues to grow (World Bank, 2004). However, Sri Lanka is still far from an efficient and competitive market economy due the rate of growth is associated with high inflation, unemployment, a persistent fiscal deficit and widespread regional disparity in per capita income (Ahmad, 1999:2).

4.4 The Ethnical Conflict

In Sri Lanka both ethnical and cultural diversity is apparent among its population. The Sinhalese is the largest ethno-linguistic community and they are mainly Buddhists. The largest minority is Tamils, an economically more advanced group concentrated in the backward Northeast region (Hettige, 2000). The Tamils and the Sinhalese lived peacefully together until late 1970s when conflict arose. The Tamils were kept politically alienated by the Sinhalese majority who had the political power (Ahmad, 1999:11).

The alienation has resulted in a prolonged ongoing ethnical conflict where the Liberation Tigers of Tamil Elam (LTTE) fight for achievement of a separate Tamil state in the Northeast (Catterson, Lindahl, 1997:41). The conflict has been constrained to the Northern and eastern provinces. The civil war has been persistent since 1983, and has been excluded from the official statistics regarding the labour market. It has not only absorbed a high share of the government's budget, it has also made FDI unattractive. The same goes for the tourism, which has been retarded in spite of the country's wonderful nature and nice beaches. Many researchers claim that Sri Lanka's future prospects of economic growth depend crucially on the resolution of the ethnic conflict (Ahmad, 1999:11).

[1] Import substitution: Replacing consumer imports by promoting the emergence and expansion of domestic industries (Todaro, Smith 2003:798)

[2] Export promotion: Efforts from the Government side to expand the volume of a country's exports through e.g. export incentives (ibid :794).

4.5 Universal Free Education

In 1944 universal free education was introduced in Sri Lanka. The political leaders saw this as an essential component of social reform. They supposed that free education would facilitate an upward social mobility of individuals (Hettige, 2000). The introduction of free education increased the number of school enrolment substantially and today Sri Lanka has a relatively highly educated population. The impact of the educational system will be further developed in section six.

4.6 Population Growth

In relation to the introduction of universal free education in Sri Lanka the country experienced a rapid expansion of the population. The population growth was a result of a dramatical decline in the death rate, while the birth rate remained high (Lakshman, 1997:226). In 1946 the population in Sri Lanka grew from 6.7 million (ibid) to 19.3 million in 2003 (Central Bank of Sri Lanka Annual Report, 2003:153). The decline in the population growth commenced with the decline in fertility. There has been a tendency among women to acquire higher education, to raise their labour force participation and to seek employment in the urban formal sector, which has played a significant role in reducing the fertility level in the country.

5. The Labour market

According to the neo-classical theory, a free market economy will ensure full employment and together with increasing privatisation and liberalisation create more jobs. Sri Lanka corresponds partly with this hypothesis. The unemployment rate in the country was higher in periods when the economy was more regulated, and the overall unemployment rate has declined with liberalisation of the economy, but unemployment among certain groups persists (Ahmad, 1999:32). This indicates that there are some structural rigidities in the Sri Lankan economy and that the linkage is weak between demand for and supply of the educated labour force.

5.1 Labour Legislation

Sri Lanka's labour market is often seen as a rigid and stringent market since it has problem with attracting foreign investors and create employment opportunities. The labour legislation in the private sector is considered as the biggest obstacle to attract further foreign investment (Catterson, Lindahl, 1997:21). The labour market regulations have remained restrictive despite the country's sustained implementation of liberalisation policies over the years (Bell el at, 1999:15). A survey by the World Bank claimed that Sri Lanka had corroborated about 30 international labour conventions, which is about double of its East Asian neighbours. According to the study, the government makes it difficult for employees, unions and employers to understand and apply these regulations (Catterson, Lindahl, 1997:22).

In Sri Lanka during the 1990s there have been 48 labour laws of which approximately 10 to 15 have been in practical operation. The most important of these laws is the Termination of Employment of Workmen Act (TEWA), enacted in 1971 under the SLFP, which prevents employers from laying off employees (ibid: 6). The TEWA states that a worker who has spent one year or more with the same employer and has not committed a disciplinary fault, can not be legally discharged, except for when the employer has permission of the Commissioner of Labour. The process to get permission of laying off workers can take many years and during this time the firm must keep paying salaries to the redundant worker (Rama, 1999:3).

However, many workers are not subjected to the TEWA. Firms with less than 15 workers are not legally bound to it and firms like those in EPZs find ways to go around the regulations. The regulations apply only to part of the formal sector, or about 15 % of the labour force (Catterson, Lindahl, 1997:23). TEWA has resulted in a situation where employers avoid formal hiring and use short- term contracts (Rajapatirana, Yatawara, 1997:33). The jobs covered by TEWA is however those jobs that are considered as "good" jobs by the population since the other ones do not give the employee much security.

5.2 The Labour Unions

Under the 1990s there existed about 1000 labour unions in Sri Lanka. Roughly 30% of the country's work force was a member of a union and the unionisation is still high mainly in the formal sector. Most of the unions are generally linked to political parties, of which the SLFP is the most common. According to studies of the labour market there seems to be a symbiosis between the parties and unions. The unions are used to gain votes and the parties supply with benefits to the unions (Catterson, Lindahl, 1997:22). A study presented in Catterson and Lindahl (1997) conclude that:

> Reciprocal links between political parties and trade unions have tended to transform union leaders into agents and representatives of their affiliated parties […] the majority of the workers are involuntarily drawn into industrial disputes initiated by their leaders whose real agenda relates to national political issues rather than improving the welfare of workers in the establishment (Institute of Policy Studies, 1997, Ref in Catterson, Lindahl, 1997:22).

5.3 Labour Relations

There seem to be serious problems with the climate of labour relation's in Sri Lanka. There is a widespread low level of "work-ethic" which has resulted in a decline in the labour productivity. The employers have expressed an unwillingness to hire more workers and to invest in new facilities as a consequence of this. Some studies have implied that the worsening in the labour climate is more deterrent for foreign investors than the political problems in Sri Lanka (Lall et al, 1996: 122).

The labour market is segmented into three: a "protected" part (government, state-owned enterprises and some larger private enterprises), a less regulated segment (agriculture and the informal sector), and the state plantations. The first category suffers from considerable labour market distortions and rigidities since the wages in government and public enterprises often exceed private sector wages substantially. TEWA is also making the labour market segmented by keeping the employment down in the private sector and encouraging the use of short-term contracts (ibid).

