

A Review of the Current Labour Market Situation, Policy and Programs in Sri Lanka

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Appendix 1

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A Review of the Current Labour Market Situation, Policy and Programs in Sri Lanka

1. Introduction

The Sri Lankan economy liberalized in 1977, undertaking structural adjustment programs and moving in general towards a more market oriented stance. The policy shift seems to have had a positive impact on several macro aggregates. GDP growth rates have averaged around a healthy 5 per cent, unemployment rates have fallen in spite of rising participation, per capita incomes have doubled over a decade, the economy has become a prominent exporter of garments, the private sector has grown and become a significant employer and the value added in services and manufacturing has increased dramatically.

But the political and social environment has been turbulent not just with the on-going civil war but one of the country's worst youth insurrections in the 1987-89 period that crippled the economy and drove the nation to a near state of anarchy. In spite of falling overall rates of unemployment, youth unemployment remained significantly high while youth discontent and disillusionment rode high. These two factors were certainly not mutually exclusive, with one feeding into the other. The unrest itself had strong roots in youth perceptions about the 'politicization of employment' (where gaining access to public sector employment was strongly influenced by receiving a letter from one's MP) and a general lack of adhering to norms of equity and merit in offering employment. Youth also perceived the education system to fail in fulfilling their career aspirations. Moreover sentiments raged towards the view that the English language was used by the urban elite as 'a sword of oppression' and that access to learning and using the language had not been fair. Fuelling the discontent was the emergence of bureaucratic inefficiencies, corruption and apathy in governance. (Presidential Commission on Youth 1990; de Silva and Peiris 1995).

Following the insurrection various remedies were sort to ease the situation. The most important in the economic policy arena was the second wave of liberalisation that commenced in 1989, which aimed *inter alia* to provide greater employment opportunity to youth. The overall impact of this policy is argued to have been quite favourable in many respects (Athukorale and Rajapathirane 2000). But what exactly was the impact of first and second waves of liberalisation on youth employment and unemployment? What are the key characteristics of the labour market for youth in contemporary Sri Lanka? What are the current labour market policies and programmes addressed towards youth and what are the lessons to be learnt from such efforts? Does the recently drafted National Youth Policy (NYP) address effectively the youth employment issue that was one of the core causes for discontent?

This paper attempts to answer some of the above questions. More specifically, the paper discusses issues pertaining to youth employment in contemporary Sri Lanka with a special focus on policies and programs addressed towards youth. The paper will also discuss the situation of university graduates as a separate group since much of Sri Lanka's policy discussion about youth is based on them given their politically vocal stance. Technically, however, university graduates are only a small fraction of the labour force (around 1.3 per cent in 1981 and 2.5 per cent in 1998) and may not be encompassed by the definition of youth adopted in the paper. Youth are defined as those within the age groups 15-24, subdivided as teenage youth (aged 15-19 years) and young adults (aged 20-24) as per the TOR. The study has been undertaken for the ILO-Colombo Office, and aims to provide a

national context within the frame of the ILO/Japan Regional Meeting on Youth Employment in Asia and Pacific.¹

Following the emphasis laid by the High Level Panel on Youth Employment,² the study will look at issues pertaining to youth from three angles: employment (supply side), equity (gender equality) and entrepreneurship (demand side). These three areas of priority have been identified by the Panel based on the analysis of youth employment issues in developing countries and economies in transition. Some of the pertinent issues recognised in youth labour markets are the high levels of unemployment, underemployment and long term unemployment; gender biases in education, training and opportunity; low protection by legislation; poverty and social exclusion. The National Youth Policy (NYP) of Sri Lanka roughly drafted in April 2001, attempts to address some of these issues. It is important to analyse, however, whether the issues faced by Sri Lankan youth are by and large congruent with the generalised situation briefed above or whether the Sri Lankan labour market situation is different. In other words, do country specific variances in institutions, history and socio-economic-political experiences accentuate different issues that have to be addressed and a different set of approaches that have to be whetted in the formulation and implementation of a national policy? A careful analysis of the current labour market situation facing youth in the context of the macro economic situation briefed earlier may offer some insight to the problem.

Unfortunately, there are very few studies focussing on the youth labour market of Sri Lanka, that enable finding a quick answer to the question. Most studies analyse the labour market as a whole with youth mentioned in passing. A few studies that focus on youth in particular concentrate mostly on the sociological aspect but not specifically the economic and employment aspects. This paper, therefore, rests significantly on data for the post-liberalised period (generally after 1977, but mostly after 1992 due to data restrictions) and secondary sources to glean insights into trends and peculiarities that may dominate the contemporary Sri Lankan labour market for youth. Such trends are placed against demand and supply oriented policies and programs currently implemented in Sri Lanka targeting youth. It is expected that the results will be useful in further carving out policy direction espoused by the draft NYP, and offer insights towards formulating an effective plan of action.

The paper is organised as follows. Section 2 gives a brief profile of Sri Lankan youth, then looks at the National Youth Policy (draft) in Sri Lanka, formulated at the request of the Commonwealth in April 2001 and then looks at how the strategies identified in the youth policy will be implemented. Since the policy itself has not yet been worked out clearly, the latter discussion is inherently limited to some issues that have to be considered in constructing an action plan. Section 3 briefs the macroeconomic environment of Sri Lanka since the policy shift in 1977 leading on to the impact it has had on the labour market. Section 4 analyses the youth labour market in terms of employment, unemployment and underemployment in the late 1990s. The next section reviews active labour market policies and programs in contemporary Sri Lanka, that are aimed particularly at youth. Section 6

¹ It should be noted that this paper is not a comprehensive policy document or an alternative to the draft NYP. Moreover, the paper is limited to looking at youth employment issues *mostly* from an economist's perspective. Interested readers are referred to Hettige et.al (2001) and Hettige (2000) for sociological perspectives.

² From 'A global Alliance for Youth Employment: Recommendations of the Secretary General's High Level Panel on Youth Employment' 3 August 2001, ANNEX 3 of the TOR

summarises the lessons and insights that can be gleaned from the two previous sections and emphasises working together to promote employment. Section 7 concludes.

2. Brief profile of Sri Lankan youth, the National Youth Policy(NYP) and its implementation

2.1. A Brief profile of youth³

Sri Lanka's youth (both teenage and young adult) were roughly 20 per cent (3.8 million) of the entire population in 1997.⁴ A majority of them live in the rural sector (over 75 per cent during the 1963-2000 period), while the Western Province laid claim to nearly a third of this population in 1995. The next highest concentration is in the Central and Southern Provinces. The spatial distribution of youth corresponds very closely to that of the population as a whole. Similarly the ethnic composition of the youth population corresponds closely to the ethnic composition of the total population. About 74 per cent of the youth are Sinhalese, 12.7 per cent are Sri Lankan Tamils, 5 per cent are Indian Tamils and 7.4 per cent are Muslims.

Reflecting patterns of socio-economic and cultural change, the civil status, fertility and mortality rates among youth have changed over time. The proportion of married youth of both sexes, for instance has declined over the decades. According to census data, married females aged 15-19 declined from 24 per cent in 1946 to 10 per cent by 1981. Similarly the proportion of married females in the 20-24 age group for the corresponding period fell from 68.4 per cent to 43.7 per cent. Fertility rates have also fallen by almost half amongst youth between 1963 and 1993 while mortality rates have declined significantly among females in particular during the same period, attributable mainly to a decline in maternal mortality.

Literacy rates amongst youth in Sri Lanka are high for both sexes. In 1981, it was over 90 per cent. Rural-urban disparities in this regard are slight, as are gender disparities. The youth population with no schooling has declined over the years. On the other hand, those with secondary, tertiary or vocational education has nominally increased. In spite of such increases, doubts abound as to the functional relevance of such formal education. Moreover, in spite of high levels of literacy, free education up to and including university level, the proportion of tertiary and university educated people in the labour market is very low.⁵ In 1977 only 0.6 per cent of that particular age cohort completed university study. In

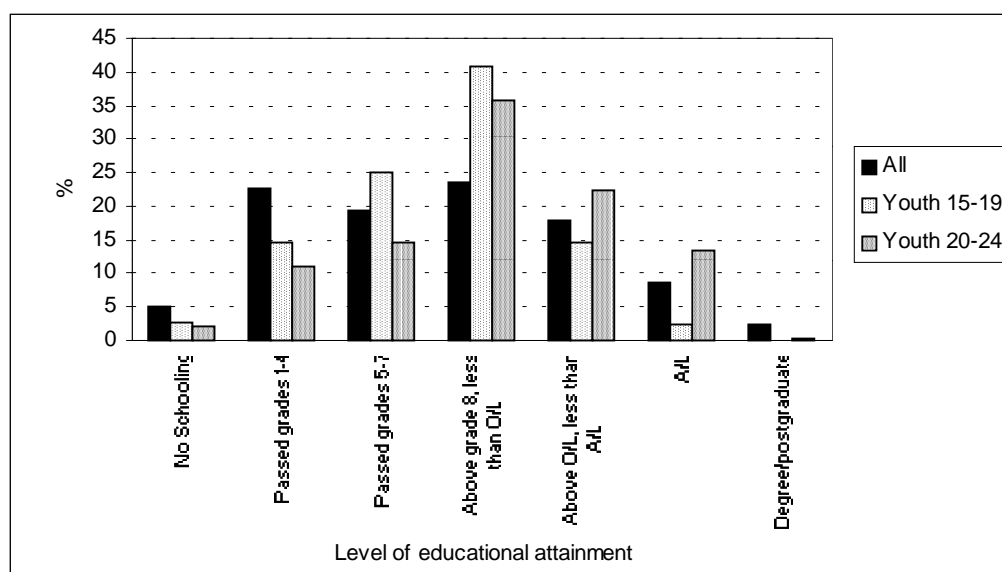
³ As stated in the introduction, youth are defined in this paper as those in the 15-24 category following the specifications in the TOR. Of them, those in the 15-19 category will be referred to as teenage youth and those aged 20-24 will be referred to as young adults.

⁴ This is roughly a threefold increase on the number of youth immediately after independence in 1948. Until 1981, the growth rate of the youth population was faster than that of the entire population. However, since 1981, growth rate of the youth population has declined, due to lower rates of fertility.

⁵ The formal education system of Sri Lanka follows closely the current British education system. The entire program lasts for roughly 13 years starting around the age of 5, with primary schooling lasting from grades 1-5, and then secondary school education culminating with the General Certificate of Education (GCE) (Ordinary Level) examination at the end of 11 years. Lakshman (unpublished) argues that education up to the GCE O/L qualification is now almost a minimum required level of education sort by most employers. Two further years of schooling leads a candidate to take the GCE (Advanced Level) examinations in 3 (or 4 up until the year 2000) specialized subjects to qualify for University entrance. University education in the Arts, Science (physical and biological) and Management oriented subjects usually take a minimum of three academic years to complete at the 'general level' with an optional 'honours' year, if specialisation is preferred. Courses in Medicine and Engineering often take longer to complete. Due to the recent political economic problems and student unrest at Universities, the waiting time to enter University has increased considerably, with the issue of

1997 this figure was around 2.5 per cent. Overall tertiary education enrolment rates (including university education) from 1980 to 1995 increased from 2.7 per cent to 5.1 per cent. This is a poor performance compared to even neighbouring states such as India that fall behind Sri Lanka in terms of human development, literacy and income levels. Indian tertiary enrolment rates for 1980 and 1995 stood at 5 per cent and 7 per cent. Sri Lanka's performance compared to peers in terms of income per capita level or the human development indicator is even more pathetic. Average tertiary enrolment rates for lower-middle income earning countries such as Sri Lanka in 1997 was around 22 per cent. Countries such as South Korea and other newly industrialised countries have nearly 100 per cent rate of secondary school enrolment and around 40 per cent for tertiary education in 1977 (World Bank 2000). Statistically, therefore, Sri Lanka lags behind its peers in terms of secondary and tertiary education. The issue is significant especially for a developing country seeking to jet along a growth path leading to development and higher incomes. This is especially so in an endogenous growth framework, where education is deemed a critical ingredient determining social capability. Education in this context means not just improvements in *general levels* but of a technically and professionally trained highly skilled core, able to pull the economy into a higher growth path.⁶ Figure 2.1, below shows the educational attainment for economically active youth (i.e., those actively participating in the labour market either as employed or unemployed, and are not full-time students) and the economically active population for 1997.

