

Youth Employment Market Assessment

SRI LANKA

This assessment is made possible by the support of the American people through the United States Agency for International Development (USAID). The contents are the sole responsibility of Verité Research and do not necessarily reflect the views of USAID or the United States Government.

Prepared by Verité Research | Last Updated July 1, 2017



Analysis
Partners





USAID
FROM THE AMERICAN PEOPLE



Table of Contents

List of Tables	iii
List of Boxes	iii
Introduction	2
Background.....	2
Objectives	3
Limitations	3
Outline of the Assessment.....	4
Key Definitions	4
Section I: Potential Areas of Productive Employment.....	7
Relationship between Economic Growth and Employment	7
Dynamic Structure of the Economy	9
High Potential Industrial and Services Sectors.....	9
Construction.....	11
ICT Services.....	13
Tourism.....	16
Light Engineering	18
Other High Employment Potential Sectors.....	21
Section II: Dimensions of Youth Unemployment in Sri Lanka.....	22
Educational Context.....	24
Gender Context.....	25
Regional Context.....	27
Foreign Migration Context	29
Gap Analysis.....	31
Skills Gap	31
Aspirational Gap	34
Informational Gap.....	37
Structural Gap.....	38
Conclusion.....	38
References.....	41



USAID
FROM THE AMERICAN PEOPLE



List of Figures

Figure 1: Average Annual Growth of Selected Agriculture, Industry and Service Sectors (2011-2016)	8
Figure 2: Distribution of Employment in Four Sectors with High Growth Potential (2012)	11
Figure 3: ICT Workforce by Subsector (2013)	14
Figure 4: Share of Female Employment in ICT Workforce by Subsector (2013).....	15
Figure 5: Tourist Arrivals and Tourism Earnings (2006-2016).....	16
Figure 6: Employment in the Tourism Sector (2010-2016)	17
Figure 7: Composition of Light Engineering Exports (2011-2015)	19
Figure 8: High-tech Exports Share of Manufactured Exports (2005, 2010 & 2015)	20
Figure 9: Youth as a Share of Unemployed, Employed and Labour Force (2006-2015)	23
Figure 10: Youth and Non-youth Unemployment Rates (2006-2015).....	23
Figure 11: Trends in Population, Labour Force and Labour Force Participation Rates of Youth and Non-youth (2006-2015).....	24
Figure 12: Provincial Agriculture Employment and Share of Nominal GDP (2015)..	28
Figure 13: Provincial Distribution of Employment by Industry Group and Gender (2015)	29
Figure 14: Departures for Foreign Employment of Youth and Non-youth Population (2015)	30

List of Tables

Table 1: Major Economic Group Share of Employment and Share of GDP (1990, 2000, 2010 & 2015).....	9
Table 2: Growth and Share of GDP in the Light Engineering Subsectors.....	18
Table 3: Youth and Adult Unemployment Rates by Level of Education (2006-2015)	25
Table 4: Regional and Gender Differences in Unemployment (2015)	26
Table 5: Foreign Employment Placements for Selected Construction Sector Workers (2011-2014)	31

List of Boxes

Box 1: Social Barriers to Gainful Employment	36
--	----

Introduction

Background

This report represents the findings of a preliminary market assessment of youth employment in Sri Lanka under the Youth Employment and Business Start-up Program (“YouLead!”).

The YouLead! Program is designed to advance USAID/Sri Lanka’s broader goal of increasing the employability of young men and women over a four-year timeframe. Through this project USAID seeks to increase youth employment and sustainable self-employment to support inclusive economic growth and development.

While Sri Lanka has experienced significant economic growth, which offers a foundation for increased employment and improved livelihoods, this transformation is yet to take place. A key challenge in this regard is youth unemployment.¹ Sri Lanka’s unemployed youth represent an underutilized resource that could better contribute to economic growth if engaged in productive employment. They account for over 50% of the unemployed and the youth unemployment rate of 20.8%, is eight times higher than the unemployment rate of the remaining adult population (2015).² Furthermore, Sri Lanka’s youth unemployment is higher than South Asian averages.

Several theories have been put forward to explain the youth employment problem. Based on findings from the literature and past experiences to address the youth unemployment problem, four key mismatches are highlighted: (1) skills mismatch, which suggests that educational institutions do not equip students with skills that are deemed pertinent or valuable by the job market; (2) aspiration mismatch, or that young people aspire to hold jobs with high job security, social status, better pay and benefits; (3) informational mismatch which is a lack of awareness and information amongst youth on the types and

¹ The International Labour Organization (ILO) defines youth as persons within the age group of 15-24. YouLead! defines youth as 16-35.

² This was calculated considering the youth and non-youth labour force. In 2015, the youth unemployment rate was 20.8%, while the non-youth adult population was 2.5%.

availability of jobs in each sector; and (4) structural mismatch, where the skills and experience possessed by youth are not in demand in the job market.³

Based on findings from the literature and past experiences to address the youth unemployment problem, the Program will have three components: (1) Improved youth employability skills in targeted sectors; (2) improved quality and relevance of Technical and Vocational Education and Training (TVET) delivery; and (3) increased prospects of successful self-employment.

Objectives

This preliminary market assessment is aimed at providing sufficient awareness of market trends, demands and opportunities for youth employment in relation to Component (1) of the YouLead! Program. The report undertakes a quick review of the extensive body of research and information in this area to:

- (1) identify growing sectors with unmet market demand for employment as potential areas of productive employment for youth without a university degree in Sri Lanka
- (2) identify trends in youth unemployment to understand potential constraints and assist in targeting segments of the youth population.

These preliminary findings will be presented at roundtable discussions with international and domestic private sector leaders, relevant Sri Lankan government officials, youth, and other representatives for validation. The consolidated findings will then facilitate the prioritization of sectors and regions under the Program.

Limitations

The following limitations of the market assessment must be considered:

³ While these mismatches are common to all strata of the unemployed population and the existing employed population, for the purpose of this report, these mismatches are addressed in the context of youth unemployment.

- (1) *Sources of Information:* Given the limited time in which the assessment was conducted, data collection was limited to secondary sources. Interviews with industry experts in the relevant sectors were conducted to confirm the findings, but were not included in the study.
- (2) *Focus on Unemployment:* The dynamics of the labour market, outside of unemployment, is not considered in this report. Although both labour force participation (or share of economically active working-age population) and underemployment (or share of labour engaging in economic activities at lower skill levels or working for less time than desired) is important in the context of a country's labour dynamics of a country, the analysis is confined to youth unemployment and related issues.
- (3) *Focus on Domestic Economic Sectors with High Employment Potential:* There is a paucity of reliable data on the implications of global industries and developments on industry in Sri Lanka. Consequently, the assessment focuses on economic sectors with high employment potential. Due to time constraints, the sectors considered were limited to four, based on high employment potential and policy recognition. However, due to time and data constraints, new high employment growth sectors (such as mobile technicians) have not been addressed in this report.

Outline of the Assessment

The findings of this assessment are structured as follows:

Section I identifies the economic sectors with high employment growth potential for youth without a university degree. Four key sectors were identified and were further analysed using sector specific indicators.

Section II discusses the trends in youth unemployment and identifies variations that exist in terms of levels of educational attainment, gender and regions, and considers how these factors contribute towards the four mismatches in the four sectors identified in Section I.

Key Definitions

Labour Force:

The labour force is composed of the currently economically active population (employed and unemployed population).



USAID
FROM THE AMERICAN PEOPLE



Employed:

A person working as a paid employee, employer, own account worker (self-employed), or unpaid family worker is said to be employed. This includes a person with a job but were absent from that job during that period on a temporary basis such as persons who during the reference period were sick, on vacation, maternity leave, strike or temporarily laid off. ⁴

Unemployed:

Persons available and /or looking for work, and who did not work but have taken steps during last 4 weeks to find a job and ready to accept a job if given a work opportunity within next two weeks. ⁵

Unemployment Rate:

The unemployed population as a share of the labour force.

Informal Sector:

If a person works for an informal institute then his/her sector is considered to be in the informal sector. An institute is considered as a part of the informal sector when it is not formally registered, has no formal accounts, or the number of regular employees is less than 10. ⁶

⁴ Department of Census and Statistics (2016), Annual Labour Force Survey Report 2015, p. 14

⁵ Department of Census and Statistics (2016), Annual Labour Force Survey Report 2015, p. 21

⁶ Department of Census and Statistics (2016), Annual Labour Force Survey Report 2015.

Section I: Potential Areas of Productive Employment

This Section identifies the economic sectors with high employment growth potential for youth without a university degree. The four identified sectors are (1) Construction; (2) ICT sector; (3) Tourism and Hospitality; and (4) Light Engineering. Several factors contributed to the selection of these sectors. First, key policy and research documents and key informants have identified the employment growth potential of these sectors. Second, high employment growth potential is examined through the recently experienced economic growth and identified market gaps of selected economic sectors.

Relationship between Economic Growth and Employment

While the literature has differing views on the causality between economic growth and employment, their relationship is still positive and significant and warrants exploring for avenues of job creation in Sri Lanka. For instance, *Dundar, et. al (2014, p. 5)* found that to sustain high economic growth, Sri Lanka needs workers with skills catering to job market requirements. Economic growth has also been identified as a driver of job creation and thus demand for both lower and higher skilled labour (*Kapsos, 2005; and Department for International Development, 2008*). Further, as Sri Lanka moves from an agriculture-driven, resource-based economy to a services-driven, productivity economy, the demand for higher-order competencies to use new technologies and perform complex tasks efficiently are required (*Dundar, et. al., 2014, p. 85*). The relationship between economic growth and unemployment also varies over time. According to *Levine (2003, p. 1-2)*, while in the short run this relationship is at best tenuous, in the long run there is a clear negative relationship – when economic growth increases, long-term unemployment decreases.⁷

Following the end of the conflict in 2009, Sri Lanka experienced a surge in economic growth, which exceeded 8% in 2010 and 2011.⁸ At the time, employment also grew by 8%.⁹ By 2016, growth had moderated to just under

⁷ As the real GDP growth rate needs to be the same as the combined value of labour force growth and productivity/potential output growth to maintain a long term stable unemployment rate.

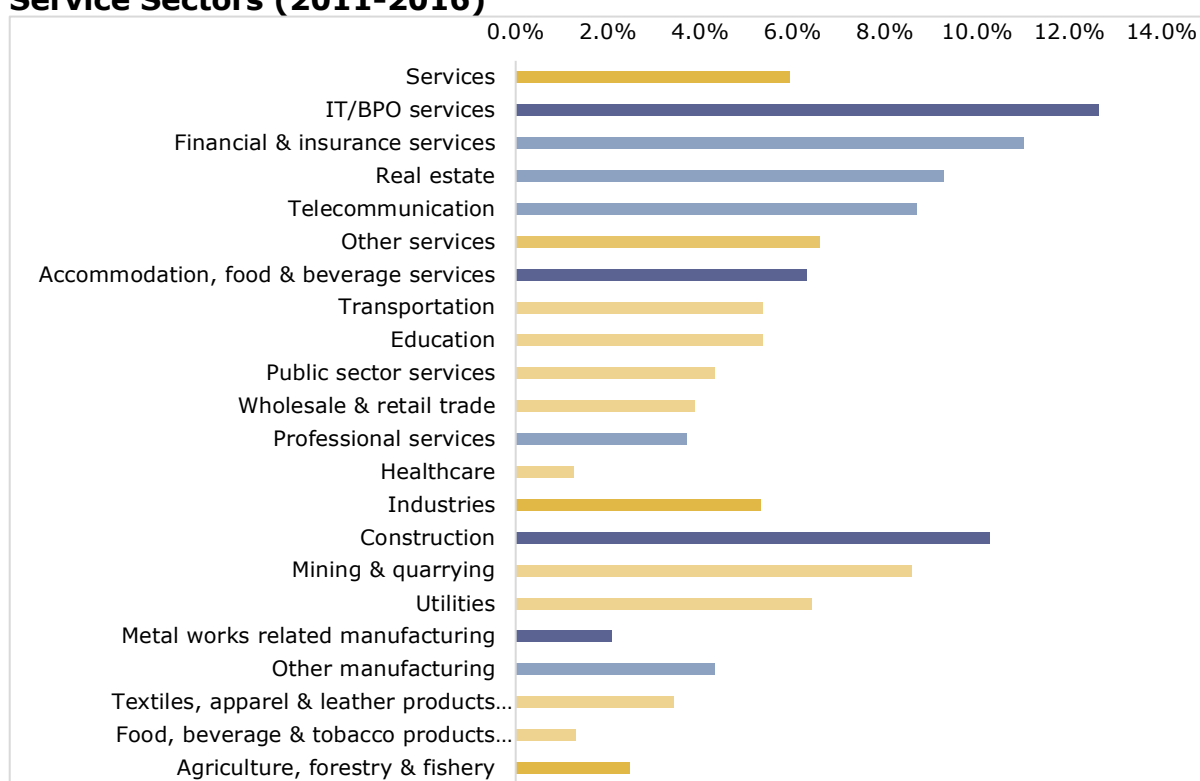
⁸ *Department of Census and Statistics (undated-a)*.