5.4 The Labour Force

5.4.1 Characteristics of the Labour Force

The size of the labour force is determined by a country's population size, its composition and the participation rate at each age group (Lakshman, 1997:234). In 2003, nearly 84% of the total population were in the working age group, which constitutes of people from age 10 and over. According to LFS, nearly 49% of the working age population are economically active. Both male and female participation has risen, but the female participation has shown a considerable increase. (Labour Force Survey, Second Quarter, 2003:1)

The female participation in the labour force has increased from 19.8% in 1973 (Central Bank of Sri Lanka, 1999:53) to 30.5% in 2003 (Labour Force Survey, Second Quarter, 2003). In contrast, the male participation in the labour force has had a slower increase from 48% (Central Bank of Sri Lanka, 1999:53) in 1973 to 69.5% in 2003 (Labour Force Survey, Second Quarter, 2003). The rise in female participation have been a result of a number of factors like greater employment opportunities for women after the liberalisation of the economy, changed social attitudes towards employed women and educational attainments of female population (Central Bank of Sri Lanka, 1999:53)

The labour force growth has increased since the liberalisation reforms in the 1970s when different forms of economic activities took place. This depends mainly on the increase in the female labour force participation (Jayaweera, 1993:47). Nevertheless, the female participation rate continues to remain below the male.

As for the rural sectors (see table 5.1) the participation rate is higher than in the urban ones where 49% is engaged in rural activities and 44.1% in urban (Labour Force Survey, Second Quarter, 2003:1).

Table 5.1: Labour force participation by sex and sector

		Sector		
Sex	**Total**	**Urban**	**Rural**	
Total	48.3	44.1	49.0	
Male	66.8	66.2	66.9	
Female	30.6	22.6	31.8	

Source: Labour Force Survey, Second Quarter, 2003

5.5 Employment

5.5.1 Characteristics of the Employed

The employed population in Sri Lanka is estimated at 6.9 million (2003). Of the employed individuals are 4.8 million (or 69.5%) males and 2.1 million (or 30.5%), are females. The majority of the employed are living in rural areas and in these areas agriculture is the major occupational source. In the urban areas occupations like manufacturing and social and personal services are dominating (Labour Force Survey, Second Quarter, 2003:2-3).

5.5.2 Occupational Pattern of the Employed

Although the significance of industry and services sector has increased at the expense of agriculture during the latest years, the agriculture is still the dominant sector and the biggest source of employment, a factor often forgotten in the discussion of the unemployment problem in Sri Lanka (Lakshman, 1997:37). Table 5.2 below illustrates the sectoral distribution of the employment in the economy from 1953 to 1994.

Table 5.2: Sectoral Composition of Employment, 1953-94

Sector	1953	1963	1971	1981/82	1986/87	1994
Agriculture, Forestry and Fishing	52.9	52.6	50.4	51.2	47.7	39.9
Mining and Quarrying	0.4	0.3	0.4	1.7	1.9	1.2
Manufacturing	9.7	9.1	9.6	12.4	13.4	14.1
Construction	0.1	0.2	0.3	5.2	5.7	0.9
Electricity, Gas, Water and Sanitary Services	1.8	2.7	3.1	0.3	0.6	3.2
Transport, Storage and Communications	9.4	10.9	9.5	4.1	4.6	13.2
Wholesale and Retail Trade	3.5	4.3	4.3	10.7	11.9	4.3
Banking, Insurance and Real Estate	2.2	0.5	0.7	1.5	1.6	1.8
Business, Community, Social and Personal Services	13.2	13.8	13.5	12.6	11.8	17.6
Activities n.e.s.	6.6	5.5	8.2	0.3	0.8	3.3

Sources: Years 1953, 1963 & 1971: DCS, *Census Reports* of 1953, 1963 and 1971; Years 1981/82 & 1986/87: CB (1984) & (1993); Year 1994: DCS, *Sri Lanka Labour Force Survey*
Ref in Laksham, 1997: 39

From the table we can draw the conclusion that the agriculture up to mid 1980s occupied more than 50% of the population. Today more than a third of Sri Lanka's labour force is active in agriculture. Half of those have small scale paddy farming as their major source of employment, and the other half are dependent on other crops. Even if the smallholder agriculture is the largest source of employment, it has problems with being considered attractive for people whose entering the labour force with ten years or more education. Paddy farming is for example seen as a traditional occupation, with cultural links to ancient history. Few of the educated youth would like to go back to the farm and take up the occupation of their fathers (Catterson, Lindahl, 1997:29-3).

In recent years, employment in sectors like manufacturing has gone up. Today the manufacturing sector occupies about 14% of the work force. The majority of the employees are in the formal export-oriented sector, that is. industries that were established after the liberalisation. These industries were mainly provided by the BOI (Board of Investment), which aimed to attract foreign and local investments for export-oriented manufacturing. In this sector, the garment industry became the most successful and is also seen as a major source of employment. The garment industry employs nearly 90% women and has played an important role in transforming female participation in the labour force. Nevertheless, the export-oriented sector has a few upstream linkages to the rest of the economy since a major part of all intermediary materials is imported (Catterson, Lindahl, 1997:32-3). Furthermore, the BOI enterprises have had problems with increasing the supply of formal sector "good" jobs. Many jobs in these sectors are considered as "bad" jobs since the work conditions are poor and the wages are low (Bell et al, 1999:21).

In Sri Lanka the public sector has traditionally been the main formal sector employer. A large proportion of the educated labour force has secured employment in the public sector mainly in the occupational categories of professional, administrative and related and clerical work. However, since the liberalisation in 1977 the government had to downsize this sector due to privatisation of public enterprises which means that employment opportunities for graduates become limited (Central Bank of Sri Lanka, 1999:63). Yet the public sector jobs are still

considered to be more attractive than other jobs, since they offer more stability, lower work effort, attractive benefits and higher pay than the private sector (Catterson, Lindahl, 1997:35).

To summarize, the agricultural sector has problem to absorb new entrants in the work force since the work is neither attractive nor expanding. Only a few of the educated youth would like to go back to the agriculture. The jobs that are created in the export-orientated sector are mainly for women and this sector is also seen as an unattractive work place. However, the public sector assumes to be preferred among the population, but its capacity to absorb new entrants is low due to the downsizing.

Clearly there seems to be a mismatch between the jobs desired and the jobs available. Only a few of the new entrants are willing to work in the agriculture, whereas the greater part desire white-collar jobs (Lakshman, 1997:246). The occupational and employment structures indicate the dominance of self-employment and that the share of technical labour fore are small.

5.6 Unemployment

The unemployment rate has during the 1990s gradually declined but it was not until 1998 that Sri Lanka managed to lower it below 10% (Labour Force Survey, 2003, Fourth Quarter). This decline is a result of sustained economic growth, mostly in the private sector, but also a result of economic reforms. The most effective of these reforms was the liberalisation of the foreign exchange market and trade regime, starting in 1977 (Bell el at, 1999:i) These reforms have been a source of considerable job creation, but notwithstanding the decline, the persistence of double digit unemployment rates for almost three decades, indicates that the Sri Lankan labour market does not work well (ibid).