Figure 2.1. Economically active population and economically active youth by educational attainment in 1997



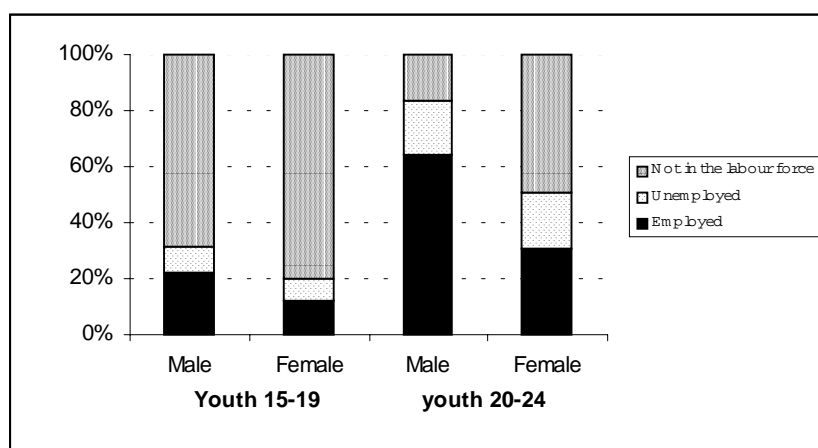
Source: DCS(various issues-b). See also Appendix 2- Table 6.

'back-log' batches becoming a serious issue in the mid 1990s. Currently the age of University entrance would range from 20-23, on average and the age of completing University education at a local institute would range from 24-27. See de Silva and Peiris (1995) for more details.

⁶ In such a situation the liberalised economy would enjoy not just relatively static Smithian advantages but more dynamic advantages gained through positive spill-over effects, increasing returns to scale, faster technological diffusion and technological congruence, all possibly achievable as ability increases consequent to investment in higher education, following Becker (1993: 15-25). To reap gains on such education-based human capital it is vital that the institutional framework, policy environment and incentive structure are conducive towards enabling these skilled workers to internalise benefits of their education and abilities. This makes it important to look not just at demand-supply trends for skilled workers, but the underlying institutional, policy and incentive structure as well.

The labour market situation for youth will be discussed in detail in section 4. Suffice it to note at this point that teenage youth participation in the labour market was at 25.8 per cent while young adult participation rates are higher at 66.6 per cent in 1997. Male participation rates are higher than female for both categories. Unemployment rates for teenage youth are around 33 per cent while for young adults it is 29.1 per cent. (Appendix 2—Table 1). Economic activity for youth by age group and gender are set out below in Figure 2.2.

Figure 2.2 Proportion of youth by economic activity and gender, 1997



Source: DCS(various issues-b).. See also Appendix 2—Table 1

2.2. The National Youth Policy (NYP)

Youth issues have been on the Sri Lankan political agenda for several decades, especially in response to significant youth uprisings and insurgencies in the 1970s and then again in the late 1980s. A special Ministry for Youth Affairs and Employment was established in 1979, taking over youth-oriented functions that had until then been provided as a sub-division of another Ministry. In 1995 the ministry of youth affairs was affiliated to the ministry handling the national poverty alleviation program *Samurdhi*. The new establishment was called the Ministry of Samurdhi, Youth Affairs and Sport. In the year 2000 youth affairs were once again separated out into the Ministry of Youth Affairs (MYA). The Ministry currently has 5 units operating under its purview: the National Youth Services Council, Youth Employment and Planning Division, Small Enterprises Development Division, Career Guidance Division and the Gramodaya Folk Arts Centre.

Even though youth affairs have always been considered in Sri Lanka's political agenda the programs had never been guided by well-defined policy oriented towards youth. The direction taken was often ad hoc and short-term in nature, focusing mainly on issues pertaining to university graduates. A key function of the Youth Affairs Ministry in 1979, for instance, was to handle the Graduate Placement Program. Graduates have always been a group that politicians have sought to appease due to their stronger political voice and involvement in some of the major insurgencies in the country, most notably in 1971 and then again in 1987-89. There had been a few attempts to draft a comprehensive youth policy, but none were backed by political commitment and were never implemented.

A fresh attempt has been made to draft a NYP in April 2001, at the request of the Commonwealth. The policy is still in its formative stages and is subject to modification and change. It is to be presented to parliament later during the year 2001, for approval and implementation. The document, as it is, seeks to be comprehensive, looking beyond just surface level manifestations of youth issues and covering the areas recommended by the Commonwealth.

The NYP attempts to follow the principles of human rights, national integration, gender sociality, criticism of the State and a culture of peace in the activities formulated (NYP-draft:3-4). The overall objective of the NYP is stated to be 'the creation of an environment conducive to a righteous society that must fulfil the needs and aspirations of youth, with a view to looking at Sri Lankan youth problems from a youth view-point and assisting in finding or evolving permanent solutions for them and making youth the active participants in national development.' On another page the intentions are expanded further: 'The national Youth Policy attempts to guide towards shaping all areas such as the State, civil society and the market which comprise the institutional systems that represent adult society. The fundamental objective of the NYP is to work towards integrating the youth into the social life more gainfully by its actions....The NYP makes an effort also to clarify how adult society is readying itself to help the youth to avoid contemporary problems and obstacles that modern day young men and woman face, and while doing so, it also attempts to identify the responsibilities of youth (NYP:3-6)' The end result is intended to be improved well being of youth, self-empowerment, participation, leadership and entrepreneurship.

The NYP identifies a threefold strategy achieve its goals:

1. Addressing issues that are personal to youth, specifically health issues, societal problems arising from gender differences, poverty and deprivation.
2. Addressing 'structural areas' that provide youth opportunities for participation in making social decisions and accepting responsibilities of citizenship. These areas are noted to be a) law b) franchise c) rights d) political participation and e) environment
3. Addressing issues that equip youth with skills necessary for entering fully into autonomous adult life. The areas identified are education, vocational training, employment, national service programs, sports and entertainment, media and communication, science and technology, arts, agriculture and industry.

The youth policy also identifies certain groups as being vulnerable needing urgent attention. The groups include disabled young men and women, young prisoners, drug addicts, those out of parental care, those driven to ill-fame, disabled soldiers of both sexes, youth soldiers and youth in the estates and city slums.

For the purpose of policy formulation youth are defined as those in the age group 13-30. This is then broken further into two subgroups: 13-19 (13 per cent of the population) and 20-30 (19.5 per cent of the population).⁷ The draft NYP then identifies policies specific to each group. For the first group, policies will focus on health issues, societal problems arising from gender differences, poverty and deprivation. Other areas identified as being vital for 'societal advancement' are policies pertaining to education, sports, leisure time activities, literature, arts, IT and science. As for the second group, policies will focus on vocational

⁷ The rationale for these lower and upper limits in age is not entirely clear. They seem to be based on biological and social factors rather than on a legal basis such as the end of the age for compulsory schooling, etc. Thus the age 13 for instance, roughly indicates the moving of a child into being a youth with the onset of puberty.

training, employment, communication, media, law, franchise, representation and participation in administrative bodies. Even though the NYP identifies special groups within the youth it does not give any indication as to the nature of policies to be targeted at these groups (i.e., is it the same as for youth in general or are particular aspects to be emphasised?).

The Draft has been subject to criticism that it is not truly representative of the views of the youth in Sri Lanka as a cross-section and that it is not the end-result of a dialogue between various stakeholders.⁸ To meet these objections, the convenors of the policy document intend holding various workshops and media-based discussions with various government, non-government and private sector organisations interested in the issue to bring out their ideas. It is hoped that the final policy document will reflect the results of such public forums and the voice of youth. However, there are practical difficulties in implementing such broad-based inquiries. These include the lack of financial resources to moot large-scale conferences and media based dialogues, lack of time (especially on the part of senior officials involved in the issue, to whom the formulation of the policy is an additional task on their platters often a task that can only be afforded cursory attention) and the lack of human and technical resources needed to gather and process information. Concerns have also been raised as to whether the youth would in fact respond to such calls for dialogues initiated by a government-based organisation, for they are likely to consider such an attempt as a political ploy lacking credibility.⁹

The Draft document is also inadequate in that it does not raise issues particular to youth in Sri Lanka. Moreover, the policy document is not supported by research and analysis based on the Sri Lankan labour market for youth, their employability, incentive structures, etc. Background papers were prepared in the areas of responsibilities of youth and their participation in national service programs, vocational training, agriculture, gender and education, counseling, health problems, entrepreneurship, globalisation and mass media. However, no studies have been done in the areas of labour market, working conditions, labour laws, employability, dimensions of employment, poverty, human capital, and technology. Basically, much of the problems of youth are economic, but no analysis has been made of the economics of youth labour markets and employability. Insight from such analysis could help carve a clearer and more focussed longer-term policy direction that is both effective and practical.

2.3. Implementing the NYP

Not surprisingly, issues regarding implementation have not as yet been considered formally in Sri Lanka, given the fledgling stage of the policy proposal itself. An action plan has not yet been conceived, key partnerships have not yet been defined and methods of implementation and monitoring have not been worked out.

Nevertheless, several issues that may arise in the preparation of the action plan and implementation have been the subject of discussion.¹⁰ The first issue is as to *who* will

⁸ As expressed at a discussion held on 'Introducing a National Youth Policy', organised by the Ministry of youth Affairs, on 18 September 2001 held at the Rural Development Training and Research Centre, Colombo 8. The discussion was chaired by the Secretary to the Ministry of Youth Affairs and attended by several other officials of this Ministry, the Chairman of the NYSC, several NGO leaders and one religious leader (Christian) involved in youth activity.

⁹ As one representative from an NGO voiced at the discussion briefed in foot note 2, 'Any such attempt would only add to the general disillusionment the youth feel regarding government antics and party politics'.

¹⁰ As discussed at the meeting on 'Introducing a NYP'. See footnote 2.

implement the youth policy and who will monitor performance. A related issue is who the key partners of such an effort would be and how their representation will be weighted. Consensus amongst officials of the MYA tended towards the notion that present institutions within the MYA handle a multitude of on-going projects and programs catered towards youth, which meant that specific implementation and monitoring functions should be the task assigned to a separate unit created anew. First, the necessity to create a new unit to carry out the TYP need be established. It was also argued that such a unit should be created at a 'high level' with the backing and commitment of the President herself since programs relating to youth are handled by various Ministries, with each Ministry possessive about its own program, shying from 'interference' of any sort from other Ministries. Moreover, if the 'youth dimension' is to be added to the programs of various Ministries within the country, then a higher level co-ordination and intervention is deemed necessary.

A second issue is how the responsibilities will be delineated amongst the various partners and *how* exactly monitoring would take place. These issues tie in closely with the proposed action plan itself, which has not been made as yet. But the 'responsibility' of the implementers should mainly be one of co-ordination, facilitation and guidance rather than the active implementation of any program. The underlying rationale is that numerous programs focussing on youth are being implemented all over the country by various agencies and the poignant need is to increase awareness, co-ordination and facilitating such efforts. For example, within the Government itself, several ministries implement vocational training programs, credit programs and rural development programs that have a direct bearing on the youth or involve them in vicarious ways. There are also numerous private sector, NGO and community based youth programs. All these efforts can enjoy largely positive externalities through a network that facilitates more participation, interaction and information. The main role of a new unit, if created, would best be one of co-ordination, facilitation and perhaps monitoring using a set of measures as well defined as possible. The action plan itself could also focus on how to improve efficiency of existing institutions, and creating supplements where existing programs are deemed inadequate.

In order to analyse whether the newly drafted NYP meets the current labour market situation in Sri Lanka and whether it can be improved, the next section will discuss the Sri Lanka's current macroeconomic environment and then move on to discussing the patterns and trends of the youth labour market in context.

3. Macroeconomic background

A snap shot of Sri Lanka's macroeconomic performance since liberalisation in 1977, would reveal quite a positive result in many respects as far as macro economic indicators go, showing a healthy GDP growth average of around 5 per cent, declining unemployment rates and rising per capita incomes in dollar terms that have doubled in one decade. Moreover, key human development indicators remain remarkably high for a developing country.

However, in order to understand the social, political and economic context of the current labour market situation and youth employment opportunities, it is important to analyse the developments since 1977 in more detail:

The Sri Lankan economy was 'closed' during the 1956-1977 period, with economic policy being inward looking and import-substitution based, and the political outlook being leftist. The government ran a large welfare budget with universal access to free education

and health services and large subsidies on essential items. The thriving plantation industry was central in helping maintain such large fiscal outlays. However, the economic and political situation ran into serious problems in the 1970s with persistent foreign exchange crisis, increasing budget deficit and high unemployment. This paved way for a change in government in 1977.