⁹ *Department of Census and Statistics (various years)*.

5%. The annual average growth rate during the period 2011 – 2016 was 5.3% and largely driven by the services sector, which accounts for 56% of GDP. However, employment growth has not reflected this growth, with an average annual increase of less than 1% over this period (*Department of Census and Statistics, undated-a & various years*).

As shown in Figure 1, with the exception of the construction sector, which grew by 10.3% during this period with the infrastructure boom following the end of the war, the majority of sectors that experienced the fastest growth are in the services sector. The only other industrial sectors that also experienced significant growth were mining and quarrying. Agricultural activity remained the slowest growing major economic sector. However, the agriculture sector still has a significant share of employment (almost 30%), and expanding labour capabilities in the fast-growing industry and services sectors provide space for employment, and thereby youth employment to increase. (*Department of Census and Statistics, undated-a & various years*).

Figure 1: Average Annual Growth of Selected Agriculture, Industry and Service Sectors (2011-2016)



Source: *Department of Census and Statistics (undated-a)*.

Note: The key economic sectors (Agriculture, Industry and Services) are highlighted in dark yellow. Sectors which are discussed in detail in this

assessment are highlighted in dark blue while related sectors are highlighted in light blue.

Dynamic Structure of the Economy

The uneven growth rates of major industry groups, as indicated in Figure 1 above, lead to the changing structure of the economy. However, while the change in the structure of the economy does have a strong impact on employment trends, this shift happens in a slower rate—the high ratio of agriculture employment relative to agriculture sector contribution to GDP reflects this (Table 1).

Table 1: Major Economic Group Share of Employment and Share of GDP (1990, 2000, 2010 & 2015)¹⁰

Major Economic Group	1992		2000		2010		2015	
	Share of GDP	Share of Employment	Share of GDP	Share of Employment	Share of GDP	Share of Employment	Share of GDP	Share of Employment
Agriculture	25.9%	41.3%	19.9%	36.0%	8.5%	32.6%	8.2%	28.7%
Industry	25.6%	20.4%	27.3%	23.6%	26.6%	24.2%	27.3%	25.8%
Services	48.5%	38.2%	52.8%	40.3%	54.6%	43.1%	57.3%	45.6%

Source: Central Bank of Sri Lanka (2017); and Department of Census and Statistics (various years).

Note: Post 2010, GDP calculations were revised to account for taxes and subsidies. Hence, the figures for 2010 and 2015 do not add up to 100%.

High Potential Industrial and Services Sectors

In 2014, the *Tertiary and Vocational Educational Commission (2015a, p. 13-15)* identified several key sectors for potential future employment—namely, construction; information and communication technologies (ICT); tourism (including hotels and restaurants); apparel industry; food processing industry; light engineering and automobile industry; and, the medical and pharmaceutical industry. Of the above sectors, the following four have been identified as having high employment potential overall and their prospects are further discussed in this report. There are likely to be specific subsectors and niches within other industries with high growth potential, but data is not readily available at that level of disaggregation.

¹⁰ From 2010, a new component – Taxes less Subsidies on Products – was added to giving the sectoral composition of GDP (see Table 2 of the Special Statistical Appendix of *Central Bank of Sri Lanka (2017)*).

1. Construction
2. ICT services
3. Tourism and hospitality services
4. Light engineering

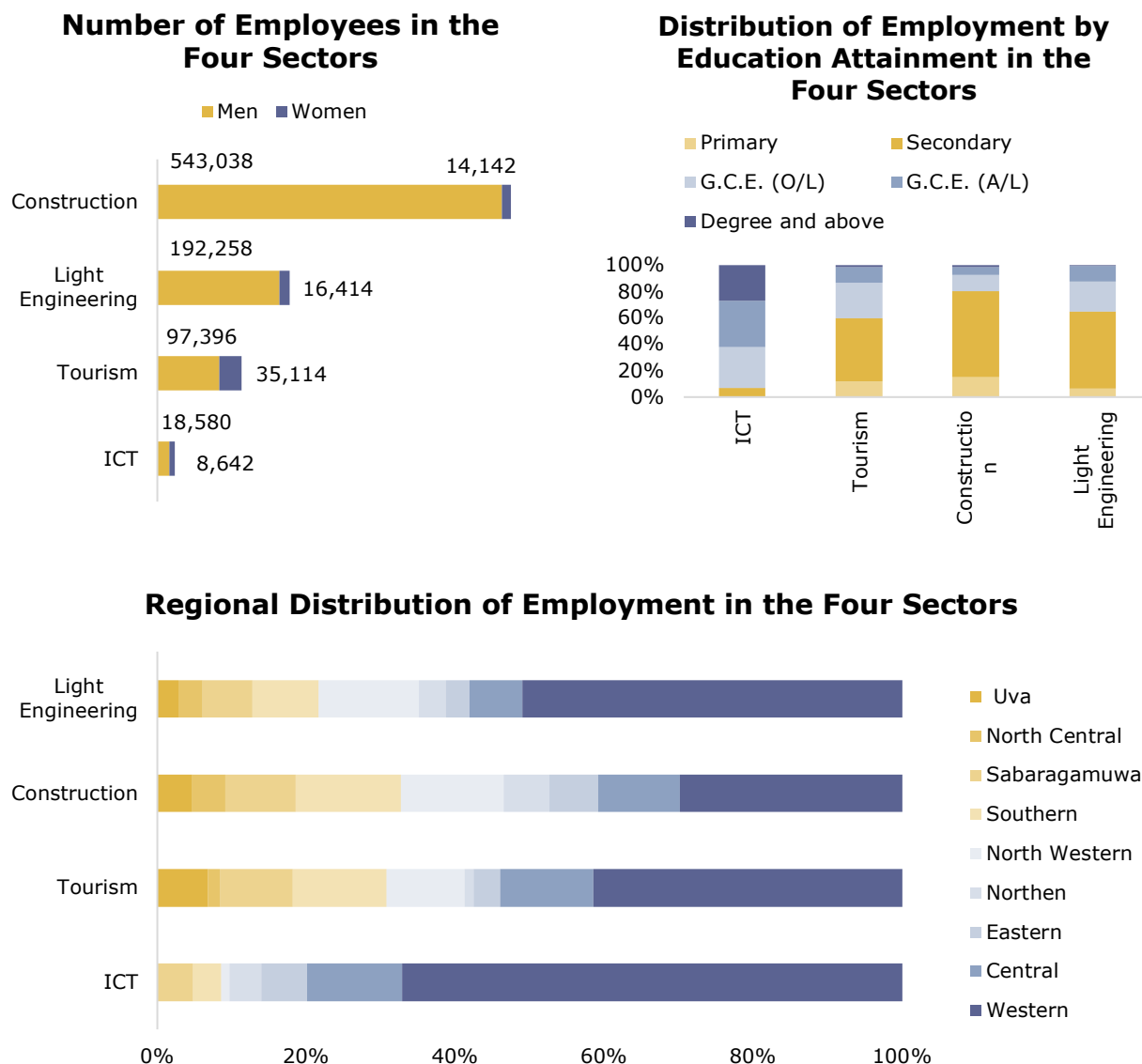
These sectors have also been identified in several other policy and research documents such as the Public Investment Programme (*Department of National Planning, 2010 as cited in Asian Development Bank, 2016*) and multilateral projects such as ADB's Skills Sector Enhancement Program Assessment (*Asian Development Bank, 2014*). They offer potential for faster rates of job creation and can thus compensate for the institutional barriers to job creation faced in other sectors, such as the healthcare industry. Three of these four sectors also give opportunity for equitable employment growth since, as shown in Figure 2, they employ a significant workforce without a university degree or equivalent educational attainment. Over 99% of the employees in three of the sectors in 2012 had at most secondary education attainment, and even in ICT less than 25% had a university degree or equivalent. Furthermore, much of the ICT skills that are needed for the industry can be provided through vocational training courses. Construction, ICT, tourism and light engineering are also among the fastest growing economic sectors in Sri Lanka (see Figure 1).



USAID
FROM THE AMERICAN PEOPLE



Figure 2: Distribution of Employment in Four Sectors with High Growth Potential (2012)



Source: Chandrasiri & Gunatilaka (2015).

Construction

Construction was the fastest growing industrial sector in Sri Lanka during the period 2011–2016 at 10.3%. It is also the sector that contributed the most to economic growth (13%) during the same period. Growth in construction has primarily been fuelled by large scale post-war infrastructure projects such as the Hambantota Port, Colombo Port expansion, Mattala Airport, Southern Expressway and Katunayake Expressway, and construction of other highways

and roads.¹¹ In 2016 alone, the sector's value addition to GDP was estimated to be LKR 932 billion.¹² The construction sector is also a large-scale employer as Figure 2 shows.

As mentioned earlier, the construction sector is a large-scale employer. *Department of Census and Statistics (various years)* indicates that there are over 500,000 people¹³ employed in the sector (in 2015, construction sector employment was 549,649).¹⁴ Low skilled workers (production workers and elementary occupation workers) comprise 68% of the sector. In terms of educational attainment, workers with secondary education comprise 77%. Thus, low skilled, secondary-educated workers dominate this sector.¹⁵ Employment in the construction sector is also male dominated with 96% of sector employment in 2015.¹⁶ This sector has significant informal employment (79.8%).^{17, 18}

There is limited data on the demand for skills and occupations in this sector. Industry estimates place the additional requirements of craftspeople at approximately 15,000.¹⁹ This is further driven by a high rate of turnover, which is more pronounced in the case of unskilled workers.²⁰ However, these estimations do not consider the impact of foreign demand.

The outlook for the construction sector remains positive and strong, both in terms of large scale government-led infrastructure projects such as Colombo Financial City, Colombo Port and Airport expansion, and increased private sector investment in commercial real-estate projects. Real estate services experienced an average annual growth of 9.2% during 2011-2016. With property

¹¹ *Central Bank of Sri Lanka (various years). Chapter 2-3.*

¹² *Department of Census and Statistics (undated-a).*

¹³ *Department of Census and Statistics (2015)* estimates that there are 188,877 domestic workers in construction. However, as this is based on surveying construction companies, and there is a great degree of informal employment, this is likely an underestimate of construction employment.

¹⁴ The Annual Labour Force Survey Annual Report has grouped construction with utility sector employment, but direct estimates of the survey data indicates that construction comprises a majority of this employment.

¹⁵ *Chandrasiri & Gunatilaka(2015). p. 19.*

¹⁶ *Department of Census and Statistics (various years).*

¹⁷ If a person works for an informal institute then his/her sector is identified as informal sector. The institute is considered as an informal sector institute when it is not formally registered, has no formal accounts or the number of regular employees is less than ten.

¹⁸ *Department of Census and Statistics (various years). p. 36.*

¹⁹ *Department of National Planning (2014)* as cited in *Chandrasiri & Gunatilaka (2015, p. 49).*

²⁰ According to English Media and industry experts.

developments, especially in Colombo, this trend is expected to continue with the number of luxury apartments in Sri Lanka estimated at 6,000 in 2018.²¹

ICT Services

The information, communication, and technology (ICT) sector exhibited the highest growth of 12.6% during the period 2011–2016. The ICT sector in Sri Lanka comprises a diverse range of actors that offer a variety of products and services. They can broadly be categorised into:

- ICT companies: Business entities that offer a variety of hardware, software and networking solutions and other supportive services.
- Non-ICT companies: Companies which use ICT facilities to supply goods and services to their customers
- Government: Organizations coming under the central government and provincial councils which use ICT facilities for their in-house operations and also offer services to citizens and business using ICT facilities at different levels including online services.
- BPO companies: Companies involved in the contracting of specific business operations in supply chains of large companies to a third-party service provider.²²

The ICT sub sector is an important source of foreign exchange, accounting for USD 766 million in foreign exchange earnings in 2016, equivalent to 4.4% of exports of goods and services.²³ A number of multinational firms have also set up offshore BPO service centres in Sri Lanka; the ICT sector accounted for 1.7% of total foreign direct investment between 2010 and 2016 (cumulative values of USD 132.1 million).²⁴ Sri Lanka's ICT sector has been recognised in global rankings: it was ranked 14th in the AT Kearney Global Services Location Index 2016; included in Gartner's 30 Leading Locations for Offshore Services and included among the Top 9 in Asia Pacific; ranked 12th among top destinations in IBM Global Location Trends Report; and ranked among the top 10 emerging global destinations by Global Services Magazine; Awarded "Offshore Destination

²¹ Lamudi (2017).