5.6.1 A Profile of Unemployment

Unemployment has historically been a very sensitive issue in Sri Lanka. This is mainly due to that the high levels of unemployment have predominantly been concentrated among educated youth. An even more serious aspect of the problem is that unemployment rate increases with the level of education (Lakshman, 1997:243). What does this depend on - is it because they are young, because they are more educated or because they benefit from family support to perform an extended job search? Rama (1999) has found that there are mainly three determinants of unemployment. The first is *age*; the probability of being unemployed is highest among the youth, and it declines with age. The second is *education*. Studies indicate that unemployment rate increases with the level of education. The final determinant is *benefit from family support*. The probability of being out of job is higher among individuals who live with their parents (Rama, 1999:9-11). An important statement to make in relation to these conclusions is that Rama has used the Sri Lankan Labour force Survey from 1995 in his analysis, which is the same survey we have relied on in our statistical comparitions. We have thus used the figures from 2003.

According to LFS the unemployment rate is estimated to be 7.6% (excluding Eastern province) in the fourth quarter of 2003 This means that of all economically active persons in the country 7.6% are unemployed. It is the lowest rate that has been reported after the year 2000, see table 5.3. The official unemployment rate has shown a declining trend since the 1970s, from 24 % in 1973 (Lakshman, 1997:241), to 7.6% in 2003 (Labour force survey Fourth quarter, 2003). A contributing factor to this decline is that fewer women are unemployed now, while the male unemployment has been static. Since the 1980s, employment opportunities have grown much faster for women than for men (Lakshman, 1997:241).

Table 5.3: Recent Data in Unemployment

Year	Male	Female	Total
1994	9.7	20.1	13.1
1995	8.8	18.8	12.3
1996	8.5	18.0	11.3
1997	7.7	16.1	10.5
1998	6.5	14.0	9.2
1999	6.7	13.0	8.9
2000	5.8	11.1	7.6
2001	6.2	11.5	7.9
*2002	6.6	12.9	8.8
**2003 1st Q	6.2	13.5	8.7
**2003 2nd Q	5.6	12.4	7.8
**2003 3ed Q	6.4	12.1	8.3
**2003 4th Q	5.8	11.1	7.6

*-Excluding Northern and Eastern provinces
**- Including Eastern province but Excluding Northern province
Note: The reported data for 2002 are the average of the 1st, 2nd, 3rd and 4th quarters
Source: Labour force survey, Fourth quarter, 2003

5.6.2 Age-Specific Unemployment

According to the latest report of LFS, unemployment is highest among the people between 20-24. As table 5.4 below indicates, nearly 80% of all unemployed are under 29 years of age. This rate is to a very high degree related to the first time job seeker's entrance into the labour force (Catterson, Lindahl, 1997:27). In the age group 15-19 and 20-24 the male unemployment rate during the last years has exceeded the female rate. Nevertheless, the female unemployment rate is dominant in the age group 25-29 and 30+. A comparison of the unemployed in the late 1960s with those in the beginning of the 2000s reveals an improvement in some spheres and worsening in others. According to LFS (Second Quarter) in 2003 66% of all unemployed were below 25 years of age, whereas in the late of 1960s the corresponding percentage was high as 83 (Lakshman, 1997:244).

Table 5.4: The age structure of unemployment - Both sexes

		Age groups			
Year	Total	15-19 YRS	20-24 YRS	25-29 YRS	30+ YRS
1990	100	20.3	40.3	19.3	20.3
1993	100	20.4	38.5	18.9	22.3
1996	100	24	39.3	18.1	18.6
1999	100	23.9	40.5	17.2	18.4
*2002	100	19.9	47.13	16.5	16.5
**2003 1st Q	100	18.9	43.5	18.8	18.9
**2003 2nd Q	100	18.8	47.5	17.4	16.3

*-Excluding Northern and Eastern provinces
**- Including Eastern province but Excluding Northern province
Note: The reported data for 2002 are the average of the 1st, 2nd, 3rd and 4th quarters
Source: Labour Force Survey, Second Quarter, 2003

The LFS show that of the unemployed, nearly three out of four have been looking for job for more than a year (72%), and only one out of ten have been unemployed for less than half a year (Labour Force Survey Second Quarter, 2003).

5.6.3 Unemployment and Education

Sri Lanka's policy of universal free education has led to a relatively educated population in comparison of its low level of income. In spite of this, surveys indicate that the rate of unemployment is concentrated among the educated youth. A quotation from the ILO describes the situation in Sri Lanka well *"The more a young person had been educated, the greater the likelihood that he or she may be unemployed"* (ILO, 1971:28, Ref in Lakshman, 1997:244). In LFS 2003 (second quarter) 56% of the unemployed were with qualifications of GCE O/L and GCE A/L, while it was 27% in the late of 1960s (Lakshman, 1997:244). This might depend on the fact that a bigger share of the population is acquiring secondary schooling today than in the 1960s since the education is free.

The LFS implies that unemployment is highest among those with junior and senior secondary school attainment, as table 5.5 indicates while it is low for those with university degree and primary school. This corresponds with the structure of the Sri Lankan labour market and educational system (Catterson, Lindahl, 1997:27). The unemployment rate among those with secondary schooling is higher in the rural sector than the urban sector (Labour Force Study, Second Quarter, 2003).

Table 5.5: Unemployment by level of education – Both sexes

Year	Level of education			
	Below grade 5	Grades 5-9	GCE (O/L)	GCE (A/L)
1993	8.3	44.9	28.7	18.0
2003	6.7	40.0	27.0	28.8

**-Including Eastern province but Excluding Northern province
Note: The reported data for 2003 are the average of the 1st and 2nd quarters
Source: Labour force survey, Second Quarter, 2003

The unemployment pattern between male and female differs a great deal. This is presented in table 5.6 and table 5.7. Among males, almost half (46.5%) of the unemployed have 5-9 years of schooling and 19.1% have GCE A/L. Among females, 33.9% of the unemployed have 5-9 years of schooling and 37.2% have GCE A/L. This implies that it is easier for a man with higher level of education to find a job, whereas it is more difficult for a woman. The prospects for job opportunities are better for low educated females than males. An explanation for this might be that the demands for women are greater in the EPZs than for men.