The incumbent United National Party (UNP) took over the economic and political reigns with a marked right-wing fervour. The regime favoured market and export-oriented industrialisation and a move towards non-traditional sources of income and employment generation. Their key policies during the ‘first wave of liberalisation’ in 1977 included trade reform, financial reform, limits on public sector participation in the economy and exchange rate realignment. The main trade reforms included removing import restrictions and replacing it with tariffs as well as revising the tariff structure; the establishment of Export Promotion Zones (EPZs) that offered special incentives such as tax holidays and credit for export-oriented investment. Financial reform included interest rate adjustments and opening the banking sector to foreign banks.

The reform package was followed by a heavy flow of aid from Western States that approved of the government’s move to liberalise, and foreign direct investment. Particularly important during the early period of reform was massive politically appealing public investment in infrastructure projects: a large multi-purpose river valley development project (consuming one third of total government expenditure during the 1979-85 period), an island-wide housing construction programme, and the construction of a new administrative capital.

Liberalisation together with massive investment in infrastructure resulted in significant increase in growth in the years immediately following 1977. Average growth rates more than doubled from around 2.9 per cent during 1970-7 to over 6 per cent during 1978-83. The result, however, was not long-lived. This was partially due to both the large public investment projects that shifted policy priorities away from structural adjustment and the onset of the ethnic conflict in the early 1980s. Political instability heightened towards the latter end of the decade with the ethnic conflict escalating and widespread insurrection launched by radical Sinhalese extremists in the South. The country was in considerable turmoil by the late eighties with political instability, economic dislocation, a sharp rise in defense expenditure, widening fiscal deficits and erosion of international competitiveness.

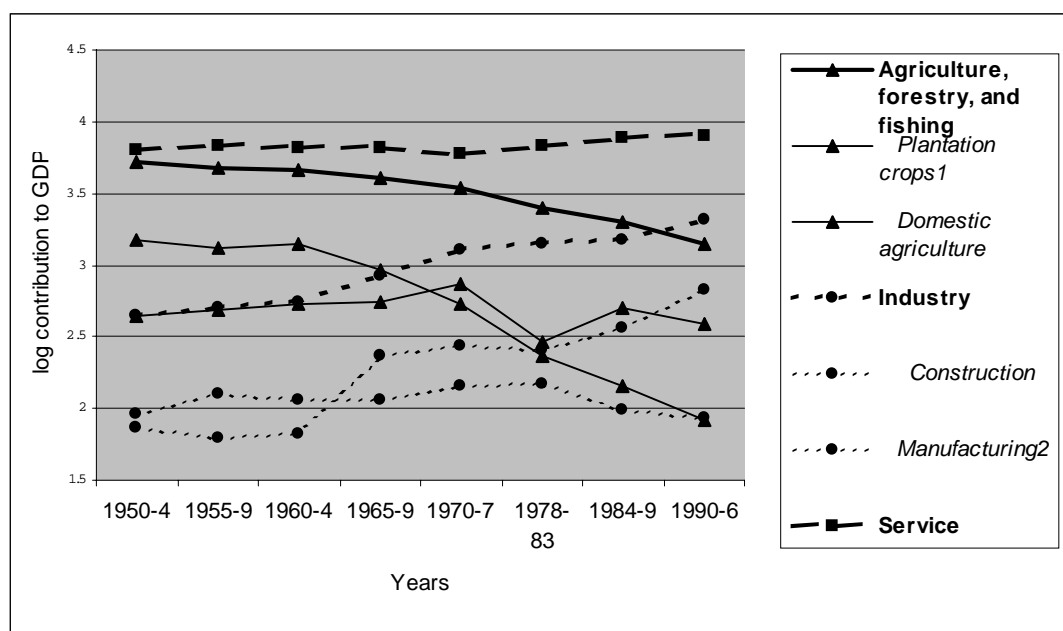
With this scenario in the backdrop, the government launched a second wave of liberalisation and structural adjustment programs in 1989, with the support of the IMF and the World Bank. Key policies included privatisation, further tariff rationalisation and partial liberalisation of the capital account. Moreover, certain regulations and restrictions pertaining to the EPZs were relaxed to increase investment and flexibility. These reforms, together with success at quelling the southern rebellion and containing the ethnic conflict helped the economy to rebound during 1990-4.

The ruling party changed with general elections in 1994, with the People’s Alliance (PA) gaining a landslide victory. This was largely due to ‘growing disenchantment with authoritarian methods of rule, what was perceived by the majority to be a culture of crony capitalism, the continuing civil war, political violence and rampant corruption’ (Athukorala and Rajapathirana 2000:42). The change of government, however, did not change the basic ‘open-economy’ thrust. Liberalisation and market-orientation was there to stay and this was a break in the political cycle that had so far been maintained where the development policy

stance shifts with a change in government. In spite of the strains of the ongoing civil war, many commentators argue that liberalisation *did* yield superior economic outcomes (Athukorala and Jayasuriya 1994, Athukorala and Rajapathirana 2000, Rodrigo 2000).

As far as structural change is concerned, liberalisation has meant that the Sri Lankan economy has continued to ‘modernize’, following trends evident since independence in 1948 (Figure 3.1).

Figure 3.1: Sectoral contribution (log) to GDP 1950-1996



Notes: ¹Including primary processing

²Excluding primary processing of plantation products

Source: Central Bank of Ceylon (various issues) for data from 1950-1984, Central Bank of Sri Lanka (various issues) for data from 1984 to 1996.

Even as early as the 1950s the economy appears to be quite ‘modernized’ with the service sector contribution to GDP at around 40 per cent. A slight flux in this was indicated during the period when closed policies were pursued, and liberalisation seems to have helped the sector bounce back and even contribute at rates higher than before. More strikingly, however, the impact of liberalisation has been largest on the contribution of the industrial sector to GDP, pushed up mainly by growth in manufacturing. The manufacturing sector was stagnant in terms of contribution rates to GDP during the 1965-77 period. But liberalisation—particularly the intensified open economy policies and investment incentives favouring the industrial sector since the second wave—has had a significant impact on increasing the prominence of the sector. The overall contribution of the agriculture sector seems to have gradually decreased since the 1970s. The trend has been influenced particularly by a fall in the contribution of the plantation sector. However, liberalisation seems to have had a sharp, positive impact on domestic agriculture at least during the first wave compared with the closed-policy period, probably as a result of the large investments in irrigation projects and infrastructure. However, the result was not quite sustained through to the 1990s.

Thus the policy shift in 1977 did have a positive impact on some macro aggregates. But what exactly was the impact of liberalisation on the labour market and youth in particular in terms of employment and unemployment? What is the current labour market situation? These concerns are addressed next.

4. Basic overview of employment opportunities and labour markets

4.1. Employment¹¹

Economic liberalisation in 1977 together with the various industrial policies and structural adjustment measures has led to considerable increase in jobs in Sri Lanka. Most of these jobs have been generated by the private sector even though the government still creates jobs for the unemployed in particular in vicarious ways. Key features of the overall labour market trends since liberalisation are as follows. Firstly, participation rates especially among females have increased considerably, as job opportunities opened up in the industrial sector and in foreign employment. Nearly 80 per cent (roughly 80 000) of jobs created in the Export Promotion Zones (EPZs) Unlike employment creation in export-oriented manufacturing, labour out-migration was not an intended consequence of liberalisation. But the depreciation of the rupee with respect to the dollar made the latter option particularly attractive to females. Thus over 3 per cent of all employed in 1985 were migrant workers to the Middle-East, of whom around 70 per cent (roughly 150 000) worked as domestic aids (Eelans, Mook and Schampers 1992:3). The bulk of the incremental jobs in the 1980s were taken up by woman. This stands in sharp contrast to the 1971-1981 period where only 12.5 per cent of the new jobs created absorbed women. However, the trend seems to have waned slightly in the 1990s and female unemployment rates have been consistently twice that of men.

Secondly, there is an increased movement towards the manufacturing and service sectors. This trend was more pronounced in the post liberalised period, when employment in agriculture fell from 45.3 per cent in 1981 to 37.3 per cent in 1996. This is in spite of the jobs created in the agricultural sector following massive investments in infrastructure immediately after liberalisation. Employment in the industrial sector shows a significant jump from the 1960-70 average of 12 per cent to around 18 per cent in the 1980s. The increasing trend continues and by 1996, the industrial sector hosts up to 21.7 per cent of the employed work force. Matching the growth of the manufacturing sector is the growth in employment in the manufacturing sector. The service sector contribution to employment increased especially after the second wave. By 1996, this sector employed slightly more labour than the agricultural sector as a whole and far more than the industrial sector.

Thirdly, the private sector has emerged as the key provider of employment. However, the government too has been an important job provider especially for youth, through recruitment to the armed forces, as administrative staff for nation-wide poverty alleviation schemes, etc. There are an estimated 240 000 military personnel in Sri Lanka (Kelegama 1998). Administrative staff for the poverty alleviation program recruited since 1994 amount to around 40 000. World Bank (1999:23) observes that in 1997, Sri Lanka had the highest number of public sector workers per thousand population in most of Asia.

¹¹ Analysis of general trends in the labour market have been adapted from Salih (2001)

Finally, unemployment rates fell dramatically from double digit levels in the 'eighties to single digit levels in the late 'nineties.

Were trends in youth economic activity similar to those for the labour force as a whole? It is possible to disaggregate trends for the 1990s. Amongst teenagers, male participation rates increased from 28.6 to 36.1 between 1992 and 1998. For females it increased from 18.6 to 23.3. Young adult male participation rates for the same period increased from 82.3 per cent to 85 per cent. For females it was an increase from 51.9 per cent to 55.7 per cent. The participation figures for young adults is far higher than those corresponding to the for the labour force as a whole that stand at 40 per cent. Thus young adults are a group that are particularly economically active. Even more so than the labour force as a whole, youth found employment in the private sector.

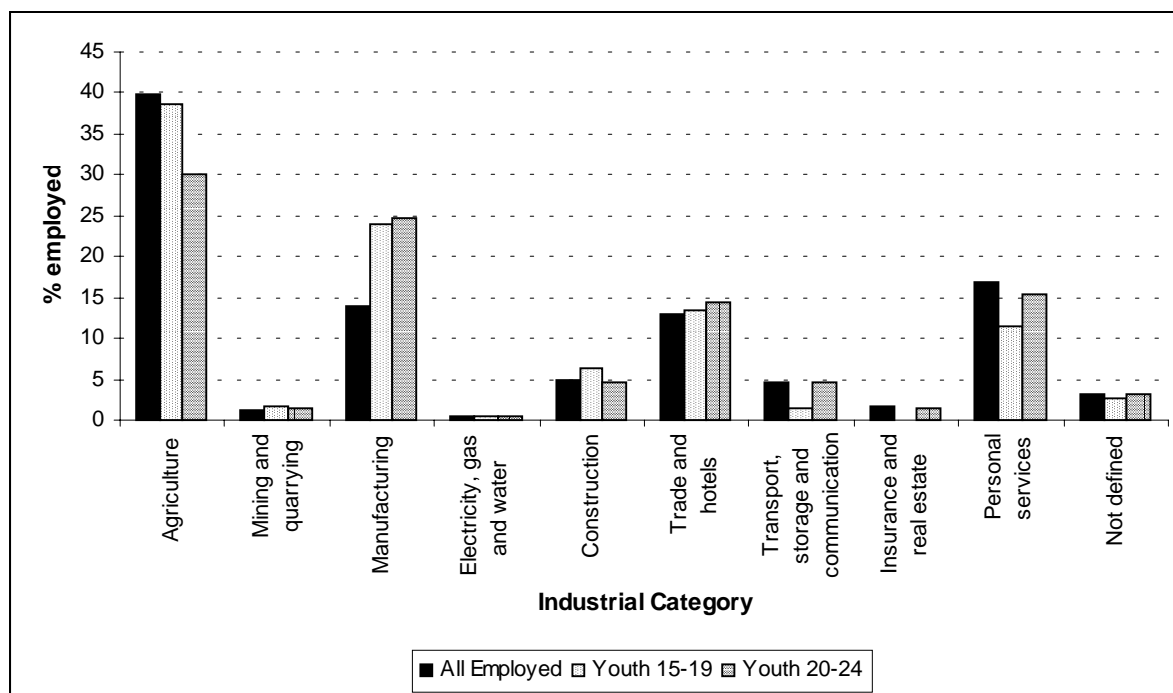
However, unemployment rates among youth is high. This issue will be revisited in section 4.3. Suffice it to say that around 35 per cent of teenage and 30 per cent of young adults labour market participants were unemployed in 1997 even though unemployment rates have fallen for youth during the post liberalised period (Appendix 2: Table 1).