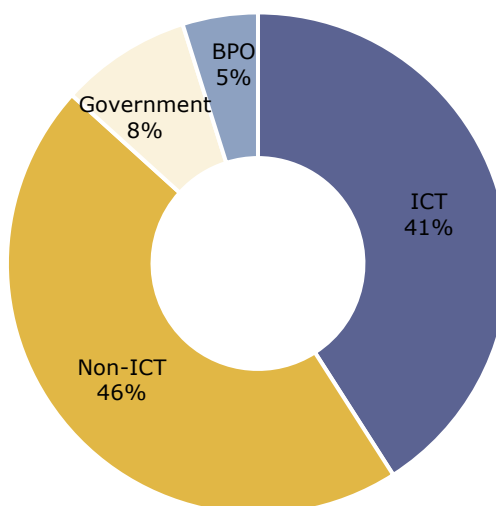
²² Information Communication and Technology Agency (2014). P. 21.

²³ Central Bank of Sri Lanka (2017). p. 166.

²⁴ According to Board of Investment of Sri Lanka (direct).

of the Year” by National Outsourcing Association in 2013 and 2014, and shortlisted for the award in 2015.²⁵

Figure 3: ICT Workforce by Subsector (2013)



Source: Information Communication and Technology Agency (2014).

Already, the ICT sector provides significant employment opportunities (75,107 in 2013²⁶), and there is strong industry demand for labour both within and outside of Colombo. In 2014, the estimated workforce was 82,853, with the majority in non-ICT sectors as shown by Figure 3. The sector remains male-dominated, with females accounting for only 29.7% of the workforce in 2013.²⁷ However, there is significant variation within subsectors—BPO (non-IT) companies recorded a female share of employment at 48.3% as shown in Figure 4. A constraining factor to increased female employment is that most ICT sectors, including call-centres, require employees to work night shifts which restrict women from working by Sri Lanka’s Shop and Office Employees’ Act. In addition, the lack of secure transport to and from work at night is another constraining factor (see Box 1 for other constraining factors affecting gainful employment).²⁸

While most job categories set a Bachelor’s degree as the standard entry qualification in ICT companies, there are a number of opportunities for employees with diploma or higher diploma qualifications in non-ICT and BPO

²⁵ SLASSCOM (2016). p. 6.

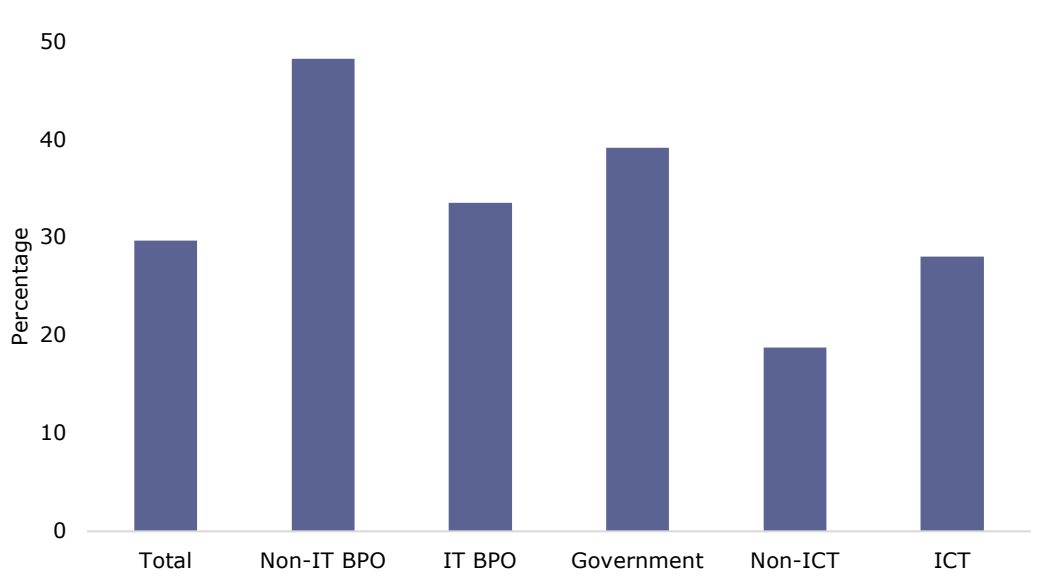
²⁶ SLASSCOM (2016). p. 3.

²⁷ However, the ICT/BPO sector still have higher female-to-male employment ratio compared to the other high-growth sectors discussed in this report.

²⁸ Chandrasiri & Gunatilaka (2015). p. 35.

companies in the areas of technical support, web development, digital media and animation, and IT sales and marketing.

Figure 4: Share of Female Employment in ICT Workforce by Subsector (2013)



Source: Information Communication and Technology Agency (2014).

The ICT industry also aims to create 200,000 direct jobs by 2022,²⁹ which given that 80% of the current workforce come from regions outside Colombo (2013),³⁰ has positive implications for regional employment. Further, despite a heavy concentration in the urbanised Western province, the sector's service provision is independent of location. These estimations above only consider the direct employment generated through this sector.

Sri Lanka is ranked 32nd of 139 economies by the World Economic Forum's Network Readiness Index 2016 in terms of skills necessary for the effective use of ICT, arising from the high quality of primary and secondary education. However, these skills have not been translated into the skills required for the industry, and there is a recognition of the need for greater engagement with educational institutions to develop key skills to make youth employable in the industry.³¹ The lack of an authority to ensure the quality of private higher education and the low awareness of opportunities in the sector have been highlighted as constraints to entry.

²⁹ SLASSCOM (2016). p. 9.

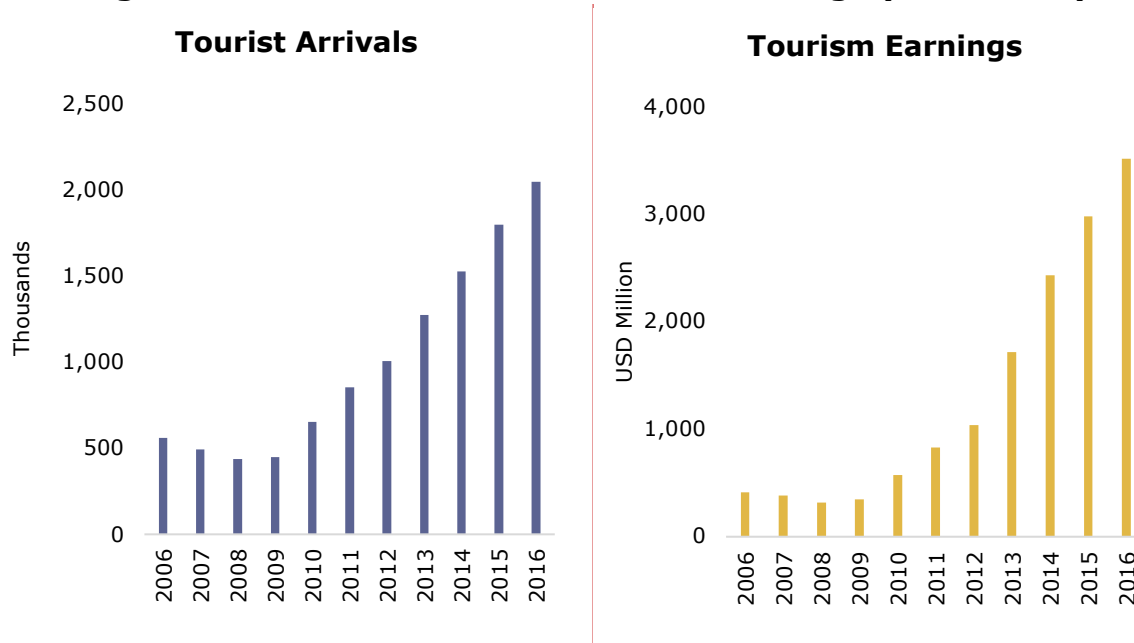
³⁰ SLASSCOM (2016). p. 14 & 20.

³² Sri Lanka Tourism Development Authority (2017). p. 5.

Tourism

The tourism sector has been experiencing rapid and continuous growth, since the end of the civil conflict in 2009. As shown in Figure 5, tourism arrivals and earnings increased by 21% and 32% annually during 2011 – 2016. In 2016, official tourism receipts accounted for 4.3% of GDP.

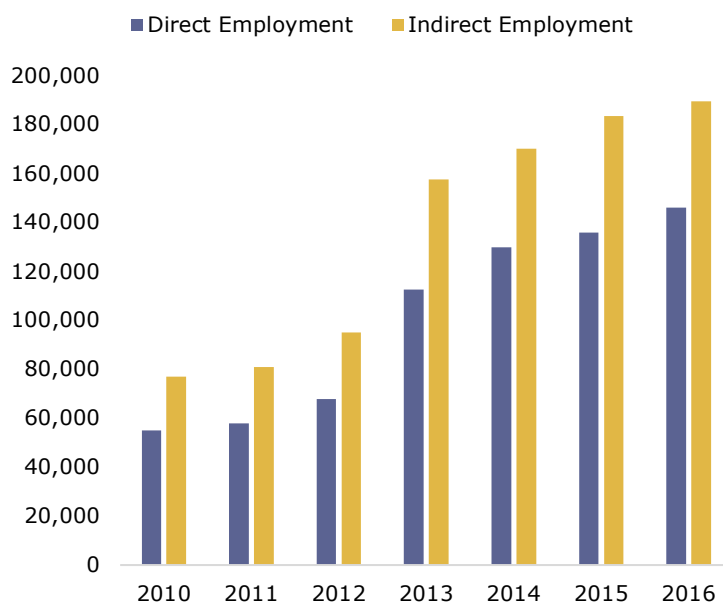
Figure 5: Tourist Arrivals and Tourism Earnings (2006-2016)



Source: Central Bank of Sri Lanka (undated).

As illustrated in Figure 6, employment in the tourism sector has benefited from the sector's growth with direct employment growing at 18% on average during 2011–2016, while indirect employment grew at 16%. In 2016 alone, employment generated in the tourism sector (both direct and indirect) increased to 335,659 in 2016 with an estimated annual growth of 5.1%.³²

³² Sri Lanka Tourism Development Authority (2017). p. 5.

Figure 6: Employment in the Tourism Sector (2010-2016)

Source: Sri Lanka Tourism Development Authority (undated).

In 2015, Sri Lanka added 1,850 new hotel rooms and received 1.8 million tourist arrivals. The occupancy rate at graded establishments was 70%. These numbers compare favourably with other island destinations in the region such as the Maldives, Mauritius, and Seychelles. In contrast, the average revenue generated per room is much lower in Sri Lanka at USD 91 compared to USD 463 in the Maldives, USD 350 in Seychelles and USD 162 in Mauritius.³³ These findings are also reflected in the composition of accommodation with only 50.6% of tourist nights spent in tourist hotels, and another 25.8% spent in supplementary establishments. The remaining 23.5% of tourist nights are accounted for by unregistered accommodation units and private houses. These findings highlight a cause for concern in terms of employment in the tourism sector, with the number of tourist nights spent in such establishments growing by 30.3% on average during the period 2011-2016³⁴, while employment grew by 27.5% a year.^{35,36,37}

However, prospects remain optimistic. Over 10% of foreign direct investment coming into Sri Lanka from 2010-2016 went into the hotels and restaurants sector (cumulative value of USD 798 million). Sri Lanka was also ranked in both

³³ JLL Hotels and Hospitality Group (2016).

³⁴ Sri Lanka Tourism Development Authority (2017). p. 42.

³⁵ Considered employment growth in hotels and restaurants as this sector has a direct relation to tourist nights spent.

³⁶ In 2015-2016, growth in tourist nights was 15.2% while growth in direct employment was only 7.9%.

³⁷ Sri Lanka Tourism Development Authority (2017). p. 49.