Table 5.6: Unemployment by level of education – Male

Year	Level of education			
	Below grade 5	Grades 5-9	GCE (O/L)	GCE (A/L)
1993	11.4	47.7	28.0	12.9
2003	5.1	46.5	29.3	19.1

Table 5.7: Unemployment by level of education – Female

Year	Level of education			
	Below grade 5	Grades 5-9	GCE (O/L)	GCE (A/L)
1993	5.7	42.5	29.4	22.5
2003	3.9	33.9	25.0	37.2

**-Including Eastern province but Excluding Northern province
Note: The reported data for 2003 are the average of the 1st and 2nd quarters
Source: Labour force survey, Second Quarter, 2003

A survey presented in Catterson and Lindahl from 1996 (see table 5.8) implies that among university graduates and high secondary school leavers under 30 years of age four out of five women and three out of four men did not want to work in the private sector (Catterson, Lindahl, 1997:35). Reasons why they do not prefer to work in that sector were that working conditions are poor, wages are low and the lack of security (Bell, 1999:21). According to the survey only 10% were willing to start their own business. Reasons for this low number were that self-employment gives no security and low return. The survey found also that 72% of the graduated men and 77% of the graduated women believed that the government should provide them with employment (Catterson, Lindahl, 1997:35).

Table 5.8: Attitudes among the unemployed educated youth

	A/L		Graduates	
	Women	Men	Women	Men
Unwilling to take a private sector job	79.0	61.0	84.0	76.0
Unwilling to start own business	89.0	79.0	93.0	88.0
Government should provide employment			77.0	72.0

Source: Aturupane, H., Unemployment amongst educated women in Sri Lanka, Colombo, 1996
Ref, in Catterson, Lindahl, 1997:35

5.6.4 Sri Lankan Unemployment in an International Perspective

In comparisons to industrialised nations like Spain, which has an unemployment rate double that of Sri Lanka, the unemployment rate in Sri Lanka is not considerably high. Many of the European transitional economies have often experienced unemployment ratios of 15% – 20% (Catterson, Lindahl, 1997:26). Thus, an unemployment rate of roughly 8% with high participation rates for both men and women can not be considered as high in an international perspective. However, what makes Sri Lanka an unique case is that the country have spent a lot of its budget on education and, as a result of that, has a relatively high level of human capital in comparisons to other developing countries. In spite of this, the country suffers from relatively low economic growth and huge problems with unemployment among the educated youth.

It is important to keep in mind that unemployment statistics for developing countries are difficult to interpret since a large share of the labour force works in the informal sector (ibid). LFS illustrates the employment in the formal sector only and since most of the population is economically active in small-scale farming and informal sector production, the employment conditions are poorly accounted for by the surveys.

6. Education in Sri Lanka

Sri Lanka is well known for its record on human development. It has had universal primary schooling since 1944, and its record at the secondary level is one of the best in the developing world (Report for the National Development Council, Government of Sri Lanka 1996:112). All successive governments since the independence have had the goal to provide free education. Over the last 50 years, free education has been one of the major driving forces behind improving health conditions and the socio-economic status of women and promoting economic growth. Improvements in education has been reflected in overall indicators such as literacy ratio, school enrolment, reducing distance between schools, pupil/teacher ratio and drop out ratios as well as other indicators such as specific education services, teacher training and student welfare (Economic progress of Independent Sri Lanka, Central Bank of Sri Lanka, 1998:67).

The literacy rate is extraordinary high, of around 90 %, for a developing country and there are no big differences between male and female enrolment ratio. (Central Bank of Sri Lanka Annual Report, 2003:123) Net primary enrolment in basic education (grades 1 to 9) is about 85 to 90 percent (Government of Sri Lanka, 2003:73). The schools are supposed to be reachable for every child in the society. For example, primary schools are situated so that every child in age group 6-10 years does not have more than 2 kilometres from the home. The secondary schools are located within 5 kilometres from the homes of children over 11 years. This is more than adequate coverage to match the demand for school places in the country. (National Human Development Report, UNDP: 1998:18)

6.1 General Problems with the Educational System

In spite of the progress over the last 50 years, the general education is facing huge problems relating to quality and relevance for employment opportunities. (Central Bank of Sri Lanka, 1998:69) The Sri Lankan Poverty Reduction Strategy Paper of 2003, produced by the government, has summarised the problems of the educational sector into four types of constraints:

-*Quality constraint* – There is a divide between level of school attainment, measured by indicators such as enrolment rates and number of school years completed, and perceptions of learning achievements measured in terms of language competency and mathematical ability.

-*Institutional Constraints*- Weaknesses of the system that hinders satisfactory levels of learning achievement are among others: Restrictive legislation that constrains private sector participation in education. The teachers are not spread properly over the country, which as

usual means that there are inadequate resources in poor, rural areas. The centralised education management system is inefficient and contributes to administrative delays, poor stakeholder involvement in decision making and a limited responsiveness to community needs. There is also an insufficient attention to the role of education in promoting respect for different kinds of cultures multi-ethnical society.

- *Language Constraints* – The lack of competence in modern international languages such as English has lead to only a limited participation, both domestically in the private sector employment, and internationally. The policy of segregating schools according to language streams has also contributed to the lack of mutual understanding of cultural similarities and diversities among communities.

- *Tertiary Education Constraint*- The relatively high enrolment in secondary education has lead to a huge demand for tertiary education. There is a waiting period of up to two years before getting a place at a university. Even though there is such a low participation level at the universities, the unemployment among the graduates is high despite the critical skill shortages in some key areas of the economy. Many employers are not satisfied with the competencies and skills of graduates. Curricula in many disciplines are not in tune with broader economic and social needs. (Government of Sri Lanka, 2003:74).

We will discuss these shortcomings in more detail in the coming sections.

6.1.1 Problems with the Educational Quality

The overall level of educational quality in the country is weak. Only a small proportion of the students are passing the GCE (O/L), which in 1996 was only 26%. 48% of the students passed the GCE (A/L) which is considered as relatively low in international standards for developing countries (UNDP 1998:19) (the observant reader may have noticed the statistics of enrolment rates do not capture the students that do not pass). The reason for the bad performance might be that the teachers are badly paid and, as a consequence of that, poorly motivated with inadequate competence in their teaching. There is also a lack of adequate educational facilities, poor teaching materials, and a shortage of good quality textbooks which is, of course also contributing factors to the poor achievements in the educational field. The children of low income areas have low learning aspirations and there exist some managerial failures in the education system (Aturupane et al, 1998:61). The widespread regional disparities in educational facilities and problems in getting access to quality in the primary and secondary education are putting much pressure on the urban schools. The Central Bank of Sri Lanka suggests other failures with the education system such as poor quality on the educational infrastructure in rural areas (Central Bank of Sri Lanka, 1998:69). The government have for some time been running a large overall budget deficit and have therefore had problems with investing more to improve the quality.