By and large, liberalisation has been favourable in terms of employment generation for youth and for the labour market as a whole. However, it is important to analyse further the *nature* of the jobs created. Moreover it is important to look at the lot of the youth vis-à-vis that of the labour market as whole: Are they relegated to lower occupational tiers and low quality jobs? Are there obvious regional disparities in employment that affect youth in particular? Are youth marginalised into largely informal sector activity? Are youth more in wage or self employment? Are female youth worse off than male youth in terms of employment and education? Do youth suffer from higher unemployment and underemployment? The following subsections address these issues. The analysis is based heavily on analysing employment and unemployment trends using mainly the LFS of the DCS. Appendix 1 details the data sources used and their limitations.

4.1.1. Industrial distribution and trends for all employed, youth and graduates.

The industrial distribution of all employed are similar to that of youth as a special group. Figure 4.1. shows that similar to the labour market as a whole, youth seem to find employment largely in the agricultural sector (36 per cent paddy, 24 per cent tea, 10 per cent vegetable and fruit gardening).

Figure 4.1. Employment by industrial category, all employed versus youth in 1997



Note: See Appendix 2-Table 2 for more information and data.

Source: DCS(various issues-b).

The manufacturing sector is second most popular amongst youth carrying nearly a quarter of all employed youth. Youth employment in manufacturing in 1997 is higher than that of the labour force as a whole and has increased by nearly 7 per cent since 1992. Nearly 50 percent of youth employment in the manufacturing sector is in the wearing apparel (excluding footwear) category.

The personal services sector is also a significant absorber of youth, *albeit* to a slightly lesser extent than for the labour force as a whole. In spite of the sectors prominence as a job provider for youth ranking just after agriculture and manufacturing in 1997, youth involvement within the sector has largely been confined to public administration and defense (39 per cent), domestic services (14 per cent), repair of motor vehicles and motor cycles (12 per cent) and educational services (10 per cent), rather than in various value added categories such as commercial marketing or crop cultivation. Moreover the proportion of youth employed in this industry has dropped overall by about 5 per cent from 1992 to 1997.

The trends and patterns of university graduate employment by industry are different to that for youth and the labour market in general.¹² Personal services was the most popular industry among graduates with over 70 per cent opting to be in this field. Personal services include public administration and defense, social and related community services, education, research and scientific institutes, recreational and cultural services, personal and household services, etc. Thus in contrast to employed youth and the labour force as whole, graduates tend to be skewed towards employment in one particular industry *within* the services sector: personal services. The insurance and real estates sector ranked second employing around 10

¹² Note that the term 'graduates' is used synonymously with 'university graduates' in this paper. Refer footnote 3 for a description on Sri Lanka's educational system.

per cent, with the percentage employed increasing over the 1990s. The reason for graduate clustering in one particular industry is unclear. It may well be that the incentive structure and regulatory environment pertaining to this industry is more attractive than in other industries. A close analysis of the issue may result in significant policy implications.

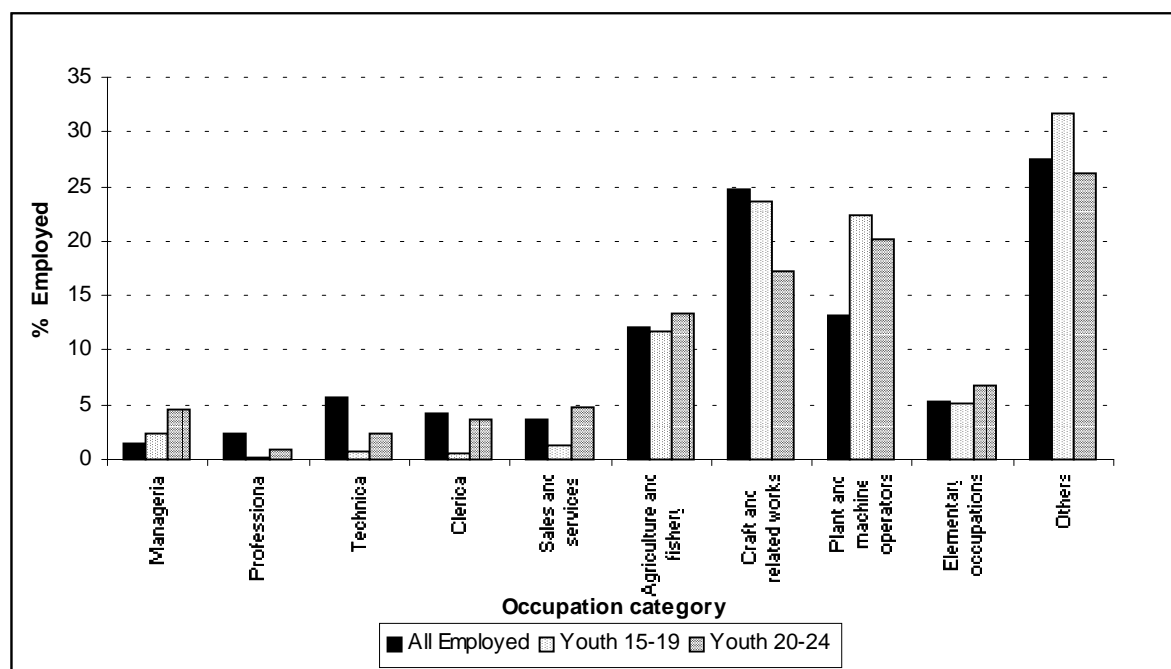
4.1.2. Occupational distribution and trends of all employed, youth and graduates

In spite of enjoying higher job opportunities and higher rates of job creation by the private sector since liberalisation, much of the labour force seems to have congregated around the lower occupational tiers, especially in industries that demand cheap labour and factory type production. This trend seems to have risen over the decade. For instance, in 1992, the 20.9 per cent of the workers were occupied in craft and related works, 14.5 per cent as plant and machine operators and 21.1 per cent as unspecified ‘others’. In 1997, over 65 per cent of the work force claimed to be occupied in these categories, 10 per cent more than in 1992 (Figure 4.2. below).

The occupational categorisation of youth reflects a similar pattern, with a slightly larger proportion of youth working as plant and machine operators (see Appendix 2 Table 3). Thus, in 1992, 19.8 per cent of young adults and 30 per cent teenage youth were occupied in craft and related works, while around 20 per cent of both age groups were employed as plant and machine operators. A bulk of the teenage youth (nearly 30 per cent) are categorised in the unspecified ‘others’ category while slightly lesser proportion fall into this category amongst older youth. Thus a bulk of the youth, as do a bulk of the labour force, are employed in the unskilled or semi-skilled categories.

Figure 4.2. Employment by occupational category, all employed versus youth in 1997

Note: See Appendix 2-Table 3 for more information and data.



Source: DCS(various issues-b)

Moreover, evidence suggests that the earnings and the quality of employment may have deteriorated over time. Rodrigo (1998:38) for instance argues that gender disparities in earnings have risen while Gunatilaka (1999) argues *inter alia* that working conditions have deteriorated for employees in the new economic environment.

On a more positive note, around 5 per cent of young adults are occupied as managers while around 2-4 per cent of teenage youth work as managers. These numbers are higher than the corresponding numbers for the labour force as a whole for both 1992 and 1998. Around 55 per cent of teenage youth employed in managerial position claim to be in the personal services industry (56 per cent in the public administration and defence category) and 31 per cent are in the undefined category. All teenage youth holding managerial positions in 1997 are mostly from the rural areas, 51 per cent in the public sector and almost all such managers are male. These results are similar to the characteristics observed in young adult managers. Similar to teenage managers, most managers of the 20-24 age group (nearly 60 per cent) work in the public administration and defence industry with a slightly less pronounced rural bias (80 per cent), but 75 per cent are employed in the public sector and are mostly male (85 per cent). Around 15 per cent are managers in the undefined category and around 11 per cent in the manufacturing industry.

Less than 2 percent of the youth are employed in the professional category, and the proportion involved indicates a decrease from 1992 to 1997.

The occupational patterns observed amongst youth in general is vastly different to patterns amongst university graduates, who can roughly be classified as one of the most skilled categories in the economy. Most graduates cluster around the higher rungs of the occupational ladder as professionals (15 per cent), technical staff (62 per cent) and clerical staff (10.8 per cent) in 1992. Graduate occupation patterns indicate a revealed preference for higher-rung jobs. It is also likely that graduate entrants to the labour market—and those unemployed-- aspire to find employment in the technical, professional or clerical categories. In fact, Korale (1992) shows that all unemployed graduates as per the 1981/82 Consumer Finances and Socio Economic Survey *expected* to find employment in none other than professional, managerial, technical or clerical grades. This is clear evidence about the type of *expectations* a degree creates, irrespective of the *quality* of the skills acquired or its functional value in the labour market. Again, occupational patterns amongst youth as a whole and graduates show that there are marked differences and that attempts to solve the issues of a niche will not solve issues of the rest of the work force.

Rather surprisingly, an insignificant proportion of graduates are occupied as managers during the 1992-98 period compared to soon after liberalisation in 1981 when around 9.5 per cent of graduate jobs were in the managerial positions. The situation in 1981 seems a residue of graduate employment patterns prior to liberalisation when a degree was considered a sufficient qualification to take up managerial roles in the SOEs. In contrast, post liberalisation patterns of employment by occupation indicate that graduates have been in demand to provide mainly technical services rather than managerial or professional services.

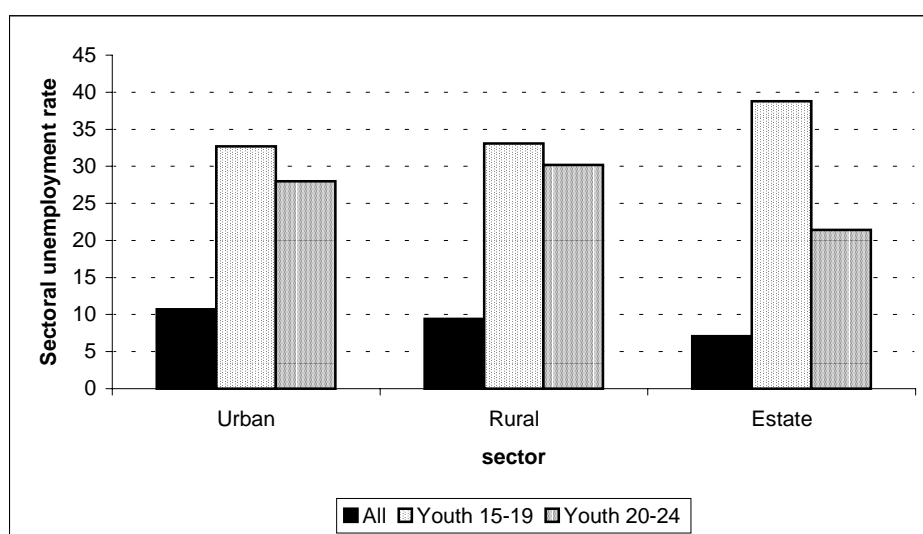
4.1.3. Sector-wise distribution and trends of all employed, youth and graduates.

The sectoral distribution of the youth population matches by and large that of the rest of the population with a majority of youth coming from rural areas rather than urban. The higher concentration of the population is the Western Province, followed by the Southern and

Central Provinces. Reflecting the higher proportion of youth in rural areas employment and unemployment in absolute terms is also highest in these areas.

However, sectoral unemployment and employment rates indicate that rural-urban-estate disparities are not that pronounced. Sectoral unemployment rates for teenage youth ranged between 32.7 (urban) to 39.3 (estate) per cent in 1997. The corresponding range for young adults was 21.1 (estate) to 30.2 (rural). Put differently, this means that teenage youth from estate areas found it hardest to find employment while urban teenagers found it relatively easier. In contrast, young adult estate workers found it easiest to find employment whilst rural young adults found it the hardest. If one compares only the urban versus rural sectors, disparities in (un)employment rates are only marginally different (Figure 4.3 below).

Figure 4.3. Unemployment rates by sector for the labour force as a whole and youth in 1997



Note: See Appendix 2-Table 4 (a) and Table 4 (b) for data and more details.

Source: DCS(various issues-b)

Figure 4.3. also shows that rates of unemployment amongst youth are higher in all sectors than that for the labour market as a whole.