2015 and 2016 among the top global destinations to visit by publications such as The New York Times, Lonely Planet, Forbes, Conde Nast Traveler and others. The tourism industry in the Eastern and Northern provinces of the country continued to grow with the completion of projects related to tourism particularly in Passikudah, Nilaweli, and Jaffna, since the end of the conflict.³⁸

Light Engineering

This sector includes enterprises involved in “processing metal to produce an array of goods ranging from simple metal structures to machinery and equipment and their parts”. The sector also includes enterprises dedicated to repair and maintenance services.³⁹ It can be defined to include seven subsectors in manufacturing: manufacture of basic metals, metal products; machinery and equipment; radio, TV and communication equipment and apparatus, medical, precision and optical instruments; and semi-trailers, other transport and other manufacturing.⁴⁰ For the purposes of this study, three subsectors for which data is available have been included, as outlined in Table 2. However, in Sri Lanka, this sector is limited to simple technologies and is dominated by other manufacturing (not elsewhere classified) (45%), basic steel and casting metals (18%) and fabricated metal products (15%).⁴¹

Table 2: Growth and Share of GDP in the Light Engineering Subsectors

Major Economic Group	Growth (2011 - 2016)	Share of GDP (2011 -2016)
Manufacture of basic metals and fabricated metal products	6.90	0.35
Manufacture of machinery and equipment	5.65	0.44
Other manufacturing, repair and installation of machinery and equipment	16.11	0.66
Light Engineering	10.25	1.44

Source: Department of Census and Statistics (various years).

While the sector’s share is small – between 2011 and 2016, it accounted for only 0.9% of GDP with USD 657 million (at current market prices), it has experienced an average annual growth of 9.8%, almost as much as the construction sector (10.4%) (Department of Census and Statistics, undated-a).^{42, 43}

³⁸ Central Bank of Sri Lanka (2017). p. 134.

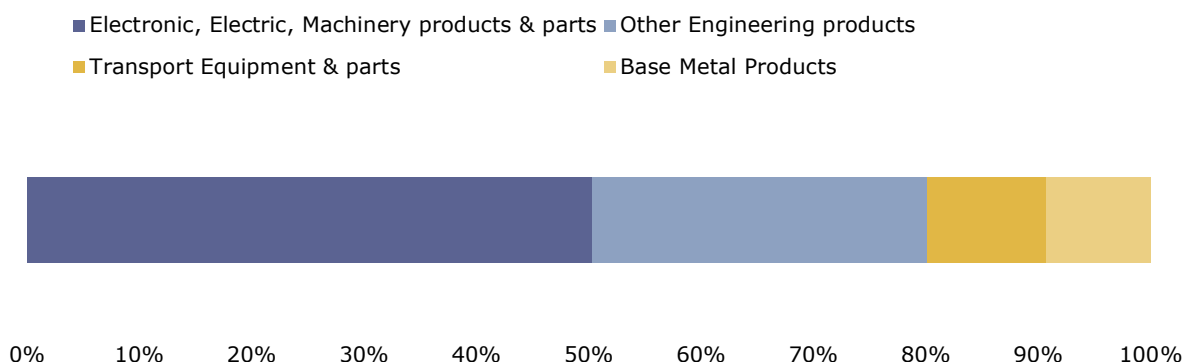
³⁹ Chandrasiri & Gunatilaka (2015). p. 49.

⁴⁰ Chandrasiri and Gunatilaka (2015). p. 37.

⁴¹ Chandrasiri and Gunatilaka (2015). p. 37-38.

⁴² A proxy figure was used to estimate value addition of the light engineering sector as there is no direct estimates given in Department of Census (undated-a). The combined value of the following was used: (1) manufacture of basic metals and fabricated metal products; (2) manufacture of machinery and equipment.

Figure 7: Composition of Light Engineering Exports (2011-2015)



Source: Export Development Board of Sri Lanka (undated).

The sector is also important in terms of exports. During the period 2011-2015, on average, the sector accounted for 2.37% of total merchandise exports.⁴⁴ In 2015, the export value of engineering products was USD 608 million and base metal products was USD 56 million.^{45,46} As shown in Figure 7, electronic and electric machinery and parts constitute over 40% of such exports. As previously mentioned, the level of sophistication in this sector is low and reflected by the low share of Sri Lanka's high-tech exports in Figure 8, compared to regional peers. However, this avenue represents a potential for growth for the light engineering sector, and is in line with the government's focus on both increasing value addition in exports and science and technology competencies among workforce.⁴⁷

Please note, as proxy values were used to determine the contributions of the light engineering sectors, it is likely that they are overestimates of the specific contributions of the sector.

⁴³ Used GDP value addition at 2010 constant prices to calculate average annual growth rate.

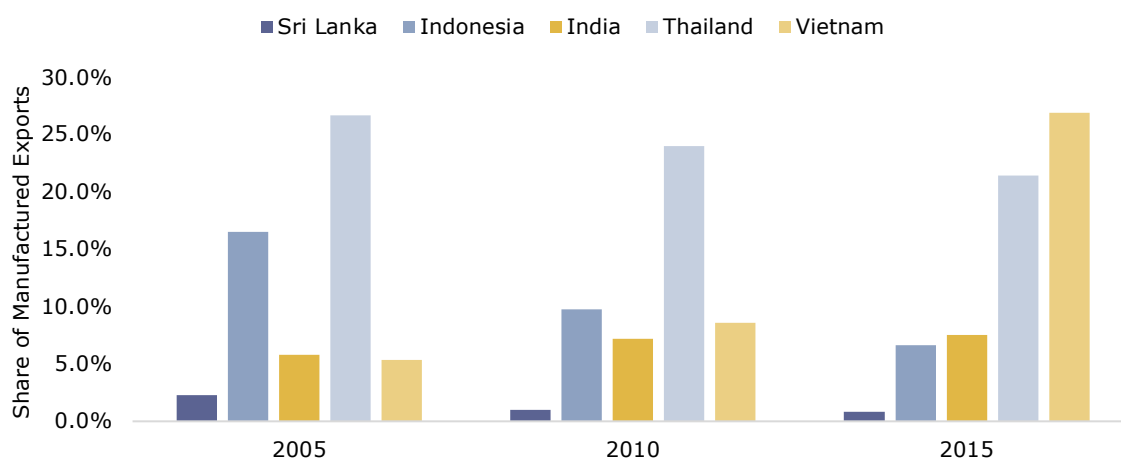
⁴⁴ Used a proxy value. That is, the average share of total engineering products and base metal products was considered.

⁴⁵ As there was no distinction between light engineering products and other types of engineering products, an aggregate figure was used. However, the export development board (EDB) has specifically highlighted light engineering products as a significant export, making it likely that the bulk of engineering product category is composed of light engineering products.

⁴⁶ Export Development Board of Sri Lanka (undated).

⁴⁷ According to the Economic Policy Statement made by the Hon. Prime Minister Ranil Wickremesinghe to the Parliament on the 5th of November 2015.

Figure 8: High-tech Exports Share of Manufactured Exports (2005, 2010 & 2015) ⁴⁸



Source: World Bank (undated).

As indicated previously, this sector provides significant employment opportunities. *Chandrasiri & Gunatilaka (2015, p. 40)* estimates that light engineering product manufacturing employed 43,578 people in 2014. Of the four sectors considered, light engineering is the second most heavily concentrated in regional terms. As shown in Figure 2, Western province with over half (51%) of employed persons in 2012. It is also the second most heavily male-dominated sector after construction with only an estimated 7.9% of employees being female.

At present, low-skilled workers (production workers and elementary occupation workers) comprise 74% of the sector.⁴⁹ In terms of educational attainment, workers with secondary education predominate the sector, comprising 62% of workers. The lack of high-tech exports also signifies the need to enhance the skill level of the domestic labour in this field to elevate engineering exports. Hence, with the right TVET strategy, there is potential to increase employment and economic growth through light engineering products.⁵⁰

⁴⁸ The latest statistic available for Vietnam is 2014. However, as Vietnam is an important regional peer and a major Sri Lankan competitor, we have included the country here.

⁴⁹ *Chandrasiri & Gunatilaka (2015).*, p. 49.

⁵⁰ As the industry grows, an estimated 5,000 additional workers per year will be required. Additionally, the suggested increase in skill requirements is from 17,768 to 19,852 persons between 2013 and 2017. However, these estimates do not take into account the demand from foreign markets, and reliable industry estimates for skills in demand are not available (*Chandrasiri & Gunatilaka, 2015*).

Other High Employment Potential Sectors

The above four sectors identified are based on a preliminary assessment of the data and information available at the time. However, there are several other sectors of interest which can present the potential for high employment. These sectors can be classified into domestic-based industries with an outward orientation such as transportation & logistics and food & beverage processing, and foreign-based employment opportunities such as nursing. However, due to time-bound constraints, these have not been explored in detail. An in-depth analysis of the employment potential of these sectors can be conducted, following validation from the roundtable discussions.



USAID
FROM THE AMERICAN PEOPLE



Volunteers for Economic Growth Alliance



THE NONPROFIT THAT MEANS BUSINESS

Section II: Dimensions of Youth Unemployment in Sri Lanka

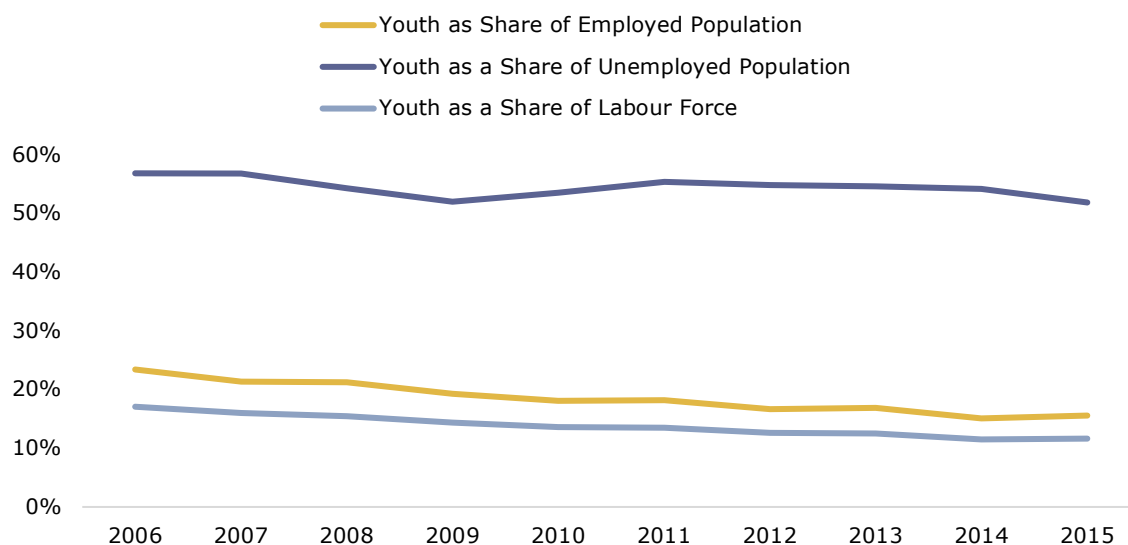
This Section discusses trends in youth unemployment and identifies variations that exist in terms of levels of educational attainment, gender and regions, and considers how these factors contribute towards the four mismatches in the four sectors identified in Section I.

While overall employment may be on the decline in Sri Lanka, youth unemployment remains a pressing issue. Youth account for over 50% of the unemployed and the youth unemployment rate of 20.8%, is eight times higher than the unemployment rate of the remaining adult population (see Figures 10 & 11). Furthermore, Sri Lanka's youth unemployment is higher than regional averages.⁵¹ Sri Lanka's unemployed youth represent an underutilized resource that could either spur intense economic growth if engaged in productive employment, or create social unrest if sufficient jobs are not created⁵². The shortage of perceived "good jobs" forces young people to seek opportunity in the informal economy, which provides little employment security, or to leave Sri Lanka in search of better jobs. In 2015, 15% of departures for foreign employment were by youth (*Sri Lanka Bureau of Foreign Employment, 2015, p. 75*). However, both the population size and labour force participation rate of youth has declined in the last decade relative to other population cohorts (see Figures 9 and 12), while the unemployment rate among youth has been fluctuating and has been on the increase in the last five years (see Figure 11).

⁵¹ In the last twenty years, the average youth unemployment rate in Sri Lanka (23%) was over two times that of South Asia (10%) (*World Bank, undated*).