As an example of the failing educational system of Sri Lanka, one could mention that in 1998 353,372 students completed 11 years and sat for the GCE O levels. Of these, 37% qualified for A Levels, 35% were first attempts applicants for in 2001, 14% of the original group qualified for university entry and only 2 % were selected for university. 85 % of the students

passing the A levels qualified for tertiary education, both university and technical, but only a small amount of those that qualified and sought vocational training and education got the opportunity (Government of Sri Lanka, 2003:11).

Efforts to raise the educational achievements have been hindered by a large amount of absent teachers in the schools. Under the public service rules of Sri Lanka, teachers are entitled to more than 40 personal leave days in addition to their normal holidays. As much as 27 % of the teacher's work force is untrained, and this group is mainly active in the poor, rural schools (Government of Sri Lanka, 2003:73).

6.1.2 Ethnical Conflicts Related to the Language of Education.

For a long time of the Sri Lankan history, government expenditure has been biased in favour of urban English speaking schools whilst neglecting the rural ones. (Economic progress of Independent Sri Lanka, Central Bank of Sri Lanka, 1998:66) In 1956 the Sinhalese was replacing English as the official language which gave the Sinhalese educated youth an opportunity to secure an employment in the public sector. This had an adverse effect for the educated whose education had been in Tamil, which thereby got excluded in the labour market. Even though the Sinhalese-educated youth were favoured in the state sector, the demand after a while was outstripped by the supply, and this led to a high rate of unemployment. This was one of the factors for the emergence of anti-systematic movements such as the Janatja Vimukthi Peramuna (JVP, People's Liberation Front) Hettige argues that these politically conscious youth had the opinion that:

> […] the adoption of Sinhalese as the official language had not dislodged the Westernised elite from their privileged position and that the latter continued to dominate national politics, the business world and the higher echelons of bureaucracy. This perception, coupled with their marginalisation within a system of patron-client politics that guided the allocation of public goods including public sector jobs, propelled them into violent, anti-systemic politics. (Hettige, 2000)

It was even worse for the Tamil youths who felt marginalised and not equally treated by the government through the language policies in the 1950s. In an attempt to calm down the social unrest among the Sinhalese youth, the Sri Lankan government made reforms such as a standardisation of university admissions. This was an attempt to help disadvantaged rural students to achieve a proportion of the highly demanded university seats. These policies resulted in a reallocation of university places in favour of students with Sinhalese background which contributed to Tamil youth military actions in the North in the mid 1970s. (De Silva 1974, Ref in Hettige, 2000) No policy reforms were adopted to resolve this problem since it was overshadowed by bigger issues in the ethnical conflict.

6.1.3 The Mismatch of Skills Demanded and Educational Attainment.

The high enrolment rates in schools have been achieved at the expense of tertiary level education, where Sri Lanka has a relatively low enrolment rate, even in comparison with poor countries like Bangladesh (Report for the National Development Council, Government of Sri Lanka 1996:112). One of the major problems in the inefficiency of the education system is that there exists a mismatch between skills provided by the education system and labour market requirements. This is due to week links between the training systems and the industry.

6.1.3.1 Vocational Training and Skills Development and their Constraints

Training is proposed as a solution to many problems. It is used by managers to overcome difficult human resource problems. Nationally, training has been used as the gateway to employment. For training to be successful though, it must be demand based. It is the employers in the industries that determine the type of skills necessary for an employable person (Teams, Consultants in Development, 1999:12-1).

Since the present system does not prepare school leavers when they enter the job market, they are therefore without employable skills. Except for the basic requirements, most employers demand work experience. Therefore, the period after education and before employment is when it is time to acquire skills. Skills training is provided mainly by the government, but also by different NGO's and the private sector (ibid: 12-2). Almost all institutions offer certificates or diplomas. The problem though is that the quality is very varying among different institutes and regions in the country. Therefore, it is hard for the employer to know what content and what kind of skills these institutions have offered.

The biggest problem with these training institutes is that they are not based on the industrial demand. As a consequence, about one forth of the unemployed have received some vocational training, according to surveys done in 1999. The courses are centrally planned and through regional centres, which conduct the training, to take regional differences into account. The problem is that these centres do not communicate with the industry, and as a result, the skills produced and the skills needed do not match (ibid: 12-3).

Another problem with the training institutes is that the quality of them is weak. There is a shortage of high quality instructors. Many instructors that have received training is now outdated since lack opportunities for skills upgrading is big. The machinery, equipment and tools available in training institutes are often irrelevant and obsolete (Aturupane, 1999:23).

Employers complain that the graduates do not have the knowledge required for certain job performance and demand more training to make them better suited. As a result, trainees are employed on a basis of a marking system based on educational criteria or area rule, without understanding the capacity of the trainees and their intention (Teams, Consultants in Development, 1999:12-6).

6.1.3.2 Problems at the Tertiary Level

The government has, as mentioned before, a strong monopoly in the provision of education services. Bell et. al. argues that numerous distortions such as very restricted access to university education and restrictions on language of instruction are contributing factors for Sri Lanka's constrained ability to be updated with international innovations in pedagogical methods. 1997 the government implemented the *Tharuna Aruna Scheme* to assist unemployed university graduates in finding employment in the private sector. The conclusions drawn from that scheme confirms the above reasoning. Employers prefer Science and Commerce graduates who are well equipped with analytical and computer skills. Fluent English is also something of great demand. The problem is that the Sri Lankan students have very limited exposure of English and the developments of technical skills have been neglected at even higher levels of education. Instead, nearly 80 percent of the applicants were graduates in Humanities and Arts and did not possess the skills needed. There are also problems with the attitudes towards the public sector culture and work ethic, insistence on hierarchy and resentment of managers who do not have graduate degrees (Bell et al, 1999:19).

7. Analysis

In this section we intend to put all the contributing factors together in order to explain the unemployment situation using the theories suggested in the second section. We will try to give the reader a broad picture of the problem by discussing the dynamic process of the different parts of the economy affecting the unemployment situation. As stated in the introductory section we will analyse how the imbalance between the demand for and supply of an educated labour force depends on education policies, signals from the labour market as well as the public sector.

First of all, in order to investigate this problem, one needs to locate where the unemployment is concentrated. In Sri Lanka, it is generally accepted that the high levels of unemployment are predominantly apparent among the educated youth. The unemployment rate increases with the level of education and it is primarily a junior and senior secondary school phenomenon. There are mainly three determinants of unemployment, namely age, education and benefit from family support. The more educated a young person is, and the more family support she receives, the greater is the likelihood that she is unemployed (Rama, 1999:9-11).