The distribution of graduates across the sectors is different to that of youth. Around the time of liberalisation, the distribution of graduates in rural and urban employment was almost equal. Even though unemployment amongst graduates was mostly a rural phenomena, absolute levels of employment did not reflect this: Both urban and rural areas employed around 41 per cent each of graduates in 1981 with urban graduate unemployment rates at 3.7 per cent and rural graduate unemployment rates at 8.5 per cent. The situation seems to have changed somewhat two decades after liberalisation. In 1998, urban areas employ around 30 per cent of all graduates and rural areas 42 per cent. Graduate unemployment rates have increased in both sectors—5.9 per cent in urban areas and 11.8 per cent in rural areas. Graduate unemployment rates, therefore are lower than either that for youth or the labour market as whole but contain urban rural disparities that are relatively more stark than in the other two categories. The rural-urban gap as far as graduate unemployment rates are concerned see also to have widened slightly over the two decades. This may be because the post-liberalised urban sector based economic activity is done increasingly by the private

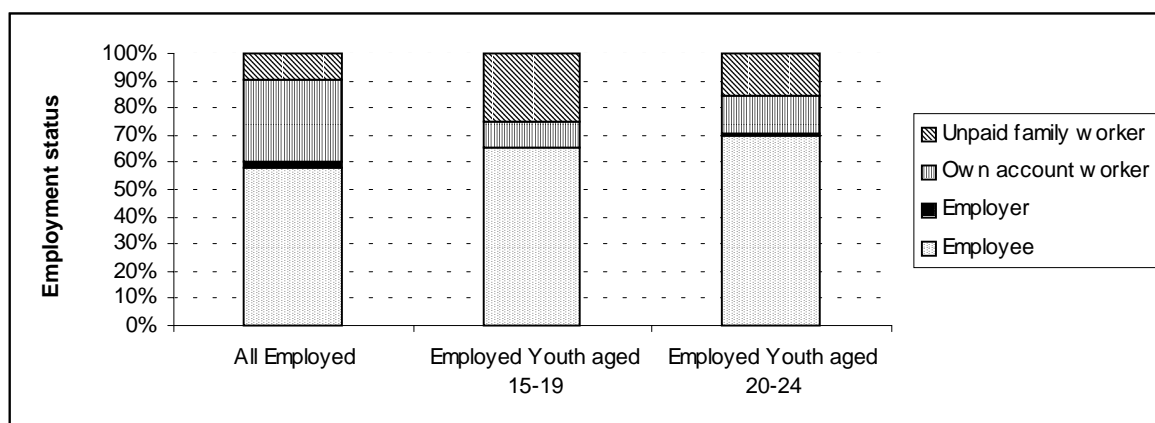
sector and most graduates are argued to lack some of the key characteristics the private sector looks for in workers applying for higher rung occupations. The necessity of these characteristics may have become pronounced as the economy moves to be more market-oriented and globalised. Employers generally identify these characteristics as English language skills and a work ethos and attitude suitable to the private sector while graduates identify this as having access to the right type of networks, connection and social standing.

4.1.4. Formal sector and informal sector

Classifying economic activity as belonging to the formal or informal sector is notoriously difficult. The fundamental stumbling block is the definition of what constitutes the informal sector. If production or distribution oriented definitions were used, it would be necessary to investigate unit size, mode of organisation, management and technology size or indicators such as number of employees. In this case, indigenous modes of production and distribution with a small number of employees would be identified as ‘informal’ while more ‘modernised’ production and distribution agencies would be classified as being formal. This distinction is particularly difficult to make for youth in particular and a deeper investigation in this respect is beyond the scope of this study.

Another approach would be to differentiate between formal and informal sector activity by categorisation in the labour force. The labour force survey carried out by the department of census and statistics categorises workers as being an employer, employee, own account worker or an unpaid family worker. It is likely that much of the workers in the first and second categories probably belong to the ‘formal’ sector, while members of the latter types of activities, particularly the last category, are engaged in informal sector activities. The distinction is rather broad, and probably not very accurate. Nevertheless, it is the most convenient definition to adopt, given data constraints. Using this definition it can be seen that over 25 per cent of the employed teenage youth and 15.6 per cent of young adults seem to be engaged in unpaid family work (with around 75 per cent of such youth being male). The corresponding figure for the labour force as a whole is no more than 10 per cent in 1997 (Figure 4.4 below). Around 87 per cent of such youth are from rural areas and are educated up to the GCE Ordinary Level exam (42 per cent) or less (43 per cent). Over 70 are male. Nearly 77 per cent of all such youth are in the agriculture and 14 per cent in construction.

Figure 4.4. Employment status for all employed and youth in 1997



Note: See Appendix 2-Table 5 for data and sources

Source: DCS(various issues-a) and DCS(various issues-b)

If the ‘informal’ sector included both unpaid family workers as well as own account workers, the proportion of youth engaged in probable informal sector activity rise to around 35 per cent among teenage youth and 30 per cent among young adults. The corresponding figure for all employed is nearly 40 per cent. Thus the percentage of youth employed in the informal sector ranges from 15-30 per cent depending on the definition used. For all employed the range is between 10-40 per cent. Informal sector employment, therefore is not an issue particular to youth. In fact, less youth seem to be involved in informal sector activity than the labour force as a whole.

The more interesting issue to pursue is what characteristics are discernible in those youth involved in informal sector activity and what drives them to this sector. As far as education levels go, youth in informal sector activity are less formally educated than youth in non-informal sector activity. This is not entirely surprising. What is more important to address is whether the formal educational levels of youth entrants to the labour market have decreased over time or increased. It is also important to see if those who drop-out of school follow vocational training or re-enter formal education at some point to complete schooling and how these decisions have an impact on wages and employability. Related questions to ask would be what drives youth to the labour market--is it poverty or perhaps the opening up of apparently attractive economic opportunities and opportunities for ‘independence’ in the economic environment, or a disillusionment regarding returns to education, or perhaps some other factor in the supply of education? These issues are beyond the scope of the present analysis and the TOR but point directions into future research that can have a significant policy impact.

4.1.5. Wage employment and self-employment

Figure 4.4 above (and Appendix 2—Table 5) can also be used to estimate patterns in wage and self employment. It is assumed that the ‘own account worker’ category by and large captures those who are self employed while the ‘employee’ category roughly captures wage earners. Using these definitions it can be seen that a majority of youth (nearly 68 per cent on average) are in the wage earning sector (40 per cent of whom are female). This is 10 per cent higher than the corresponding figure for all employed. Further, youth who are self employed (84 per cent male) are much less a percentage on average than the labour market as a whole. To elaborate, only 9.4 per cent of teenage youth and 13.9 per cent of young adults are in self-employment as opposed to nearly 30 per cent of all employed. This is probably an indication that self-employment is often taken up as an option of last resort and is not highly preferred among youth. Section 5.1.3 on self-employment programs cites evidence to support this. Matching the DCS based analysis above, the CASS survey also points out that over 70 per cent of youth indicate preference for wage employment either in the public sector (over 50 per cent) or the private sector (20 per cent).¹³

Overall, however, self-employment does not seem to be an option that is solicited by a majority of youth. Most youth prefer wage employment. Moreover, youth *aspire* for wage employment in the public sector or in the private sector in white-collar positions. In practice however, around 90 per cent of youth find employment in the private sector. The incidence is higher among teenage youth. Around 80 per cent of the teenage youth that find employment

¹³ The CASS data is not strictly comparable with the DCS analysis since the former survey categorises youth as those between ages 15-29 and are unmarried. The definition I have adopted for youth is those people between the ages 15-24 irrespective of civil status. See Appendix 1 for further elaboration of data sources.

in the public sector are male most probably being army recruits. The corresponding figure for young adults is 67 per cent (Appendix 2 Table 7).

On a different note, Alailima (1998) argues that wage data collected from four quarterly household surveys in 1992 show that earnings for males is higher than for females in all age classes with the differential increasing beyond the age of 25. But this has to be viewed with caution, allowing for differences in industries, occupations and other characteristics such as experience. A more careful cohort based study is needed, before such results can be generalised.

4.2. Unemployment

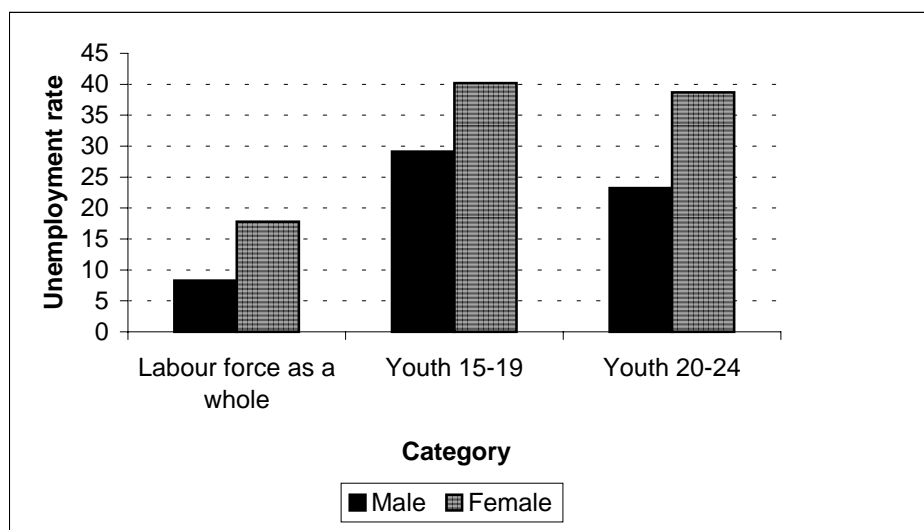
4.2.1. Key features of youth unemployment

Open unemployment rates indicate a favourable turn since 1977. From rates as high as 18 per cent in the 1970s, unemployment is reported to have fallen to about 9.5 per cent in 1998, especially since the second wave of liberalisation in 1989. Of course, controversies are rife as to the validity of the numbers and the definitions adopted (see for instance, WB 1999). The key debates in this regard, however, is not about whether unemployment fell, but the *extent* of the fall and whether underemployment has risen over time (Salih 2000b). For instance post 1998 figures are not strictly comparable with previous figures for unemployment because the coverage of employed persons significantly increased in 1998 to include unpaid family workers, especially female agricultural workers. If these workers were excluded, unemployment rates rise up to 10.3 per cent. This means that double-digit unemployment rates have persisted for almost three decades, *indicating that the overall labour market is not functioning efficiently* (World Bank 1999:2).

The most notable feature when comparing youth unemployment rates with overall rates is that *youth unemployment is almost three times as high as overall rates*. High youth unemployment has been a consistent feature of Sri Lanka for the past several decades (Appendix 2 Table 8a). This is in spite of the fact that youth unemployment rates have been falling over time, corresponding to general rates of unemployment.

It is also notable that similar to the labour force as a whole, *female youth unemployment is higher than male youth unemployment*. To elaborate, Appendix 2--Table 8(a) shows that unemployment amongst females has consistently been higher than rates amongst males. In 1953, for instance, female unemployment was 5 percentage points higher than male at 20 per cent, while in 1973 it was almost double that of male at 36.4 per cent. By 1997, female unemployment nearly tripled male unemployment rates at 19.7 per cent. Increased participation rates amongst females certainly adds to the phenomena. This pattern is evident in youth unemployment rates as well (Figure 4.5). Young females suffer from significantly higher unemployment rates than do young males. The gap (to the detriment of females) is particularly evident amongst young adults. Even though unemployment rates between males and females have been falling over the 1990s females come up as being worse off than males in the youth category.

Figure 4.5. Unemployment rates by gender for the labour force as a whole and youth in 1997



Note: See Appendix 2-Table 8(a) and Table 8 (b) for data and more details.
Source: DCS(Various issues-a) and DCS(Various issues-b)

It has often been argued that unemployment is high amongst ‘educated’ youth. One should be careful about what level of education such measures refer to, for statistically, the definition of ‘educated’ does not seem to extend up to the graduate level. A bulk of those unemployed (33 per cent) are qualified above grade 8 but less than A/L, while 23 per cent are A/L qualified (Appendix 2 Table 9b). In spite of their voice, graduate unemployment rates are generally lower than unemployment rates for other categories at around 7.3 per cent in 1997. Thus Sri Lanka seems to have *relatively more a problem of educated unemployment where ‘educated’ pertains more to the Grades 8 to 13 category rather than university education.*

Alailima (1998:33) argues that there is a more recent *emergence of vocationally trained unemployed* as well, indicating perhaps that the training received is not geared for the labour market or that the pathways from education to labour market are not well defined.