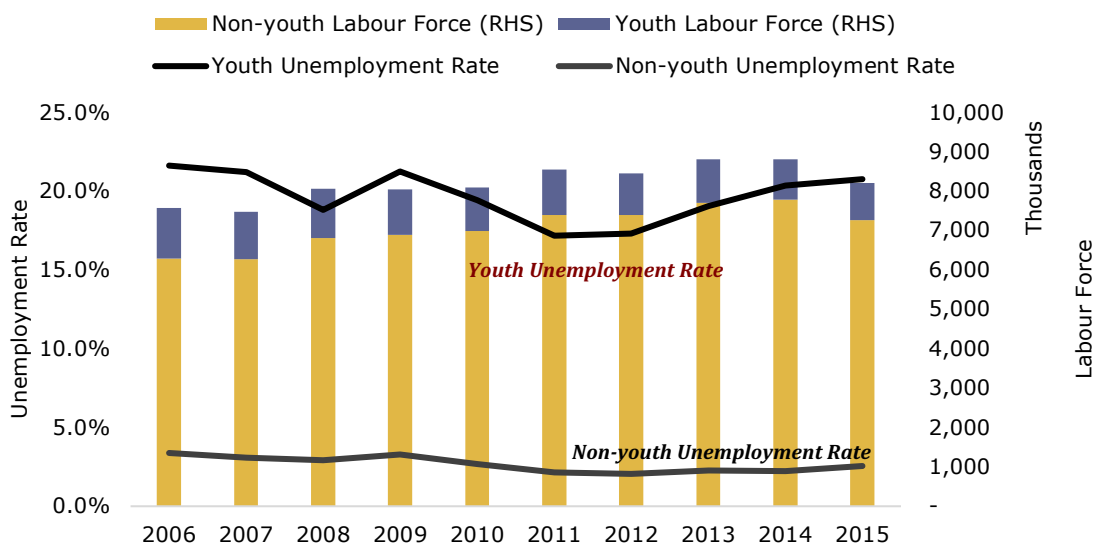
⁵² The frustrations of an educated youth that could not find work were a strong contributor to the anti-state insurgencies in 1971 and 1987 (*Hettige & Salih, 2010, p. 245-246*).

Figure 9: Youth as a Share of Unemployed, Employed and Labour Force (2006-2015)



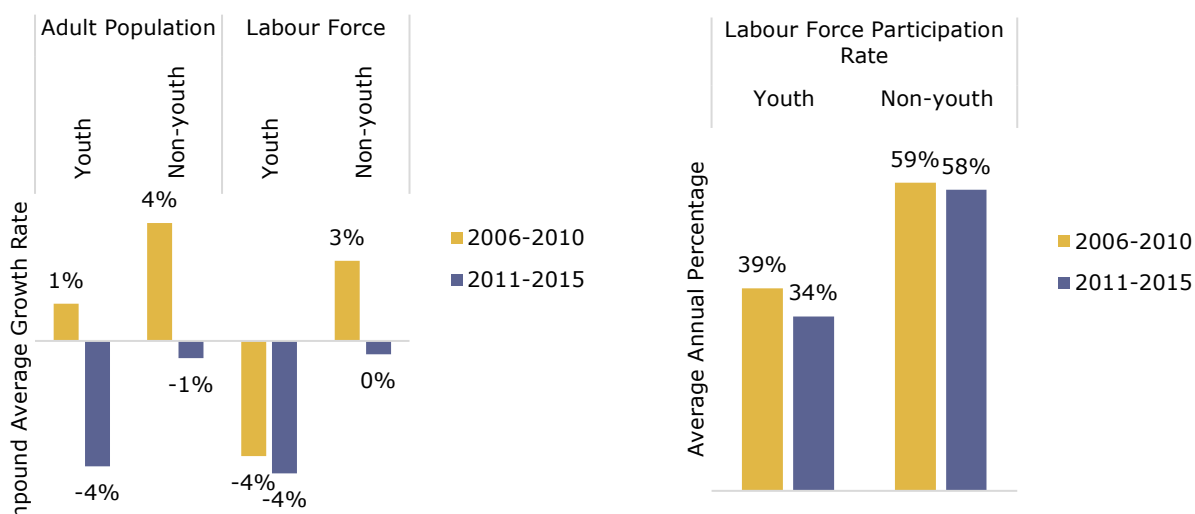
Source: Department of Census and Statistics (various years).

Figure 10: Youth and Non-youth Unemployment Rates (2006-2015)



Source: Department of Census and Statistics (various years).

Figure 11: Trends in Population, Labour Force and Labour Force Participation Rates of Youth and Non-youth (2006-2015)



Source: Department of Census and Statistics (various years).

Educational Context

Educational attainments considerably increase income in Sri Lanka. A study conducted by *Kumara (2015, p.17)* found that an additional year of schooling increased the hourly wage rate by 9%. However, while educational attainment has the benefit of increasing individual income, realized employment in higher education attainment categories is low—university educated young people make up nearly 20% of the total unemployed in Sri Lanka.⁵³ As Table 3 shows, higher educational attainment has not led to reduced unemployment rates, and this issue is especially significant among youth. Social status can impede the employment of undergraduates from rural areas as formal private sector employers prefer to hire candidates with fluent English skills. In addition, the practice of using social networks and connections to gain employment in the private sector further excludes graduates. These factors, as well as perceptions of higher job security and non-wage benefits, has led to graduates preferring public sector jobs despite lower income. As this sector is already overcrowded, a significant proportion of educated youth choose to stay unemployed until a job becomes available (*Vodopivec and Withanachchi, 2010, p.134-135*).

⁵³ This was estimated using 2015 labour force statistics from *Department of Census and Statistics (various years)*, by considering educational attainment of G.C.E. (A/L) and above. Extending the analysis to include G.C.E. (O/L) or equivalent educational attainment increases the share of “educated youth” to 34%.

Table 3: Youth and Adult Unemployment Rates by Level of Education (2006-2015)

Year	Unemployment Rates by Level of Education							
	Grade 5 & Below		Grade 6-10		G.C.E. (O/L)		G.C.E. (A/L) & Above	
	Youth	Adult	Youth	Adult	Youth	Adult	Youth	Adult
2011	n/a	n/a	12.1%	3.3%	18.3%	5.2%	33.9%	9.0%
2012	n/a	0.6%	12.2%	3.2%	20.5%	6.0%	30.6%	7.5%
2013	n/a	1.0%	13.3%	3.4%	21.9%	5.9%	33.5%	8.6%
2014	n/a	0.9%	14.8%	3.4%	22.8%	5.9%	31.3%	8.1%
2015	n/a	0.7%	14.1%	3.4%	23.9%	6.4%	34.0%	9.2%

Source: Department of Census and Statistics (various years).

The options for individual growth outside of the traditional school system is also limited. While primary education attainment is high⁵⁴, only 77% of 11-14 year olds and 65% of 15-19 year olds are enrolled in school.⁵⁵ In addition to joining the work force, TVET is one of the alternative choices for young school leavers, with 59% of publicly funded TVET programmes targeted at those who had passed O/Levels (*Chandarasiri, 2010, p. 94*). However, despite being an intermediary between education and the work force, TVET has not been successful in increasing income or employability. Unemployment after training in growing sectors such as IT remains high, with only sectors such as carpentry and masonry showing low rates of unemployment (*p. 100*).

Gender Context

While the labour force participation rate of women in Sri Lanka has consistently been higher than the average in South Asia⁵⁶, Sri Lanka still has low labour force participation. Specifically, equitable educational access, such as free education, and resulting similar education endowments for both men and women, has not translated to increased female participation in the workforce. Labour Force Survey data from 2006 indicates that the overall unemployment rate for females (7.6% in 2015) was at least double that of their male counterparts (3.0% in 2015) (*Department of Census and Statistics, various years*). This trend is even more pronounced for the youth; in 2015, the youth unemployment rate of

⁵⁴ School attendance by 5-10 years old is approximately 94%. Source?

⁵⁵ Calculated using school census enrolment data from *Ministry of Education (2016)* and estimates of population from *Department of Census and Statistics (undated-b)*.

⁵⁶ Based on International Labour Organization (ILO)'s modelled estimates, Sri Lanka's female labour force participation rate has been on average 2% higher than that of South Asia during the last ten years (*World Bank, undated*).

females and males were 27% and 17% respectively – a significant percentage difference of 10%.⁵⁷

Table 4: Regional and Gender Differences in Unemployment (2015)

Province	Regional Unemployment Rates					
	Youth (Y)	Adult (A)	% Difference (Y-A)	Male (M)	Female (F)	% Difference (F-M)
Sri Lanka	20.8%	4.7%	16.1%	3.0%	7.6%	4.6%
Western	15.9%	4.1%	11.8%	3.1%	6.0%	2.9%
Central	25.5%	4.7%	20.8%	3.4%	6.6%	3.2%
Southern	27.9%	5.8%	22.1%	3.7%	9.6%	5.9%
Northern	18.8%	5.3%	13.5%	2.6%	12.0%	9.4%
Eastern	21.7%	5.7%	16.0%	3.2%	13.1%	9.9%
North Western	15.2%	3.8%	11.4%	2.1%	6.4%	4.3%
North Central	16.3%	3.1%	13.2%	1.5%	5.8%	4.3%
Uva	22.0%	4.7%	17.3%	2.3%	8.1%	5.8%
Sabaragamuwa	29.6%	5.9%	23.7%	3.8%	9.2%	5.4%

Source: Department of Census and Statistics (various years).

While possessing a degree has a strong impact on increasing the labour force participation of a woman⁵⁸, Sri Lankan women who possess qualifications of A/levels and higher still face greater unemployment rates and experience longer durations of unemployment in comparison to their male counterparts (*Gunatilaka, 2013, p. 17-18*). Even technical education and vocational training has not made a considerable impact on the employability of women. *Jayathilake, et. al (2013)* shows, by way of a tracer study, that 65.2% of female TVET-qualified women were unemployed in comparison to 44.2% of TVET-qualified men surveyed in 2011.

⁵⁷ Department of Census and Statistics (various years).

⁵⁸ According to the econometric model done with labour force data (2006-2012) in *Gunatilaka (2013)*, university education attainment increases the probability of women participating in the labour force by 45%, after controlling for marriage, widowhood and minority.

In addition, Sri Lankan women often enter occupations that are traditionally segregated. Education and training programs tend to reinforce gender-based stereotyping in the workplace training since both the number of institutes catering to women and the areas open for women to study are limited.⁵⁹ For example, while female enrolment in TVET is high (51.1% in 2014⁶⁰), this is usually concentrated in female-oriented occupations such as secretarial work and dressmaking (*Chandrasiri, 2010, p.97*). Social norms also limit women's choice of occupations. *Sudarshan (2014, p. 4)* notes that Sri Lanka's fast-growing sectors, such as construction and transport, are male-dominated.⁶¹ An environment that perpetuates gender-based occupation segregation also reduces the efficacy of equal pay legislation (*Gunewardena, 2010, p. 226*).

Factors outside of the labour market also influence female labour participation. For instance, marital status has a significant impact on labour force participation as women in Sri Lanka are traditionally expected to take on the primary role of child care and domestic activities (*Gunatiaka, 2013, p.10-12*). In fact, the burden on a woman who is both married and working is relatively high. *Satharasinghe (1999)* shows through the results of a survey conducted on working women in Colombo that employed married women spend an additional three hours working relative to unemployment married women (*as cited in Sudarshan, 2014, p. 37*). This contributes to women choosing to leave the labour force upon marriage⁶². Other factors that reduce female labour participation include: distance to work and availability of safe transport; women's own comfort levels in male-dominated workplaces; and aspirations of flexibility among women (*Sudarshan, 2014, p. 8-9*).