The appearance of high unemployment rates and low economic growth in Sri Lanka can be looked upon with some degree of surprise. There are several advantages that would attract foreign investors to the country, which would generate economic growth and employment opportunities. For example, Sri Lanka is a country where the wage levels are among the lowest in the world, comparable with Bangladesh and China. The labour force has an unusually good educational level for a low-income country and it has a strategic location between the Western and South-East Asian markets. In relation to other developing countries the infrastructure is well functioning. Concerning the tourism, one could argue that Sri Lanka has a stronger comparative advantage with its use of English, nice beaches and the variety of the nature in the island in comparison with its neighbours (Catterson, Lindahl, 1997:24). So, with all these advantages, why is the unemployment still persistent?

7.1 The Ethnical Conflict

One logical explanation is the existence of the ethnical conflict that has plagued the country since the beginning of the 1980s. The ethnical conflict has kept the country’s development far below potential and it has absorbed a large amount of the Government’s budget, which has created a persistent budget deficit. The armed conflict has also made foreign direct investment less attractive and delayed the development of the tourism (Catterson, Lindahl, 1997:20).

Catterson and Lindahl claim that in the absence of this conflict, the tourist industry in Sri Lanka would have been the leading one in the world today. This kind of industry would have had multiplier effects on the construction, service industries etc., which could have contributed considerably to employment creation and economic growth (ibid: 24). A foreign investor that is already in business claims that:

> The conflict is the only thing holding the Japanese, Korean, Malaysian and Taiwanese investors out. When it is over, they will pour into the country. Which countries can compete with Sri Lanka once the war is over? Vietnam with its bureaucracy? India with its corruption and red tape? Thailand with its high wage costs and polluted Bangkok? Many investors are preparing the ground by buying up land already. (Ref in Catterson, Lindahl, 1997:24)

However, some studies have implied that the worsening in the labour climate is more deterrent for foreign investors than the political problems in Sri Lanka (Lall et al, 1996:122).

7.2 Universal Free Education and Population Growth

Another troublesome feature in Sri Lanka is the population growth in relation to the educational system. In order to give poor people a chance for upward social mobility, the independence socialist regimes expanded the state sector through state institutions and public enterprises such as factories, banks and infrastructure projects. This gave poor people the opportunity to change their situation of life through formal education. As the education became free, it did not take long before the demand for such employment far outstripped the supply (Hettige, 2000). This behaviour is in line with the theories about the demand for education, referred to in the second section. As the labour market gets tight, people demand more education in order to secure a modern formal sector employment. School enrolment increased rapidly in Sri Lanka and in combination with improved heath and social conditions, the population grew very fast from the mid-1940s. The economy was not capable of keeping up with the high rate of population growth, especially in the 1960s and 70s. This resulted in a huge expansion of the young population and with that, a substantial rise in the proportion of a school going group in the country, and also, an increasing number of people with paper qualifications from school. The competition for public sector jobs was hard and in order to secure employment like that, one needed special contacts with the employers. Politicians often used this situation in order to gain political support, which led to kinship behaviour in the political life (ibid).

7.3 The Skills Mismatch Hypothesis

Even if the ethnical conflict and the population growth have been contributing factors to the unemployment problem, the most widely accepted explanation is the Skills Mismatch hypothesis. This theory suggests that there exists a skills mismatch between the educational system and the skills demanded by the employers. Even though this theory has been questioned, on grounds based on the inventor of the theory's methods and choice of data (discussed in section two), all of our sources agree that the *educational system does not equip the population with the skills needed in the country*. This is also stated by domestic sources,

for instance, in a thesis written by the Sri Lankan government in 2003 (Government of Sri Lanka, 2003:73) and the Central Bank (Central Bank Annual Report 2003:156).

Since more than 70% of the Sri Lankan population have enrolled in secondary education, the labour market has problems with absorbing all the job seekers with more than basic education. Therefore it has been argued that there is a need for job market oriented training, a so-called vocational training. The main problem is that the linkages between the education and training system in Sri Lanka and the employing sectors are weak. However, studies have shown that the vocational training provided in the country has not gone through any proper needs analysis and, as a consequence, the return on investment in vocational training has been less than expected. The employers do not know what to expect from the trainees since the programs over the country have different standards on the same skill area (Master Plan for Rural Development, 1999:12-5) Training and education rise the expectations of the population of securing a so-called "good" job. But as the labour market cannot absorb all the educated, frustration emerges, which is reflected in the several riots, strikes and the decline in work ethics that has plagued the country since the 1960s (Hettige, 2000).

In order to create more jobs for the educated, the links need to be strengthened and the system needs to be reoriented from supply- to demand side objectives. Kelly suggested this already in 1992 and claimed that there seems to be a believe that training creates job opportunities in Sri Lanka. However, this is not the case, since the training has not favoured the skills in technical subjects, which is what is needed in Sri Lanka. Training should be provided for first job entry instead for some skill upgrading for the employed since this is ineffective. Skills should not be valued in and of themselves, but rather for what the produce (Kelly, 1992:15).

Even at the university level of education the mismatch of skills demanded and supplied is obvious. For instance, a huge amount of graduates are in civil engineering rather than in disciplines that are appropriate for industrial technology. Textile engineers are the most relevant to the country's main export, but in 1996 less than 1 percent of the university graduates had these skills (Lall et al, 1996:116).

The problems with the skills mismatch is exacerbated by the governmental education policies. Traditionally, the education has mainly been provided by the government since private schools has been forbidden and considered as elitist. At the university level, the governmental monopoly has not worked well since it has not been able to keep up with international innovations. Regarding the vocational level, the monopoly has lead to a centralised training system that has not taken local conditions into account. Therefore, the training should be managed by the private sector and the local industry in order to be more demand based and create a stronger linkage between the training system and the labour market. The private firms, on the other hand, might be reluctant to invest in human capital as they cannot be sure that the skilled worker will not leave for another company with higher wages. This externality problem might be solved by letting the government be the financier rather than the manager and that firms should be encouraged to provide training linked to the labour market (Kelly 1992:16).

In short, we can state that the Sri Lankan educational system leads to expectations among the graduates of securing First World employment while the labour market still mainly offers Third World employment opportunities in the rural agriculture and in the labour intensive, low value product industries.

7.4 The Queuing Hypothesis

The queuing behaviour for "good" jobs is another contributing factor to the unemployment problem in Sri Lanka. We have found it a bit hard to distinguish this hypothesis with the skills mismatch, since this queuing behaviour also can be seen as a reflection of a mismatch between expectations of securing a so-called "good" job and the actual supply of those kinds of jobs. In Sri Lanka the problem of unemployment is not that there is a shortage of jobs, rather that there is segmentation between jobs that are of great demand ("good" jobs) and those which are not in demand ("bad" jobs). In other words, the jobs supplied do not correspond to the preferences of the educated (Bell et al 1999:11).