Another feature is that youth spend considerable time searching for jobs. Amongst unemployed teenagers, 31 per cent claim to have been looking for a job for over a year, while 4 per cent claim to have been seeking employment for over 2 years. The corresponding figures for young adults is 63 per cent and 28 per cent while for all employed it is 57 per cent and 30 per cent respectively (see Table 4.1 below). Thus young adults in particular, incur long search periods. During this period the main source of support is either from family (28 per cent), government-- including food stamps (26.2 per cent), and charitable institutions (18.5 per cent)—See Table 4.2. below).

Table 4.1: Duration of unemployment in 1997

Duration	Unemployed youth aged 15-19 (per cent)	Unemployed youth aged 20-24 (per cent)	All unemployed (per cent)
Less than or equal to 6 months	28	13	18
More than 6 months but less than or equal to 12	41	24	25
More than 12 months but less than or equal to 18	7	5	5
More than 18 months but less than or equal to 24	18	30	21
More than 24 months but less than or equal to 30	1	3	2
More than 30 months but less than or equal to 36	3	15	11
More than 36 months	1	10	17
	100	100	100

Source: DCS(various issues-b)

Table 4.2: Sources of financial support for unemployed youth in 1997

Source	Unemployed youth aged 15-19 (per cent)	Unemployed youth aged 20-24 (per cent)
Government (incl. Food stamps)	10.8	26.2
Charitable institution	18.9	18.5
Parents, spouse, other relatives	27.0	28.2
Income from property, assets	10.8	5.8
Withdrawal from savings	2.7	1.9
Sale of property, assets	2.7	2.9
No assistance required	-	1.0
No assistance available	5.4	7.8

Source: DCS(various issues-b)

Thus the high incidence of youth unemployment, its persistence and the long job search time involved are all significant characteristics very much at the root of youth discontent and disillusionment. Their frustrations are exacerbated given high levels of literacy, high aspirations for upward mobility and white-collar employment. High levels of political activity make the consequences of unemployment in terms of civil disorder particularly plausible as the several insurrections indicate. What is the cause for unemployment and its characteristics? Some of these are discussed below.

4.2.2. Causes for unemployment

Micro level characteristics

Micro level causes pertain to individual and household characteristics based on ability, type of education and skills, the type of backgrounds the youth come from such as ethnicity, household income, poor background, etc. that can all have an impact on the

probability of a young person being unemployed.¹⁴ Careful analysis has to be done in this regard to understand the dynamic nature of the problem and to derive policy implications. For instance, does it affect the same group of people on several occasions and thus is recurrent in nature? Alternatively, is it recurrent in terms of the type of people it affects by background? The latter question would mean that people with the same types of environment or background are being affected by unemployment repeatedly over time. The policy implication of this type of finding would be that back-to-work or employment policies should be more targeted in nature, addressing the specific concerns of the groups. Research in this area would also enable the deeper understanding of social exclusion, its impact on inter-generational poverty and unemployment and group-specific consequences of unemployment.

Macro level causes

In the Sri Lankan case, macroeconomic factors also have a significant bearing on unemployment. Some key macro factors are growth, investment and fiscal behaviour. These factors will be discussed briefly below to elaborate on their impact on youth unemployment in particular. The macro factors are revisited in section 5.2.4. in the context of private sector development initiatives.

As discussed in section 3, the ethnic conflict and the youth insurrection along with various other political and social dynamics have been strong undercurrents affecting economic performance negatively. This has meant that even though GDP growth was at a healthy average of 5 per cent per annum, it was not as high as expected. Put simply, the economy has not grown fast enough to absorb enough workers such that youth unemployment rates are reduced significantly. Moreover, adverse undercurrents have meant that investments both domestic and foreign have been negatively affected. External shocks and turbulence in the external environment such as the East Asian crisis in 1997 exacerbate the issue. The lack of growth and investment has often been argued to be a key cause leading to and sustaining unemployment especially for young people and Sri Lanka is no exception. Junankar (1987) for instance presents a collection of arguments that stress the importance of reflating the economy in order to tackle the problem of youth unemployment in the OECD. The same holds true for the contemporary Sri Lankan economy. Higher growth and investment together with macro and political stability is essential for youth employment levels to pick up. Other policies (e.g., training schemes) may have a small impact on unemployment levels in isolation of a macro level economic refutation.

It is important to note, however, that macro growth need not necessarily solve intrinsic labour market inefficiencies. Nor will it always offer optimal solutions to the problem of unemployment. The relationship between growth and employment is complex. For instance, the consequences of economic down turn or poor macro policy can have lasting detrimental effects on labour market behaviour, that makes the bouncing back of employment during economic refutation not automatic nor substantial. Amongst other things, the impact of hysteresis on unemployment may mean that specific micro and macro policy targeting groups

¹⁴ World Bank (1999) shows that some of the important individual characteristics of the unemployed at a 5 per cent significance level in urban areas pertain to schooling. More specifically, those with 1-5 years of schooling and with O/L qualifications are more likely to be unemployed. In rural areas the being the child of the household head together with 6-8 years of schooling are significant characteristics. At the 10 per cent significance level characteristics such as ethnicity (being Tamil or Muslim), being female, age, O/L or A/L qualification become important for the unemployed as a whole.

within the labour market may be necessary to complement employment creation during a period of high growth.¹⁵

Institutional and other factors

Apart from macro and micro causes institutional factors such as labour market rigidities, segmentation and issues of governance are significant variables affecting levels of unemployment both directly and indirectly via the impact they have on investment and hiring.

An influential argument explaining why the private sector may not be demanding as many individuals as it would like to pertains to the alleged overarching institutional rigidities that hinder the flexibility of the Sri Lankan labour market (Rama 1994). The main culprit is the Termination of Workmen Act of 1971 that constrains the free hiring and firing of employees. Employers from the private sector argue in particular as voiced in Amarasinghe (2000) that Sri Lanka's labour laws are archaic, rigid and suited a specific time in history but needs to be amended to suit the present market economy. Kelegama and Salih (1998) argue that the poor exit policy is particularly problematic in the context of privatisation.

A related argument about labour market inflexibility is put forth by Prywes (1995). He argues that most of the institutional rigidities come from the fact that the labour market in Sri Lanka is very deeply segmented and that these segmentations result in poor labour mobility. The key segments he identifies are the protected sector (civil service, public service excluding plantations and a part of the protected private sector), the unprotected sector and the plantation sector. The solutions Prywes suggests, akin to Rama is an amendment of the Termination Act. World Bank (1999) extends and supports the argument that there is significant segmentation in Sri Lanka's labour market. They argue that the segmentation is reflected primarily in the large wage premium the 'good' jobs produce over 'bad' jobs, with the premium highest in the public sector. The 'good' jobs are defined as those associated with life-time tenure, tariff protection and the public sector while the 'bad' jobs are those in the informal sector and those jobs without the above characteristics. They argue further that the wage differentials are artificial in that workers with similar individual and job characteristics would be expected to earn approximately the same in an efficient labour market. The differentials, therefore, 'stem mainly from a policy environment that provides protection to certain segments of the labour market, such as (i) the formal labour market which benefit from stringent job security regulations; (ii) certain product markets that are protected by tariffs; and (iii) the public sector that offers preferential employment and pay treatment (World Bank 1999:15).

The key culprits identified as feeding and perpetuating labour market segmentation are restrictive labour regulations and public sector pay and employment policies. Under restrictive labour regulations the TEWA is noted to be the biggest stumbling block that constrains labour market flexibility as well as a firm's decision to expand beyond fifteen workers and enjoy economies of scale. It is doubtful, however, as to how effective amending the TEWA would be: If exit and entrance were free, *ceteris paribus*, would it automatically solve other problems such as discrimination, poor training, brain drain, etc., or will it exacerbate these issues? Will it improve institutional loyalty and productivity?

¹⁵ Hysteresis refers to the phenomena where past levels of unemployment have an effect on present levels. See Stegman and Stegman (forthcoming) for a case study on how hysteresis in unemployment dominates labour market efficiency even during a period of growth.

Stegman and Stegman (forthcoming) argue that for the case of Australia, over a decade of labour market reform of an institutional nature have not necessarily lead to improved efficiency. Efficiency is measured to be reductions in structural unemployment and improvements in matching. They conclude that the process of hysteresis has dominated labour market efficiency such that regulatory and institutional reform has had little effect. Solow (1997) argues in a similar vein that mere regulatory changes are meaningless for improving labour market flexibility unless measures to minimise structural unemployment and labour market matching are improved. In the Sri Lankan context, this would mean among other things, improvements in job brokerage and placement along with more intense career guidance. It also may mean the simultaneous undertaking of various adjustments in the policy environment discussed later. In summary, the policy and regulatory environment should be made more conducive towards improving labour market flexibility and efficiency in order to improve the youth labour market. However, over-emphasizing a single aspect of the institutional environment and neglecting other contributors may not lead to expected improvements in efficiency and productivity.

Other labour market inflexibilities are the 'adversarial trade unions which have developed over the years due to a combination of weak trade union legislation and politicization of economic management throughout the country' (World Bank 1999:16).

Apart from this public sector employment practices, precedences and the signals they send to the youth labour market have an insidious effect on aspirations and levels of unemployment (discussed further in section 5.1.3).

4.3. Underemployment

There have been no formal analyses done in Sri Lanka regarding underemployment. This is mainly due to data limitations. Even the LFS data, possibly the most comprehensive and consistent source available to analyse such trends for 1992 onwards, does not enable the calculating visible or invisible underemployment, apart from a core group that captures mainly a core group (Salih 2000b). If a very general hours-based analysis were done, however, results could be tabled as in Appendix 2 Table 10. The information, is unfortunately, not very useful for saying anything about technical visible underemployment. Suffice it to note that as far as hours worked go, 68 per cent of youth claim to work for over 35 hours per week, exceeding equivalent figures for all employed or graduates. Only around 9 per cent claim to work for less than 9 hours a week.

Estimates of invisible underemployment in terms of relative pay deprivation or skills mismatch/underutilisation is almost impossible to calculate. This does not mean, of course, that underemployment is not prevalent. Many of the jobs created for women in the industrial sector have been in assembly work in areas such as garments, foot-ware, fishing gear, electronic assembly, etc. It is possible that these workers—who report to have a minimum of secondary level education—were seriously underemployed in terms of skills utilized. This may also be true for those workers who out migrated as domestic aids. Nearly 80 per cent of them report to have some years of secondary education (Eelans and Scampers 1992).

5. Active Labour market policies

Almost all programs directly focussing youth are at present handled by the Ministry of Youth Affairs (MYA). The MYA has various institutes under its preview working

towards the improvement of different aspects of youth welfare. These institutes together with the financial provision and proportion of provision spent during the year 2000 are in Table 5.1. below. As the table shows, the NYSC enjoys the largest provision--roughly 86 per cent of the total provision not including the Gramodaya Folk Arts Centre. The Small enterprises Development and Career Guidance Divisions are allocated 6 and 4 per cent respectively while the Youth Employment Planning Division is allocated 2.9 per cent.

Table 5.1. Financial provision and expenditure of institutes under the purview of the Ministry of Youth Affairs in 2000.

Institution	Financial provision in Rs. Mn. and (US\$ mn.)		Expenditure as a percentage of provision	
	Recurrent	Capital	Recurrent	Capital
National Youth Services Council (NYSC)	321.7 (≈3.6)	118.5 (≈1.3)	92.5 %	86.7%
Youth Employment and Planning Division	10.9 (≈0.1)	2.4 (≈0.02)	-	-
Small Enterprises Development Division	22.2 (≈0.2)	4.6 (≈0.05)	94.8%	98.4%
Career Guidance Division	15.2 (≈0.17)	0.5 (≈0.005)	9.8%	98.0%
The Gramodaya Folk Arts Centre ¹	n.a.	n.a.	n.a.	n.a.

Note: ¹Information about financial provision is not available. However, the expenditure incurred on programmes in 2000 is slightly over Rs. 1.5 million.

Source: Ministry of Youth Affairs (2000), *Annual Report*.

Crude estimates based on Ministry of Youth affairs (2000) information on program specific expenditure indicate that the highest expenditure at the NYSC is incurred on technical and vocational training (around 23 per cent), followed by activities of the cultural division (roughly 17 per cent on youth awards for artistic talents, the national drama school, etc), career guidance and counseling (roughly 12 per cent) and the Youth Information Bureau (roughly 9 per cent).