Regional Context

The regional disparities in terms of employment stem from regional disparities with respect to access to education. Furthermore, the lack of productive employment opportunities outside of the Western region or urban areas (i.e. the

⁵⁹ *Ruwanpura (2004). p. 13.*

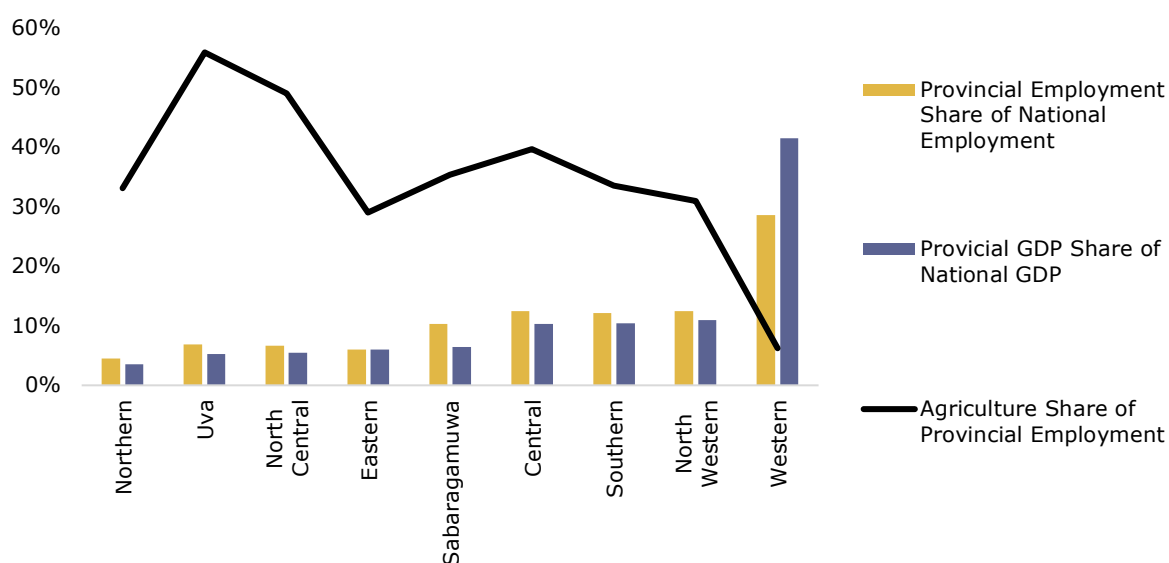
⁶⁰ *Tertiary and Vocational Education Commission (2015b). p.86.*

⁶¹ A similar trend occurs in India. Between 1994 and 2010, women accounted for less than 19% of new employment generated by the ten fastest growing occupations. Furthermore, the negative perceptions of women's capability in male-dominated fields also disallows new work opportunities women may have with proper training, as the experience of Self Employed Women's Association (SEWA) training female construction workers reveal (*Kapsos, et. al., 2014; & Sudarshan, 2014*).

⁶² *Gunatilaka (2013, p. 10)* shows that the labour force participation rate of married women is at least 10% less than the labour force participation of single women (for 1996, 2000, 2004 & 2008).

prevalence of low productivity agricultural employment) is also structurally and socially entrenched. In addition, the characteristics of the agriculture sector, such as the absence of commercial agriculture and the great degree of informal employment (86.3% of the agriculture sector consists of informal employment in 2015)⁶³ not only makes individual upward mobility difficult but also makes income streams uncertain.

Figure 12: Provincial Agriculture Employment and Share of Nominal GDP (2015)

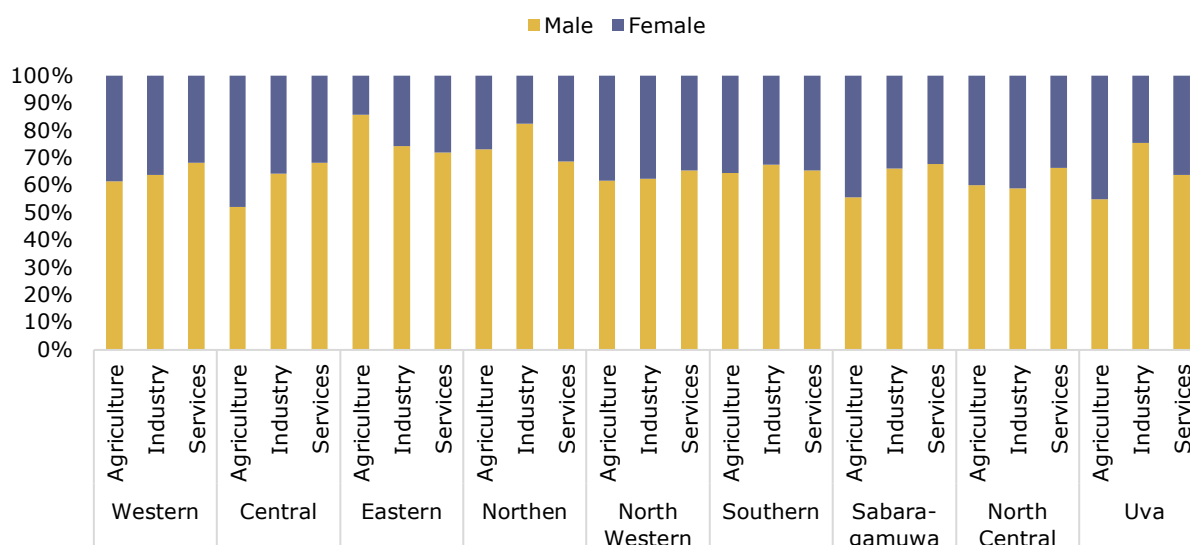


Source: Department of Census and Statistics (various years); and Central Bank of Sri Lanka (2016).

As Figures 12 & 13 show, excluding the Western Province, agriculture employment still accounts for a significant proportion of Sri Lankan employment. Furthermore, the presence of significant agriculture employment, as depicted by the employment distribution in Figure 14, is strongly linked to the low provincial contribution to GDP (as demonstrated in Figure 13). This is reflective of the lack of equitable access to productive employment outside of the Western region. Hence, youth are faced with the difficult choice of relocating to the Western Province for productive employment opportunities or engaging in unproductive, predominantly agricultural work. This contributes to the centralization of productive employment in the Western region (and other urban nodes) while other provinces do not gain access to meaningful employment.

⁶³ Department of Census and Statistics (various years).

Figure 13: Provincial Distribution of Employment by Industry Group and Gender (2015)



Source: Department of Census and Statistics (various years).

The regional context, where unproductive employment is at present a prevailing characteristic outside of the Western region, highlights the need to create more regionally equitable productive employment and related educational and vocational training options in the island.

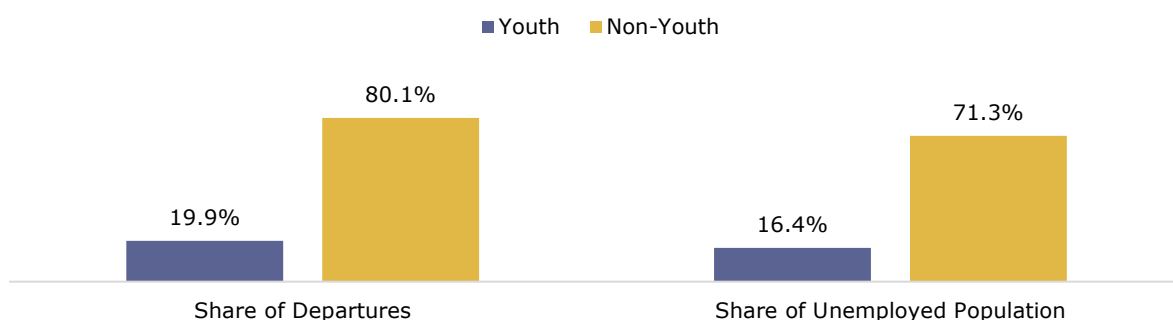
Foreign Migration Context

The lack of opportunities for productive employment has led to the migration of a significant share of the working-age population. While worker remittances are a significant foreign exchange earner⁶⁴, the trend in foreign migration is a reflection of the issues currently prevailing in the domestic labour market today. However, the youth, relative to non-youth, have not turned to foreign jobs as an employment option—youth account for less than 20% of the 164,379 departures for foreign employment in 2015⁶⁵ (see Figure 14).

⁶⁴ In 2016, worker remittances accounted for USD 7.2 billion—exceeding the earnings from both tea and garment exports—making it the largest foreign exchange earner in Sri Lanka (*Central Bank of Sri Lanka, 2017, p. 147*).

⁶⁵ Departures for foreign employment is considered for both sexes in the following manpower level: skilled workers; semi-skilled workers; and unskilled workers. This data includes youth aged 15-24, the Sri Lankan Government definition.

Figure 14: Departures for Foreign Employment of Youth and Non-youth Population (2015)



Source: Sri Lanka Bureau of Foreign Employment (2015).

Emigration of workers may be a driver of the skills gap in the domestic market (discussed in the next section).⁶⁶ For example, in the construction industry, there has been a shortage of skilled labour as workers have gone abroad for higher wages (see Table 5 for foreign employment placement of construction related workers). In response, the domestic market has been forced to increase wages to retain this group of workers^{67,68}. Thus, although in the past there has been very high demand for skilled craftsmen in overseas markets, the number of workers leaving has decreased due to increased demand and wage offerings in the local market.⁶⁹

⁶⁶ The dimension of the skills gap discussed here is different than what is addressed in the next section. Here, the issue of the unavailability of skilled labour due to worker migration is discussed, while in the next section the issue of the domestic labour market lacking the essential skills employers looking for is discussed.

⁶⁷ *Construction Industry Development Authority (2016)*. p. 2-3; p. 56; p. 70.

⁶⁸ *Chandrasiri & Gunatilaka (2015)*. p. 4.

⁶⁹ For figures and tables representing this decrease, see *Chandrasiri & Gunatilaka (2015)*, p. 19-20).

Table 5: Foreign Employment Placements for Selected Construction Sector Workers (2011-2014)

Major Economic Group	2011	2012	2013	2014
Mason - General	1,014	602	564	816
Electrician - General	1,170	522	621	654
Fixer -Steel	358	259	254	503
Painter - General	335	186	296	372
Welder - General	677	310	344	299
Mason - Tile fixer	328	73	106	78
Fitter - Plumber/Pipe	794	189	542	77
Painter-Spray	52	24	27	73
Bar bender	10	95	16	50
Fitter-General	11	77	22	44
Carpenter-Furniture	47	79	23	18
Carpenter - Junior	373	13	-	-

Source: Construction Industry Development Authority (2016).

Gap Analysis

The discrepancy between the employment opportunities available and the relatively larger share of youth unemployed can be explained by four gaps or mismatches: (i) skills gap; (ii) aspirational gap; (iii) informational gap; and (iv) structural gap. In each case, there is a gap/mismatch in the demand and supply of services or jobs by the current or potential workforce and the employers or the labour market. This section considers these gaps/mismatches in the context of the four sectors identified as having high potential for current and future job creation in Sri Lanka. Addressing the three gaps identified is critical to resolving the youth unemployment issues in Sri Lanka. However, there are social and structural barriers that challenge the efficacy of interventions in bridging the gaps (see Box 1).

Skills Gap

The skills gap refers to the disparity between the skills that employers look for in employees and the skills that current and potential employees have.⁷⁰ The skills gap hypothesis also suggests that educational institutions do not equip students with skills that are deemed pertinent or valuable by the job market.⁷¹ The problem of skills mismatch was first identified in Sri Lanka in the early 1970s in the context of high unemployment rates among educated youth.⁷² The World

⁷⁰ See Chandrasiri & Gunatilaka (2015, p. iii) for more technical information on skills mismatches.

⁷¹ Chandrasiri & Gunatilaka (2015). p. 7.

⁷² Ibid.

Bank's Skills Towards Employment and Productivity (STEP) Framework identified skills by three categories defined as follows:

1. *Cognitive skills*: The ability to understand complex ideas, to adapt effectively to the environment, to learn from experience and to engage in logical reasoning. For example, self-reported numeracy, reading, and writing skills in one's native language are reported as cognitive skills.
2. *Non-cognitive skills*: The ability to understand domains that are not directly associated with intelligence—these include soft skills, personality traits and behavioural skills. The Big Five personality traits included in non-cognitive skills are extraversion, conscientiousness, openness, emotional stability, and agreeableness. Other non-cognitive skills include: long-term perseverance; decision-making; teamwork; and presentation skills.
3. *Technical skills*: Specialized skills that are relevant for performing job specific tasks. Technology use, computer use, mechanical use, machinery use, English language, ability to work autonomously, and manual labour skills are all classified as technical skills.⁷³

Studies have identified a positive relationship between the level of education and the use of cognitive skills. According to a survey conducted in 2014, the use of cognitive skills was around 52% among individuals with primary and secondary education.⁷⁴ In terms of non-cognitive skills, critical gaps in skills such as English and IT have been highlighted across sectors. The above survey found that among workers in all sectors, only 16% were computer-literate and 24% were proficient in English.⁷⁵ IT literacy was also found to vary regionally: 28% of the urban population uses computers, whereas this figure is 8% for the rural population.⁷⁶ A survey of employers in the identified sectors also shows that service providers provide sound training in job-related theoretical knowledge but not in job-related technical skills.⁷⁷ Research also shows that skills training in Sri Lanka lags behind the needs of the global economy. Evidence shows cross-sector demand for both cognitive and non-cognitive skills, and a substantial gap in terms of technical skills.⁷⁸

⁷³ Dundar et al. (2014). p 32.