One factor to explain the queuing behaviour is that there exists a divide between the public sector and the rest of the economy. This has its origin from the British ruling. After the independence a public sector job became a part of the political patronage that developed. In those days a public sector job was associated with modern society, security, attractive benefits, pensions and limited working hours. Today public sectors jobs are still characterised as "good" jobs in Sri Lanka since they offer more stability, lower work effort, attractive benefits and higher pay than the private sector (Catterson, Lindahl, 1997:35).

Another factor for the queuing behaviour comes from the fact that some jobs enjoy a much higher security with the TEWA regulation (Bell et al, 1999:11). The few jobs (15%) that are covered by TEWA are highly demanded by the workers because they enjoy higher protection, wages and better benefits than other jobs in the private sector. (ibid: 11).

Consequences of these factors are that the educated unemployed prefer to wait or queue for the "good" jobs rather than taking a job that is below their dignity. Many researchers claim that parents' support of the unemployed reinforce the queuing behaviour. While the graduated wait to be offered "good" jobs, they rely on their parents. This means that the queuing behaviour is a phenomenon for well off families, since the poor cannot afford to wait for the preferred jobs (Ahmad, 1999:38). Ironically it is a luxury to be unemployed since only the privileged can afford it. Therefore, one can state that the private returns to education is higher for the graduates with a rich background.

A proposed solution to these problems is to reform public sector recruitment and wage policies since it would discourage this "queuing" attitude (Bell et al, 1999:3). Efforts should also aim at removing all the benefits that are associated with the "good" jobs, and also improve the protection of the so-called "bad" jobs (Rama, 1999:24).

7.5 Stringent Labour Market Regulations

The third explanation is closely linked to the above mentioned hypothesises. It regards the labour market regulation, of which TEWA is considered to be the most important. As stated before the jobs covered by TEWA are seen as “good” private sector jobs by the employees since it offers a high security in relation to the other jobs in the sector. However, for the employers, the situation is the opposite. It hinders the creation of new jobs and it has a negative impact on productivity. Workers do not have to be afraid of getting fired due to bad performance, incompetence or inadequate skills. There is a stronger tendency of organising labour union action or demand higher wages under circumstances of high job security. Because of this, the employers try to circumvent TEWA, through hiring short-term and sub-contracted workers and creating smaller firms with less than 15 employees. This is also bad for the productivity since small enterprises are stated to suffer from lower productivity because they cannot achieve economies of scale (Bell et al, 1999:18).

The labour costs in the TEWA-regulated enterprises are expensive since the severance pay is generous and the wages are high in relation to the jobs outside of the protected sector. The wages are set by some minimum level standards (Rama, 1999:21). As stated in the second sectio, minimum wages are, if efficiently used, good for the worker in terms of higher wage and better working conditions, but at the same time, it limits the possibility for the enterprises to hire more workers since the costs of labour is rising. It thereby limits the creation of more firms and as a consequence, these laws harm a larger group than they benefit.

One way to reform the labour market regulations is to reduce the gap in protection of jobs, and remove the benefits that associate with the “good” jobs and instead improve the quality of bad jobs. Doing so, the income security to workers will not burden employers and support the private sectors capability to create “good” jobs. In other words, as the regulations are less stringent, the employers will be encouraged to create bigger firms and thereby increase the productivity. From a worker’s perspective, the supply of “good” private sector jobs will rise to a certain extent and the queuing behaviour will be reduced.

7.6 Summary

In order to refer to the questions asked in the introductory section, we will shortly analyse the dynamics of the economy influencing the unemployment. How does the imbalance arise? We start in a situation where there exists big differences between different groups in the society and the possibilities for upward social mobility for the poor are limited. The government introduces universal free education in order to address this problem. In relation to the free education the preference for “good” jobs rises among the educated. Since the labour market is tight and there are only few “good” jobs available, people demand more education in order to secure such a job. As the seats at the universities are limited, people cannot achieve more than a secondary degree. The labour market mainly offers agricultural and labour intensive occupations, which has low prestige and security. The preferred jobs are those in the public sector and the highly protected ones in the private sector, covered by TEWA. Therefore, the

educated youth from well-off families prefer to queue for those kinds of jobs, rather than taking employment under their dignity. This group constitutes the bulk of the unemployed.

The secondary school level is not directed towards the jobs in the industries. Vocational training is the link between education and employment. The bad quality, low status and its weak links to the labour market entail that the workers do not get equipped with the skills needed in the industries and this results in low productivity. The stringent labour market regulations apparent in the country make it difficult to fire unwanted workers and cause high labour costs, which also lead to low productivity. The educational system is not demand based and the university graduates do not have the degrees relevant to the country's production structure. In order to transform the economy into a capital intensive production structure, and thereby create more jobs with status, the educational system must be geared towards technical subjects. Other suggestions to defeat the unemployment problem should be to reduce the gap between the "good" and "bad" jobs by equalising the security between the sectors and reform the recruitment and wage policies of the government in the public sector.

8. Prospects for Future

Under the 1990s the unemployment rate has gradually declined due to reforms and at present Sri Lanka experiences a one-digit unemployment rate. The decline implies that improvements have been made in the labour market. During the year 2003 the government of Sri Lanka made several reforms to produce a conducive environment for employment creation (Central Bank of Sri Lanka Annual Report, 2003:152). The government states that they aim to create two million new jobs mainly in the private sector in the coming years in order to achieve higher economic growth (Government of Sri Lanka, 2003:11). This will mainly provide jobs for the present unemployed and the new entrants to the labour force. It will also offer improved job opportunities for people employed in the low productivity sector. Furthermore, the government intends to promote a more flexible, efficient and productive labour market (ibid:4). To reduce the mismatch problem, the ongoing reform programs in Sri Lanka initiated by the government concern both the labour market, labour regulations and the educational system.

8.1 Reform Programs

8.1.1 Employment Creation

In order to create more employment the government of Sri Lanka has implemented the so called JobsNet, which is an employment sourcing and delivery system. The purpose of JobsNet is to reduce the structural unemployment among educated youth by increasing the flow of information to market participants (Central Bank of Sri Lanka Annual Report, 2003:152). This is an on-line and service based delivery network that facilitates the interaction between job seekers and potential employers. It also supports entrepreneurs who wish to start their own business (www.jobsnet.lk). JobsNet work like this; both the job seeker and the self-employed can register themselves on the on-line web page or visiting a service centre. In the same manner the potential employers can advertise vacancies. Thereafter, the registered job seekers hopefully match with the vacancies in the JobsNet database. Once a match is made, they are referred to the relevant employer. If no match for the registered job seekers is made after over 3 months the application will be reviewed and if necessary, the job seeker will be referred to suitable training programmes. This strong linkage that JobsNet create between job seekers and potential employer is important for a functioning labour market (Central Bank of Sri Lanka Annual Report, 2003:156). People who seek jobs wish to know the qualifications and skills demanded by employer. Similarly, employers wish to know where to find the perfect match of qualifications and skills to fill in their vacancies.