Apart from the MYA several other government bodies work towards youth, most notably the Samurdhi Ministry, the Ministry of Education and the Ministry of Tertiary and Vocational Training and Rural Industries (TVTRI). Other Ministries such as Women's Affairs, Agriculture, etc. all implement various programs that area accessible to certain groups within youth but are targeted directly at other categories such as those in poverty, women, etc. An analysis of all such programs working directly and indirectly towards the welfare of youth is well beyond the scope of this paper. The same holds true for the analysis of NGO and private sector programs catering to youth. Moreover, there is no central or coherent data base that record the implementation and performance of such programs. This section, therefore will focus on several specific, relatively large programs that are aimed at youth.

The key problem encountered in trying to gauge the effectiveness and performance of these programs is that meaningful performance targets and effectiveness indicators have not been developed or defined. There are also no follow-up studies or evaluations conducted in any systematic way. Thus it is very difficult to assess program performance over time. It is almost impossible to compare performance across programs. The rest of this section,

therefore will describe briefly several specific programs aimed at youth and give broad brushes as to their pros and cons based on available secondary literature.

5.1. Supply side: improving human capital

5.1.1. Education and training

Currently about 13 Ministries involved in the development and monitoring of technical training schools in Sri Lanka. These government programs account for about 80 per cent the vocational and technical training provided in the area outside the Western Province (Jayaweera 2000). There are also numerous NGOs offering VT. The several private sector training programs offering VT are mostly fee levying and are concentrated in a few areas most notably in computer-oriented subjects, secretarial courses and courses in dress making etc., which are ad hoc and sparsely distributed especially in urban areas.

Table 5.2 summarises the coverage and output of the main training providers in 1999/2000.

Table 5.2. Main providers of vocational and technical training

Delivery Agency	Number of Centres	Training Output (most recent)
NYSC (see box 1 for further details)	25	Approx.5000
Vocational Training Authority	DVTC 11, RVTC 176	31, 600
Department of Technical Education and Training	34	16,170
Sri Lanka Handicrafts Board	204	2200
National Apprentice and Industrial Training Authority	86	19,500
Department of Social Services	9	429
Gem and Jewelry Research and Training Institute	5	251
Department of Fisheries and Aquatic Resources	5	160
NGOs	105	n.a.
Private Proprietary Training Establishments	411	n.a.

Source: ILO (2001), TABLE 1

Public sector programs that are most significant to youth are handled by the NYSC under the MYA. Apart from this the MVTRI and the Ministry of Science and technology are also important deliverers of technical and vocational training.

The NYSC under the MYA, provides pre-employment training to youth in particular via 24 centres. It is most active in the Western Province. More information of programs implemented by the NYSC and the MYA are detailed in Box 5.1.

The Ministry of Vocational Training and Rural Industries (MVTRI) has under its purview the Department of Technical Education and Training (DTET) and Vocational Training Authority (VTA). The DTET is managed as a conventional government department while the VTA is a more autonomous entity with an extensive network of training centres

mainly in rural areas. Most of these training centres were run by the Labour Department since the 1950s and have been taken over by the VTA since its establishment in 1995.

The Ministry of Science and Technology manages the National Apprentice and Industrial Training Authority (NAITA). The NAITA uses apprenticeship and various combinations of institution and enterprise-based training as its primary mode of training delivery.

Apart from this higher level programs (diploma and above) are offered by the Sri Lankan Institute of Advanced Technical Education (SLIATE) under the Ministry of Education and Higher Education, with sector specific training provided by various sectoral Ministries. Together with the NYSC, these institutions account for about 85 per cent of the number of people trained. The Ministry of Education too carries out various vocational training courses under its non-formal education stream. Courses offered are in industry, agriculture, commerce and construction. But the low priority given to this branch of activity within the Ministry and the low resources available has meant that these programs have had a chequered history.

The lead organisation for technical teacher training and curriculum development and research work in this field is the National Institute of Technical Education (NITE) that falls under the purview of the MVTRI.

Box 5.1. Employability-oriented activities conducted by the Ministry of Youth Affairs in the year 2000.

1. NYSC

Technical and vocational training is provided in various fields to improve talents, skills and employability of youth. The NYSC provides pre-employment training in 24 training centres. Some of the programs implemented during the year 2000 are as follows:

Program	Type of activity	Method of implementation	Expenditure Rs. '000 and (US\$ '000)	Expenditure as a per cent of provisional allocation	Participation
Women's mobile training services	Educating women in tailoring, knitting, handicrafts, home science and family health.	Implemented island-wide with the assistance of local youth clubs	1,180 (≈ 13)	82 per cent	194 programs reaching 9469 women.
Prison based women's training	-do-	Implemented in Colombo, Gampaha, Kandy Galle and Anuradhapura	50 (≈ 0.6)	70 per cent	9 programs reaching 491 women
Technical and vocational training centres and courses of study	Providing vocational training to school leavers.	4 National training centres and 24 regional training centres operated in various parts of the island by the NYSCs.	10 959 (≈ 122)	92 per cent	3579 youth were trained
Training Centre for Agricultural activities	Providing farm-based training in animal husbandry, farming and farm management.	Farm-based residential training in 8 farms across the island.	Expenditure of 2069 (≈ 23) and income of 3224 (≈ 36)	n.a.	n.a.

(Box 5.1 continued)

Other activities catered towards personality development are found mainly in the events organised by the Sports and Recreational Division, the Cultural Division and the various leadership training programs held by the NYSC.

The NYSC also assist youth to obtain degrees from the External Degree Unit of the University of Sri Jayawardanapura. In the year 2000, 3074 youth registered to participate in the external degree courses held in 12 districts.

2. Youth Employment Planning Division (YEPD)

Established in 1982 with the special aim of solving the problem of youth unemployment. The main focus of the YEPD, however, has been graduate placement. More recently, the focus has also encompassed improving employability of youth through special training programs in management, IT, accountancy, marketing, agriculture, etc. More specifically, the Diploma course on computer programming, the Certificate course on computer hardware and the Computer diploma course for offices were one-off programs benefiting 28, 27 and 35 youth respectively. Programs conducted in the rural areas included the Basic training program for starting a garment factory and the Cashew processing training program conducted twice each with 560 and 200 participants respectively.

The YEPD also gets consultants to carry out studies on youth employment opportunities in various areas. Given financial constraints, the main problem the YEPD faces is in attracting consultants to identify suitable projects. Nonetheless, it has commenced to support 'people's companies', an idea based on research results. The ventures encourage youth at the Divisional levels to get together and carry out projects generating large employment in fields identified as being feasible. Some such projects that have already started are the sprats drying venture in Chilaw, the garment factory project in Hanguranketha the cashew processing projects in Kotugoda and Pallama. In essence, the 'people's companies' are companies established by youth, meant to operate as private companies with limited liability. But the Government provides security: So far the necessary credit has been provided by loan schemes under the Samurdhi Program (see Section 5.2.3 for details on Samurdhi-based credit). It is expected that the State Banks will provide the necessary credit for future projects. The danger of course is that issues such as financial viability, company structure and shareholding, loan repayment and liability, accounting, reporting, auditing, transparency, etc. are not very clearly defined. The fact that these issues are ill defined is problematic especially given the culture of loan forgiveness that prevails with respect to State funded credit.

Source: Ministry of Youth affairs (2000).

The NYSC casts vocational training in the larger framework of youth development and is thus more holistic in its approach than other training programs carried out by other bodies. This is possibly a positive feature, conducive towards making the training more effective. The NYSC also has strong political backing, residential training facilities and a network of decentralized district offices to enable close monitoring of rural activity. It also has well-established links with donor agencies and NGOs. Moreover, the NYSC job market information centre and the career guidance service supplement training (ILO 2000:11-12). On the minus side, however, the NYSC suffers from a certain degree of institutional rigidity affecting dynamism and flexibility of the organization—the same types of programs are implemented year after year leading to a sense of lethargy in terms of monitoring for external effectiveness and quality. Moreover, the output of trained individuals—the 1200 annual

output of graduates in particular—is mainly a supply-driven phenomenon with poor demand from the labour market. This may have serious implications to the future credibility of the organisation’s operations, given rising discontent amongst the unemployed graduates. There is also a geographical mismatch in terms of supply and demand: training is provided mainly in the rural areas but job opportunities are by and large in the Western province and urban areas. Most curricular are conventional in that they do not have a component of substantial interaction with potential employers. The NYSC also lacks a system to monitor efficiency and quality of training.

As for the multitude of other technical and vocational programs, the key draw back is that the TEVT system in Sri Lanka itself is not well designed, complementary or consistent. It has been argued in various instances that the training system is not demand driven, i.e., there are qualitative and quantitative mismatches between what the training programs deliver and what employers seek. There are qualitative and quantitative mismatches especially pertaining to training delivery vis-à-vis market demand (Jayaweera 1998). Moreover, the sector lacks effective policymaking, planning and management leading to poor or non-existent coordination, operational inefficiency, overlaps and duplication. Thus the internal efficiency and the external effectiveness of training institutions and programs are low (ILO 2001: 1). The focus has also been one of increasing quantity rather than quality. Exacerbating this issue is the fact that vocational training institutions have been developed in a rather ad hoc manner often in response to incidents of youth violence and unrest. This has had an adverse impact on the development of the sector (Jayaweera 1998). Moreover, the sector as a whole has no long term strategy or goal. Several of the programs suffer from ambiguous and at time misleading mandates and there seems to be a lack of clarity as to target groups, program objectives and skill levels.

Skills upgrading facilities are poor and should perhaps be the focus of organisations such as the NAITA and NITESL (ILO 2001: 43). This may well lead to occupational segregation and limited access to industry. Teacher training is also an area that requires much attention, as do developing standards, monitoring and reviewing curriculum and coordinating the system. Evaluating and monitoring the training programs are particularly difficult given the lack of tracer studies or even record of ex-trainees in most institutions.

Even though attempts have been made to involve the private sector its contribution of the private sector members is at a rather superficial level, with their participation limited to contributing ideas at monthly meetings.¹⁶ In-depth involvement of the private sector is necessary at the strategy formulation stage. For this, it necessary involve private sector participants at the mid-management level.

Female enrolment rates in vocational training are almost equal to that of males. However, the distribution of females within the various training programs is severely restricted to a few courses, often those traditionally conceived to be ‘female’ occupations. These include sewing, weaving, dressmaking, etc. Jayaweera (2000) argues that in the 31 technical colleges women increased from 14.9 per cent in 1973 to 40.7 per cent in 1992 and were 39.9 per cent in 1998. But 60 – 70 per cent of the women students are still enrolled in commerce and secretarial courses while the percentage employed in technical courses has increased very slowly from 1 per cent in 1987 to 16 per cent in 1996. Therefore the increase in the number of technical colleges has not necessarily increased female access to acquiring technical skills. But Jayaweera also observes that the key stumbling block to opportunity for

¹⁶ One member of the private sector voiced discontent by saying “they call us when the egg is cooked”.

skills development is social class, rather than gender. As she notes, the affluent middle class has more options.

There is also inadequate provision of relevant training opportunities at the divisional level for school leavers. Most effective and quality programs centred around the urban areas of the Western Province.

5.1.2. Guidance and counseling

5.1.2.1. Career Guidance

The Ministry of Youth Affairs established a career guidance division in 1998 in order to 'build up contented and effective human resources through career guidance'. The unit aims to guide job seekers in identifying or creating a field of employment that suits them and to assist youth to gain professional training opportunities. Key programs organised by the unit include career guidance services through 32 Divisional secretary offices, awareness programs on employment and training opportunities held at the Divisional level and training programs to prepare for job opportunities. The Career Guidance Division also authors various leaflets and publications. The most significant is the 'Directory of Employment' that provides a sector-wise classification of employment opportunity, career guidance manuals and special leaflets. Thirty rural level awareness programs and the publications cost the unit roughly Rs. 1.75 million (US \$ 20000). Over 70 per cent of the unit's expenditure, however, was in the form of grants to the value of Rs. 4.32 million (US\$ 48000) to 11 NGOs providing vocational training and guidance (MYA 2000: 46-49).

The functions of the unit could be made more effective if measures of monitoring progress were developed, including statistics on number of recipients, cost per person, nature of query, establishing feed-back loops, etc. Moreover, programs should be targeted at the exit level. This would be the school level, especially between grades 8 and 10 (Ordinary Level exam classes) since most teenage entrants to the labour market exit formal education at this point.