⁷⁴ Dundar et al. (2014). p 6.

⁷⁵ Dundar et al. (2014). p 7.

⁷⁶ Dundar et al. (2014). p 91.

⁷⁷ Chandrasiri & Gunatilaka (2015). p. iii.

⁷⁸ Chandrasiri & Gunatilaka (2015). p. 51.

While gaps/mismatches in the above three skills areas exist across all sectors, the size of these gaps differ by the sector given that each sector requires these skills to different degrees. For the four sectors identified, these gaps/mismatches are discussed in detail below.

ICT sector:

Higher-skilled workers in managerial, professional, and technician categories predominate in the ICT sector.⁷⁹ According to the National ICT Workforce Survey conducted by ICTA (henceforth referred to as 'Survey'), systems analysis and programming are the top priority skills demanded by employers in the ICT sector. While there is a set of twelve core technical skills, employers ranked creative thinking skills and teamwork skills, which are two non-cognitive skills, as the two most important skills for the sector after technical skills such as systems design and network design. The other skills include six technical skills (systems analysis, programming, systems design, and network design), which include two software specific skills (.NET and Java), and four soft skills (creative thinking, team work, communication and presentation, interpersonal skills).⁸⁰ This suggests that employers require a mixed skill set.

The Survey identified skill mismatches between skills demanded and skills supplied in terms of both technical and non-cognitive skills. There was an identified shortage of specific technical skills sets including sales and marketing, hardware engineering and maintenance, technical writing, systems application and testing and network implementation. Employers also identified the most sought after non-cognitive skills such as creating writing and teamwork, to be in short supply. The Survey considered the dearth in these skills to be the most severe.⁸¹ Another skill set that many ICT employers were not satisfied with was the reading and writing ability of graduates from public TVET institutes: a 2012 survey reported that employer satisfaction with this skill set was 43%.⁸² The ICT VET Plan (2010) also reported significant difficulties with finding people with multi-disciplinary expertise in multiple professions e.g. accounting and IT, HR and IT, law and IT, management and IT.⁸³

Tourism & Hospitality:

⁷⁹ Chandrasiri & Gunatilaka (2015). p. 15.

⁸⁰ Information Communication and Technology Agency (2014). p. 48.

⁸¹ *Ibid.*

⁸² Chandrasiri & Gunatilaka (2015). p. 63.

⁸³ Chandrasiri & Gunatilaka (2015) references this document. However, we were not able to get direct access to this plan.

Language skills and speciality skills such as cooking and baking have been identified as key technical requirements for the tourism sector, while interpersonal skills, service attitude, communication, supervisory skills and decision making have been identified as key non-cognitive skills.⁸⁴

The ability to read and write in English has been highlighted as a key constraint by the sector with only 32% of employers satisfied with the level provided in public TVET institutes. Only 19% of service workers in the tourism industry are English-literate according to the Annual Labour Force Survey 2012.⁸⁵ The development of non-cognitive skills has also been highlighted as a critical requirement of the tourism and hospitality sector. These skills include leadership skills, commitment, emotional stability, positive work habits, creative and critical thinking, and problem solving. Less than 36% of employers surveyed in 2012 were satisfied with the provision of the above skills by public TVET institutes.⁸⁶

Data collected by the Labour Market Information Unit of the TVEC and the Sri Lanka Bureau of Foreign Employment (SLBFE) on job postings by employers showed that the majority of vacancies in this sector were aimed at new entrants to the job market and did not require work experience or specify gender.⁸⁷

Light Engineering:

English proficiency appears to be an important skill to acquire given that 39% of workers in the sector are not English literate, which impedes their ability to read an operating manual.⁸⁸

Aspirational Gap

The aspirational gap occurs as young people aspire to hold jobs with high security, social status, better pay and benefits with low work effort that have limited availability and are willing to wait for such opportunities which usually arise from the public sector and the formal private sector. This is defined as the

⁸⁴ Chandrasiri & Gunatilaka (2015). p. 48.

⁸⁵ Chandrasiri & Gunatilaka (2015). p. 72.

⁸⁶ Chandrasiri & Gunatilaka (2015). p. 63.

⁸⁷ Chandrasiri & Gunatilaka (2015). p. 50.

⁸⁸ Chandrasiri & Gunatilaka (2015). p. 21.

queuing hypothesis.⁸⁹ *Abeyasinghe, de Mel & Munas (2016, p. 15)* defines three types of expectations in relation to classifying a “good job”: (1) salary expectations; (2) security expectations; and (3) status expectations.

Salary Expectations: According to *Abeyasinghe, de Mel & Munas (2016, p. 37)*, the ability to earn a ‘good salary’ was the key expectation of a good job. Furthermore, this expectation was more prevalent among parents than youth. The study also found salary expectations to be higher among youth that had passed A/Ls than youth had not, and older youth.

Security Expectations: This refers to perceptions of permanency and constancy of work. The preference for public sector jobs also indicates job security expectations. In a survey conducted in the Northern and Eastern Provinces, 62% of respondents identified a pensionable salary as a public sector job characteristic, while another 18% indicated that public sector jobs were secure. In contrast, 41% of the respondents viewed private sector jobs as insecure.⁹⁰

Status Expectations: This is the desire for a higher post/designation (which is likely to be unavailable for youth). Sri Lankan youth prefer formal white-collar work, which has fewer vacancies, making it harder to find employment. However, according to *Arunathilake and Jayawardena (2010b)*, while the unemployed have high levels of formal education, they do not possess the skills for white-collar jobs higher than this occupation category. There is a clear mismatch between aspirations for white-collar work and limited vacancies for ‘good’ jobs.⁹¹ Furthermore, there are negative perceptions associated with blue collar jobs that has prevented youth from benefiting from high growth industries. For example, in the construction sector, the shortage of skilled labour has been partly attributed to the sector’s inability to attract members of the younger generation. There also exists a common perceptions of construction work as “dirty, difficult and dangerous” and the social stigma of being a *bass*—the Sinhala word for a mason or a carpenter—has deterred youth from entering the sector.⁹² According to the survey by *Abeyasinghe, de Mel & Munas (2016, p. 7)*, 69% of parents interviewed viewed jobs in the government sector as being more suitable for girls.

⁸⁹ *Arunathilake & Jayawardena (2010a). p. 7 & p. 70.*

⁹⁰ *Abeyasinghe, de Mel & Munas (2016). p. 16.*

⁹¹ A study of jobseekers on the Jobsnet website clearly showed the disparity between jobs available and jobs desired: while most vacancies are for inexperienced youth and low skill categories, the majority of new entrants into the labour market aspire for white-collar jobs (*Arunathilake & Jayawardena, 2010a, p. 69-89*).

⁹² *Construction Industry Development Authority (2016). p. 40; p. 60.*

BOX 1: SOCIAL BARRIERS TO GAINFUL EMPLOYMENT

There are several factors beyond immediate job market concerns that discourage labour force participation of youth and other segments of the working-age population. They prevent youth from effectively utilizing opportunities made available to them, even after issues of skills gap, aspirational gap, and informational gap are addressed. The institutional hypothesis sets out that institutional barriers to formal job creation results in stagnant growth of new jobs and forces youth into informal employment.

Gender Constraints

Female participation in most high growth sectors is low due to the social and cultural norms prevalent in the country. For example, women make up less than 5% of the workforce in the construction industry (2015). The occupational segregation by gender prevalent in this sector acts as a strong disincentive. Furthermore, even in more accessible sectors such as ICT, the job requirements act as a deterrent to female employment: these include the sector requirements of working night shifts to cater to international clients, and the need for secure transport. Additionally, unlike regional peers, Sri Lankan women have not adequately benefited from the growing tourism industry in the country due to the negative perceptions that persist in relation to the tourism sector.

Regional Constraints:

As discussed earlier, most productive employment opportunities (including the four high growth potential sectors) are centralized in the Western Province, and to a lesser degree, in the Southern Province. For instance, over 80% of the ICT sector are domestic migrants into Colombo from other parts of the island (2013). This is a trend that is expected to continue in the ICT industry even with more equitable access to productive employment across the country.

Job Formalization Constraints

The majority of employment in Sri Lanka is in the informal sector—a vulnerable sector lacking job and income security. While the informal economy has been important as an employment generator, the opportunity for productive employment is limited (for example, over 80% of employment in the agriculture sector is informal). To create meaningful employment, it is critical to not only equip youth with the skills necessary for productive employment but also to increase opportunities for businesses to increase and flourish in the formal sector.

Source: Abeyasinghe, de Mel & Munas (2016); Central Bank of Sri Lanka Chandrasiri & Gunatilaka (2015); Department of Census and Statistics (various years); and SLASSCOM (2016).

Informational Gap

There is an inadequate flow of information between youth and the labour market, such as the job requisite skills and employment opportunities (particularly beyond the traditionally accepted professions such as medical doctor, engineer and teacher). According to *Rodrigo et. al. (2014)*, youth reported that they are unaware of the skills requirements needed by prospective employers when selecting G.C.E. (A/L) subject stream (p. 53). This ignorance, and lack of awareness about labour market requirements, also makes it difficult for youth to decide on career pathways outside of the formal education system such as TVET.

An additional factor that may contribute to unemployment among the labour force, including youth, is a lack of awareness among youth on information of job opportunities in each sector. A study of eight districts in 2016 revealed that business owners and parents of unemployed youth cited a lack of awareness as a major reason why young people could not find jobs in the sectors looked at. In general, awareness was high in the automotive and construction sectors but low in the IT and Tourism and Hospitality sectors. Additionally, youth, parents, and teachers had a skewed idea of opportunities in each sector: they overestimated the opportunities in the IT sector and underestimated the opportunities in growing sectors such as construction.⁹³ According to a survey conducted by Abeyasinghe, de Mel & Munas (2016, p. 41), parents were less aware of career paths that could be followed with O/Ls or lower qualifications and better awareness among parents with regard to job opportunities on these four sectors can improve the choices made by youth.⁹⁴

The same study also found that perceptions of both the availability and the attractiveness of jobs are influenced by socialisation: perceptions and preferences regarding job opportunities differed by stakeholder group (students, parents, teachers, village elders etc.), level of exposure to successful people working in the sectors in question, socioeconomic status, and district.⁹⁵

⁹³ Abeyasinghe, de Mel & Munas (2016). p. 40.

⁹⁴ Abeyasinghe, de Mel & Munas (2016). p. 41.

⁹⁵ Abeyasinghe, de Mel & Munas (2016). p. 40-42.

Given the role of parents as the key influencers of educational and career decisions in the lives of students and youth in Sri Lanka’s socio-cultural context,⁹⁶ addressing informational and perception gaps on job availability—generally and specifically—in each sector could contribute to the recruitment of more young people in the country.

Structural Gap

The structural gap arises when the skills and experience of both those seeking employment and those currently employed are in sectors that are increasingly less significant in economic terms. This mismatch is different from that of the skills mismatch where the gap is in the skills demanded and supplied in the market for a particular type of job. The structural gap is observable at the macroeconomic level as well. This was highlighted earlier in Table 1, which shows while the structure of the economy has largely shifted away from agriculture, with that sector accounting for less than 10% of GDP in 2016. The labour force has been slow to respond.

This rigidity may not be as relevant for youth who are new entrants to the labour force and whose relative inexperience and lack of training affords them a relative advantage in terms of entering new and emerging sectors of employment. Further, these gains can further be enhanced improving the current educational and training opportunities. *Wickramasekera (2013)* states that there are major gaps between the education received by youth and labour market requirements—leading to chronic (or structural) mismatches. This is reflected in Sri Lanka as most arts and social science stream graduates are not accepted by the private sector because they do not possess the job skills required despite the high degree of formal education, creating pressure for the public sector to absorb them. For them, international migration is also not an option since they do not possess the skills foreign markets are looking for either (p.22).

Conclusion

This report seeks to answer the single question of why youth are facing unemployment when local industries are facing labour shortages. The first youth labour market assessment conducted identified three primary areas for further research and understanding: (1) the factors that lead to high youth unemployment; (2) economic thrust areas that have high employability; and (3)

⁹⁶ *Abeyasinghe, de Mel & Munas (2016). p. 41.*

methods of addressing the structural issues that have contributed to the persistent vacuum in employability.