Since the beginning of January 2003 17 JobsNet service centres are already in action, but it is too early to draw any conclusions about its direct effects on the labour market. However, it has shown that there are disparities between the total registered job seekers and the number of job vacancies in the database. The homepage showed recently that there were 77.280 job seekers, but only 940 available jobs (http://www.jobsnet.lk/home.php, 2004-05-27). Furthermore, the costs of maintaining the project is assumed to be too high. Advocates claim, however, that the expected targets for its first year were exceeded and that the costs will decline over time (Central Bank of Sri Lanka Annual Report, 2003:157).

8.1.2 Labour Regulation

To enhance flexibility in the labour market the government has also enacted several labour laws. For instance, there has been a reform of the TEWA in the wage system. However there do not seem to be any attempts to lower the security. These laws came into operation the 31st of December, but due to lack of information we can not evaluate their results. (Central Bank of Sri Lanka, Highlights, 2003:30).

8.1.3 Educational System

The educational system in Sri Lanka is going through several reforms in an attempt to improve the balance between the job market and the outputs of the system. The Government started a major education sector reform program in the 1990s. It includes reforms trying to redress regional differences in the provision of basic education throughout the island (Government of Sri Lanka, 2003:75). Most importantly, the government is now committed to let the private sector play a more integrated role in education (Asian Development Bank, 2000:151). Since the post-secondary skills training institutes suffer from a mismatch between the training offered and skills required in the economy, the government's strategy is to promote the private sector as the main provider of job-entry and pre-employment training. (Government of Sri Lanka, 2003:75).

As with the vocational training, the programmes will also be based more on standards from the industries. The skills training will be linked to competency levels and high quality skills will be maintained through a system of accreditation and national vocational qualifications.

At the tertiary level, national independent authorities will be established in order to control and set up standard evaluation to make the different programs more comparable nationally. Attempts will also be made to strengthen the education fields in subjects needed in the country. The universities will be expanded and the government has a goal of providing access to 25,000 more students in 2005(ibid:76).

A project called Improving Relevance and Quality of Undergraduate Education (IRQUE) was introduced in October 2003. It will provide grants to support the strengthening of public universities and a Quality Enhancement Fund in order to compare both private and public institutions. This project will also help to finance programs and make unemployed graduates more employable. It provides training and helps unemployed graduates to get a place in

companies for work experience. There has been much interest in this program, shown both by employers and graduates and World Bank task Leader Rosita Ven Meel have expressed much positivism regarding this project:

> In years to come, the experience gained in the program for unemployed graduates will help tertiary institutions to revise their curricula to be more oriented towards skills demanded by the labour market. (World Bank's homepage, Tertiary Education Reforms to Produce More employable Graduates, 2003)

Other programs of educational reforms have been introduced. The Ministry of Policy Development and Implementation (MPDI) started a Youth Corps programme in 2003 to provide opportunities for youth in the age group of 18-28 years. The purpose of the programme is to acquire youth skills and self-confidence that enable their active participation in the global market economy. The youth goes through a well-planned and integrated package of employment-oriented training. It includes training in leadership, English, computer and information technology, productivity and career guidance, vocational training and entrepreneurship development programme activities (Central Bank of Sri Lankan Annual report, 2003:158). The entire programme is divided into three phases and expect to process for 70 weeks.

Since these projects have been introduced as recently as 2003, it is too early to draw any conclusions about the direct effects on the labour market problems, but we think that they seem to match with the suggestions from different independent researchers, which might imply that improvements are on the way….

9. Conclusions

In the beginning of this thesis, we asked ourselves why the unemployment rate is high in Sri Lanka, in spite of all its advantages. We have reviewed different kinds of hypothesises developed in previous research in order to explain the mismatch between the demand for and supply of educated workers. In this section we will discuss our conclusions.

The high rate of unemployment is to a large extent voluntary. This is so because most of the unemployed prefer to wait for "good" jobs instead of taking jobs below their preferences. Such behaviour can be pursued only by people with wealthy backgrounds. Clearly, there is a mismatch between the educational system and the skills demanded by the employers. A contributing factor to this is that the linkages between the labour market and the educational system are weak.

The level of educational attainment of the population can be considered as too high to be economically justified in a country where a large amount of the labour force is occupied in the agriculture and labour-intensive industries. As stated in the theory section, this can be seen as a serious misallocation of scarce national resources since the educated unemployed do not contribute productively to the society. Most of the employed are overeducated since they would have managed to perform the same assignments even with less than secondary schooling. In other words, the secondary education does not raise the productivity of the workers as long as the industries are engaged in low-value production. At the same time, the high educational level of the people raises the expectations of securing modern sector jobs. Since the country is not capable of absorbing all with paper qualifications, frustration emerges, which is reflected in strikes, social unrest and high suicide rates among the people. However, without new knowledge and technological upgrading it is difficult, for the production structure to change from the low-costs labour-intensive products to high-value products (Ahmad, 1999:3). It is important to keep in mind that education improves the quality of people's lives and an educated population is never bad for a country. The problem is that the education in Sri Lanka has not been based on industrial demand.

The government is thus trying to create 2 million new jobs mainly in the private sector to facilitate the transition to capital-intensive production. The highly educated tend to be absorbed by the public sector because of its higher wages and benefits. In order to take advantage of the human capital though, it is important to address the educational programs towards the areas that are relevant for the country's production. This is important since it is the private, and not the public sector, that mainly generates economic growth. In other words, Sri Lanka needs to make the private sector more attractive for the employees through reducing the gap between the sectors. It is also important to equalise the different jobs in the private sector by lowering the security in TEWA and raising it in the non-protected jobs of

today. Doing so, the income security to workers will not burden employers and support the private sectors capability to create “good” jobs.

The unemployment in Sri Lanka has puzzled researchers and policy makers for several decades. The skills mismatch hypothesis for example was first articulated by the ILO in 1970s. All of our sources, both domestic and independent, ranging from the beginning of the 1990s and forward, are in general prescribing the same kinds of reforms. The unemployment rate has only decreased marginally though, which gives us a hint that it is not only the educational policies and the labour market to blame, rather, it is the economy as a whole that is not functioning well. One contributing factor might be that, in spite of the liberalisation reforms in 1977, Sri Lanka is still considered to be relatively closed and caught in low-value production. Last but not least, the ethnical conflict prevailing in the country since the 1980s is an important constraint, since it has absorbed a huge amount of the government’s budget and hindered foreign investors to operate in Sri Lanka. Reforms to correct the unemployment problem will in other words not have any substantial impact on the economy unless the environment of the country is peaceful.

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