Geographically, youth unemployment seems to be disproportionately high in ethnic majority-dominating provinces - Central, Sabaragamuwa, and Southern - while female unemployment is particularly high in the minority-dominating provinces of the North and East. Therefore, regionally concentrated research would help to identify the absence of opportunity in these areas. Areas of interest include barriers to labour mobility (in other words, does labour find it difficult to move to areas with more employment opportunities?); prevalence of neighbourhood access to information on employment; and socio-cultural and regional context that impacts the willingness of youth and their pressure groups to move for work or to engage in available employment opportunities. Additionally, although the geographic locations in question are compact, sub-regional diversity has unique impacts on youth employment, which are important to identify in formulating interventions.

Initial assessments show that the rates and causes of unemployment differ by gender. Although women only account for a small share (35%) of those that are employed and in the labour force, as a group they have higher unemployment rates than men. Further research needs to be done to understand the gender dynamics of employment and unemployment, which include factors such as the sociocultural acceptability of employment and the impact of life stage transition on employability. These differences in gender necessitate a gender-specific assessment of unemployment in Sri Lanka to provide a complete understanding of the unemployment context and inform impactful discussion on solutions.

This study identified construction, ICT services, tourism and light engineering as areas of economic growth and high employability. Also considering the small consumer market Sri Lanka presents, these areas also have significant export-orientation in niche markets that also have positive influences on gainful employability. The proportion of female employment in these sectors also raises gender-oriented concerns that need to be addressed. However, while these sectors provide guidelines for further exploration, further analysis must be conducted on unidentified areas of economic opportunity as well. Furthermore, the overlap between these economic thrust areas and youth/regional employment (or the lack thereof) needs to be further analysed to strategize employability.

This report also briefly discusses four gaps that prevent gainful employment: skills gaps, aspirational gaps, informational gaps, and structural gaps. In matching unemployed youth with gainful employment opportunities, these gaps can act as significant obstacles for intervention success. Therefore, systematically addressing these gaps in strategizing and implementing interventions will be critical as this project moves forward.



USAID
FROM THE AMERICAN PEOPLE



References

Abeyasinghe, S., De Mel, N., & Munas, H. (2016). *Youth Employment and Vocational Training Survey*. Colombo: WUSC.

Amarasuriya, H. (2010). Discrimination and Social Exclusion of Youth in Sri Lanka. In: R. Gunatilaka, M. Mayer, and M. Vodopivec, (ed.), *The Challenge of Youth Employment in Sri Lanka*, Washington, DC: World Bank, p. 199-217.

Arunatilake, N. and Jayawardena, P., (2010a). Explaining Labour Market Imbalance in Sri Lanka: Evidence from Jobsnet Data. In: R. Gunatilaka, M. Mayer, and M. Vodopivec, (ed.), *The Challenge of Youth Employment in Sri Lanka*, Washington, DC: World Bank, p. 69-89.

Arunatilake, N. and Jayawardena, P., (2010b). Labour Market Trends and Outcomes in Sri Lanka. In: R. Gunatilaka, M. Mayer, and M. Vodopivec, (ed.), *The Challenge of Youth Employment in Sri Lanka*, Washington, DC: World Bank, p. 19-49.

Asian Development Bank (2016). *Innovative Strategies in Higher Education for Accelerated Human Resource Development in South Asia – Sri Lanka*. Philippines: Asian Development Bank.

Asian Development Bank (2014). *Skills Sector Enhancement Program – Program Soundness Assessment* [Online]. Available at: https://www.adb.org/sites/default/files/linked-documents/42251-018-psn_0.pdf [Accessed on: June 2017].

Baller, S., Dutta, S., & Lavin, B. (ed.). (2016). *The Global Information Technology Report 2016* [Online]. Available at: http://www3.weforum.org/docs/GITR2016/WEF_GITR_Full_Report.pdf [Accessed on: June 2017].

Central Bank of Sri Lanka (2017). *Annual Report 2016*. Colombo: CBSL.

Central Bank of Sri Lanka (2016). Provincial Gross Domestic Product – 2015, 5 August [Press Release]. Available at: http://www.cbsl.gov.lk/pics_n_docs/02_prs/_docs/press/press_20160805ef.pdf [Accessed on: June 2017].

Central Bank of Sri Lanka (undated). "External Sector" [Online]. Available at: http://www.cbsl.gov.lk/htm/english/08_stat/s_3.html [Accessed on: June 2017].

Chandrasiri, S. (2010). Effect of training on Labor Market Outcomes. In: R. Gunatilaka, M. Mayer, and M. Vodopivec (ed.), *The Challenge of Youth Employment in Sri Lanka*. Washington, DC: World Bank, p. 91 -115.

Chandrasiri, S. & Gunatilaka, R. (2015). *The Skills Gap in Four Industrial Sectors in Sri Lanka*. Colombo: International Labour Organization.

Construction Industry Development Authority (2016). *Sri Lanka Country Report - AsiaConstruct Conference* [Online]. Available at: [http://www.asiaconst.com/past_conference/conference/21st/Sri%20Lanka\(2016\).pdf](http://www.asiaconst.com/past_conference/conference/21st/Sri%20Lanka(2016).pdf) [Accessed on: June 2017].

Department of Census and Statistics (2015). *Annual Survey of Construction Industries 2015*. Colombo: Department of Census and Statistics.

Department of Census and Statistics (various years). *Labour Force Survey - Annual Report*. Colombo: Department of Census and Statistics.

Department of Census and Statistics (undated-a). "National Accounts Estimates" [Online]. Available at: http://www.statistics.gov.lk/national_accounts/dcsna_r2/production.php [Accessed on: June 2017].

Department of Census and Statistics (undated-b). "Estimates on Mid-year Population 2012-2016" [Online]. Available at: <http://www.statistics.gov.lk/page.asp?page=Population%20and%20Housing> [Accessed on: June 2017].

Department for International Development (2008). *Growth: Building Jobs and Prosperity in Developing Countries*. London: Department for International Development.

Dundar, H., Millot, B., Savchenko, Y., Aturupane, H., & Piyasiri, T.A. (2014). *Building the Skills for Economic Growth and Competitiveness in Sri Lanka*. Washington, D.C.: World Bank

Export Development Board of Sri Lanka (undated). "Export Performance Indicators 2006-2015" [Online]. Available at: http://stat.srilankabusiness.com/epi2015/General_Data.htm [Accessed on: June 2017].

Gunatilaka, R. (2010). *Sri Lanka's working poor*. Colombo: ILO.

Gunatilaka, R. (2013). *To work or not to work? Factors holding women back from market work in Sri Lanka*, ILO Asia-Pacific Working Paper. New Delhi: ILO.

Gunatilaka, R., Mayer, M. and Vodopivec, M. (eds.). (2010). *The challenge of youth employment in Sri Lanka*. Washington, DC: World Bank.

Gunewardena, D. (2010). An Analysis of Gender and Ethnic Wage Differentials among Youth in Sri Lanka. In: R. Gunatilaka, M. Mayer, and M. Vodopivec (ed.), *The Challenge of Youth Employment in Sri Lanka*, Washington, DC: World Bank, pp.217- 241.

Hettige, S. T., & Salih, Z. (2010). Concerns of Youth Affected by Civil Conflict in Sri Lanka. In: R. Gunatilaka, M. Mayer, and M. Vodopivec (ed.), *The Challenge of Youth Employment in Sri Lanka*, Washington, DC: World Bank, p. 243- 261.

Information and Communication Technology Agency (Sri Lanka) (2014). *National Workforce Survey 2013*. Colombo: ICTA.

Jayathilake, P., Bandara, H., Nanayakkara, P., Ganepola, M., & Amarasinghe, K. (2013). *A Tracer Study on Employability and Effectiveness of TVET Certificate Holders in 2011*, December [Online]. Available at: http://www.tvec.gov.lk/cell/pdf/Employability_and_Effectiveness_of_TVET_Certificate_Holders.pdf [Accessed on: June 2017].

JLL Hotels & Hospitality Group (2016). *Hotel Destinations -Indian Ocean*, February [Online]. Available at: <http://www.ap.jll.com/asia-pacific/engb/Research/Hotel%20Destination%20Indian%20Ocean%20-%20JLL.pdf> [Accessed on: June 2017].

Kapsos, S. (2005). *The Employment Intensity of Growth: Trends and Macroeconomic Determinants*, Employment Strategy Papers 2005/12. Available at: http://www.oit.org/wcmssp5/groups/public/---ed_emp/---emp_elm/documents/publication/wcms_143163.pdf [Accessed on: June 2017].

Kapsos, S., Silberman, A., and Bourmpoula, E. (2014). *Why is female labour force participation declining so sharply in India?*, ILO Research Paper, No. 10. Available at: http://www.ilo.org/wcmssp5/groups/public/---dgreports/---inst/documents/publication/wcms_250977.pdf [Accessed on: 21 June 2017].

Kumara, A. S. (2015). *Wage Differentials in Sri Lanka: The case of a post-conflict country with a free education policy*, MPRA Paper No. 68068. Available at: <https://mpra.ub.uni-muenchen.de/68068/> [Accessed on: 21 June 2017].

Lamudi (2017). "Lamudi Real Estate Market Report 2017" [Online]. Available at: <http://www.lamudi.lk/whitepaper-2017> [Accessed on: June 2017].

Ministry of Education (2016). *School Census Preliminary Report 2016*. Colombo: Ministry of Education.

Riboud, M., Savcheko, Y., & Tan, H. (2007). *The Knowledge Economy and Education and Training in South Asia*. Washington, D.C.: World Bank.

Rodrigo, C., Jayawardane, P., Maurawala, S., Mohamed, M., & Dembatapitiya, P. (2014). *Youth & Development – Realizing the Millennium Development Goal (MDGs) for Sri Lanka Youth*. Colombo: Ministry of Youth Affairs and Skills Development; Sri Lanka Youth-National Youth Services Council; Institute of Policy Studies of Sri Lanka.

Ruwanpura, K.N. (2004). *Quality of women's employment: a focus on the South*, Discussion paper DP/151/2004. Geneva: ILO.

Sri Lanka Association of Software and Service Companies (SLASSCOM) (2016). *SLASSCOM Strategy Document 2016*. Colombo: SLASSCOM.

Sri Lanka Bureau of Foreign Employment (2015). *Annual Statistical Report of Foreign Employment – 2015* [Online]. Available at: <http://www.slbfe.lk/file.php?FID=255> , [Accessed on: June 2017].

Sri Lanka Tourism Development Authority (undated). *Tourism Growth Trends 1970 to 2016* [Online]. Available at: <http://sltda.gov.lk/sites/default/files/tourism-growth-and-trends-1970-2016.pdf> [Accessed on: June 2017].

Sri Lanka Tourism Development Authority (2017). *Annual Statistical Report 2016* [Online]. Available at: <http://www.sltda.lk/sites/default/files/annual-statistical-report-2016.pdf> [Accessed on: June 2017].

Sri Lanka Tourism Development Authority (2013). *Annual Statistical Report 2012* [Online]. Available at: http://www.sltda.lk/sites/default/files/Annual_Statistical_Report-2012_new.pdf [Accessed on: June 2017].

Sudarshan, R. (2014). *Enabling women's work*, ILO Asia-Pacific Working Paper. New Delhi: ILO.

Tertiary and Vocational Education Commission (2015a). *National Skills Report of Sri Lanka 2014*, July. Colombo: Ministry of Skills Development and Vocational Training.

Tertiary and Vocational Education Commission (2015b). *Baseline Survey in the Technical and Vocational Education and Training (TVET) Sector – Final Report*, October [Online]. Available at: http://www.tvec.gov.lk/English/pdf/Baseline_Survey_2015.pdf [Accessed on: June 2017].

Tertiary and Vocational Education Commission (2010). ICT TVET plan???

UNICEF-Sri Lanka. (2013). *Out-of-School Children in Sri Lanka: Country Study*, A country report, Colombo: UNICEF.

Vodopivec, M. and Withanachchi, N. (2010). School-to-Work Transition of Sri Lankan University Graduates. In: R. Gunatilaka, M. Mayer, and M. Vodopivec (ed.), *The Challenge of Youth Employment in Sri Lanka*, Washington, DC: World Bank, pp.115 -138.

World Bank (undated). "World Development Indicators" [Online]. Available at: <http://data.worldbank.org/> [Accessed on: June 2017].

Wickramsekera, P. (2013). *Decent Work, Youth Employment and Migration in Asia*, ILO International Migration Papers No. 113. Available at: http://natlex.ilo.ch/wcmsp5/groups/public/---ed_protect/---protrav/---migrant/documents/publication/wcms_201378.pdf [Accessed on: June 2017].