Given the dynamic nature of exit and entry in the labour market, an on-line directory and information service would be useful. If events and publications are in paper form, regularity, consistency and access are key elements that need to be enhanced. The NYSC has a newly established large job information centre in Colombo that caters to this need somewhat. The Centre aims to provide youth with information regarding 'education, vocational training, business training, etc.' (MYA 2000:12) and 3903 youth have already registered with the Centre. However, access is by and large limited due to geographical constraints and awareness amongst youth with regard to immediate vacancies are limited.

5.1.2.2. Counseling

The NYSC has a separate section providing counseling and guidance for youth. Counseling services were provided mainly through 1 national centre and 10 district centres. In the year 2000, around 4500 youth had sort assistance at these centres. Apart from this young inventors were assisted with guidance, technical know how and finances. Programs are also conducted to train youth to be counselors. In 2000, 60 men and women were trained to be counselors. However, this exercise used up a little over 25 per cent of the amount allocated for it. In contrast, the 'Political Academy' established to train youth in political activity benefited 41 people, while the expenditure incurred over-shot the budget by nearly 300 per cent. The counseling and guidance section also conducts a sign language

course for youth with audibility deficiencies and publishes a magazine focussing mainly on issues concerning youth.

Apart from public sector efforts there are numerous efforts by the NGO sector in counseling aimed at the public at large in most cases rather than youth as a special group. Such services focus on counseling regarding any social or personal problem, drug abuse and alcoholism by organisation such as Sahanaya, information and awareness programs by organisations such as ADIC etc. Such involvement is often area or location specific, with services and awareness programs being mostly one-off events especially in rural areas. Again, the lack of a comprehensive inventory regarding the activities of such NGOs or community based organisation limits the fuller analysis of performance.

5.1.3. Job placement and labour mobility

It was seen in section 4.2.1. that youth spend a considerable time searching for jobs and that a strong family support system assists youth financially during their search. Around 47 per cent of the unemployed have been seeking a job for more than 1 year while 16 per cent have been seeking for over two years. The problem, as discussed previously, was most acute for young adults.

Programs for job placement are rare. Youth often have to rely on career guidance services for information and guidance on jobs but as (section 5.1.2.1), elaborated access to this service is often limited for geographical and other reasons. In any case, these programs at best point to directions which the youth can consult, but are not *intermediaries* in terms of information gathering, processing and dissemination. Nor are these centres a conduit for job brokerage.

Job placement programs for graduates, however, have a long history. In spite of small numbers (around 2.5 per cent of the labour force and 1.5 per cent of all those unemployed in 1997), graduates have always been a vocal group that politicians have sort to appease. Hence graduate placement schemes and graduate issues have always been important.

Job placement schemes for graduates

Graduate unemployment was a sensitive issue in the late 1960s and 1970s and the government was forced to launch graduate placement schemes. In 1969 the Graduate Employment Bureau was established to handle graduate placements. Subsequently in 1970 the placement function of the Bureau was combined with a graduate training scheme as a part of the 'crash employment program' (Rodrigo 1998). Various Ministries carried out the administrative functions involved. The Ministry of Planning was responsible for the training program, monitoring and reviewing. The Bureau was eventually renamed the Employment division. The process and the placement of graduates itself (4000 unemployed graduates in 1969/70) eventually became highly politicised and the network deteriorated to being grossly ineffective. An informal system of 'chits' and recommendations of Members of Parliament was fast replacing the traditional job placement machinery. Rodrigo argues that the various politicised processes and inefficiencies inflated the public sector cadre and exacerbated the brain-drain phenomena, as highlighted by a Cabinet Committee appointed in 1974 to look into the issue.

The change of government in 1977 brought with it a re-organisation of the public sector employment scheme. The 'Job Bank' was launched in 1977. Applicants were

graduates and non-graduates who were included in a central register administered by the Manpower division of the Ministry of Planning and Employment. The political dimension, however, was not erased, with applications usually circulated among Members of Parliament. All public sector vacancies were supposed to be filled entirely with those registered with the job bank. Very quickly, serious problems with this scheme began to emerge. The public sector found demand-supply mismatches: those registered with the job bank more often than not failed to have the skills required for the more technical and professional skills required. Employing from out-side those registered loomed as a need.

By early 1990 this had reached crisis proportions in the aftermath of the 1987-89 youth insurgency. In 1990 the Government launched 'the unemployed graduate employment scheme (UGES), to place unemployment graduates in the private sector for training. The plan was to ensure that each graduate received a minimum of three years training in the private sector, during which period the graduates received a small allowance from the companies. After training, the private sector was expected to absorb the trainees. The scheme, according to Rodrigo, was 'a story of failure'. Around 12 000 graduates had registered under the program, but the private sector could assist only around 200 of them. Consequently, the Government had to launch a 'rescue operation', recruiting about 4500 of those registered as trainee teachers.

The Scheme was replaced by the Graduate Employment Training Scheme (GETS) in 1994. The program included 12 months intensive training in the private sector (which now included banking) as well as the public sector. The government footed the bill for trainee allowances. Trainees were guaranteed employment upon completion of the scheme. The key objective of the new scheme was to orient graduates professionally. The worst off graduates in the scheme are those who had a background in arts or humanities. The scheme, even though slightly more successful than its predecessor, did not quite meet up to expectations and was replaced by a similar scheme the *Tharuna Aruna* in 1997.

Tharuna Aruna

Tharuna Aruna was a key project launched by the government to assist unemployed graduates find jobs and improve their practical skills. The scheme is funded by the government and is managed by the four key Chambers of Commerce in the country. Under this scheme, unemployed graduates are invited to apply, and participating firms in the private sector processes their applications. The graduates chosen are then offered temporary posts (eighteen months, with a minimum wage of Rs. 3000) in the private sector, with the option of being absorbed into the companies, if their performance is satisfactory. Currently around 450 companies have listed under this scheme that has attracted around 1750 graduates. A clear trend is that the private sector tends to prefer science/commerce graduates rather than graduates in arts subjects. However, nearly 80 per cent of the applicants are arts graduates (Salih et. al. 1998).

Persistently high public sector recruitment of graduates and ad hoc solutions to graduate unemployment adds to the tendency of graduates queuing for public sector jobs, often conceding it to be a *right* to be employed in the public sector and such employment an *obligation* on the part of the government. This supports the 'queuing hypothesis' that public sector pay policies (argued to be higher than private sector pay), fringe benefits (e.g., job security, social status) and hiring practices skews worker preferences towards public sector

jobs and thus ‘queue’ for them.¹⁷ For graduates the pay policy argument does not really hold as it applies mostly to low skilled and semi-skilled workers. Instead, what is more applicable is that in the context of a repeated game, the government has built in *expectations* over time that has encouraged graduates to queue for public sector jobs. This further entrenches a possible mismatch between aspirations and skills demanded by the private sector. The piecemeal and ad-hoc palliatives the government uses time and again, and more recently the bulk recruitment of unemployed graduates as teachers or managers, clearly worsens the situation.

Thus instead of building an incentive structure conducive towards internalising increasing returns to education and building a core of highly skilled personnel enabling the occurrence of *sustained* growth, the government seems to concentrate on short-term palliatives to solve labour market issues pertaining to graduates. Not only does this send wrong signals to graduates and prospective entrants to university, it encourages skilled labour migration overseas.

Graduate supply trends do not offer any consolation. Almost all university education is publicly funded and severe resource constraints limit the expansion of the education system to meet demand. Together with this, serious issues emerge as to potential deterioration in quality and the non-labour market orientation of some courses. There also seems a rising tendency for students to choose studying in various professional organisations, external degree programs affiliated to foreign universities and seek education overseas. This is not an unfavourable trend in itself. The underlying issue, however, is that these options are available only to the handful that can afford it, implying that social inequalities will become further entrenched and access to more rewarding labour market opportunities may become even more exclusive.

A very real danger with the existing highly politicised university education environment, the institutional and policy setting that does not seem to provide the right signals or incentive structure for investing in higher education is that it may eventually lead to talented individuals choosing to invest their abilities in rent seeking activities that are merely redistributive rather than in productive activities that increase the ‘size of the pie’. Investigation into the efficient policy environment in the dynamic context and trends in talent allocation decisions are, therefore, potential areas for future research.

5.2. Demand side: Creating job opportunities

5.2.1. Job creation and public works

One of the key aims of liberalisation was to palm over the role of employment creation to the private sector. Moreover, at the national level, ‘rightsizing’ efforts of the government have been common especially during the 1989-1995 period with around 30000-50000 workers retrenched from state owned enterprises that were privatised (Kelegama and Salih 1998). Thus ‘job creation’ by the public sector is technically not an option to enhance youth employment opportunities. However, job creation by the public sector has happened through various means as always especially as unemployment becomes a politically

¹⁷Glewwe (1987) initiated this as an explanation for high unemployment in the labour market but was criticised by Rama (1999) on the empirical tests carried out to validate the argument. The hypothesis, however, seems to suit the case of graduate employment and unemployment patterns more than it does the labour market as a whole.

contentious issue. A key vehicle of employment creation especially for the youth is via large scale national level programs such as the *Samurdhi*. In 1997, around 36000 unemployed youth with Ordinary Level passes were recruited by the Samurdhi program as animators or development officers at the village level. Around 5000 unemployed graduates were recruited as managers of the program.

Persistent government bulk recruitment as for the *Samurdhi* program or as trainee teachers, accentuates and perpetuates biases in youth preferences for public sector jobs. It also helps increase 'search' time and creates a specific set of aspirations. As cited elsewhere, twenty years after liberalisation, over 50 percent of youth still aspire public sector jobs. This is not surprising, given the signals the government sends to the labour market.

Temporary income generation and employment opportunities through public works are offered mainly by the national poverty alleviation program *Samurdhi* under its rural infrastructure development component. The target group is the poor and those in transient poverty. However, unlike in the Maharashtrian Employment Guarantee Scheme (MES), there is a strong element of coercion in the Samurdhi based food-for-work program. In the MES, poor people needing assistance turn up for work whenever they need the money and are commensurated accordingly in cash or kind. Thus the beneficiaries are targeted on a self-selection basis. The Samurdhi on the other hand first selects beneficiaries for cash transfers and then require these beneficiaries to participate in rural works. Participation, therefore, often means foregoing earnings from usual source of employment. In other words, public works in the form of community projects in the Samurdhi program incurs high opportunity costs. Moreover many recipients are often left worse off once the rural works projects have ended not only because of foregone earnings but also because micro-avenues of subsistence to which the poor had access before (often derived from patron-client relationships with more affluent families, landed proprietors, etc) are disrupted.

Public works, therefore, are not a popular source of job creation for many. In any case, it is very doubtful as to whether youth participate in such programs at all.

5.2.2. Job prospects for youth in the information economy

Developing countries such as Sri Lanka are particularly suited for exporting knowledge-based products especially because of the low cost of labour and the availability of a large pool of human capital. Moreover, the market is still young and offers increasing returns to scale. Investing, building and expanding the industry, therefore, is a prudent investment for countries such as Sri Lanka that have a large workforce and the potential to improve the productivity of the work force.

The Sri Lankan ICT industry is still nascent with significant potential for contributing to growth and creation of value added employment in the economy. Within the ICT industry the demand for the services of the software development and enabling services alone has grown significantly during the past decade due to local and foreign sources. Local demand increases come from initiatives to modernise both the private and the public sectors for application software specific to industries and organisations.¹⁸ Demand from overseas has

¹⁸ Some of the modernisation proposals in the banking and financial sphere in Sri Lanka which interests the Central Bank in 1998 were the introduction of a scriptless trading system in Government Securities; the introduction of an electronic funds transfer and securities transfer system to handle domestic transactions; the introduction of a modernised Employees Provident Fund (EPF) system in which individual *employees* are

increased mainly because of cheap labour and the reputation the sub-continent has received so far given the thriving Indian ICT industry.

Imports of computer hardware such as main frames, minis and personal computers have also increased considerably, raising with it the demand for support services, networking, web-based technology, data-base administration, hardware engineering, maintenance, etc. Reliable statistics as to the development of the sector are not readily available from one source but the permeation of ICT in private sector and public sector activity has evidently increased in the 1990s.

The opportunities for youth in the information economy are significant. For example in the software development segment alone, there is an urgent need for locally developed software in Sri Lanka since importing software to meet the rising demand has several limitations. Firstly there are systemic differences between nations (e.g. legislative, practice-wise), that makes the non-customised adoption of foreign software senseless. Customising however, is time consuming, expensive and error-prone. This reduces the reliability of the software and delays the implementation of projects. Secondly, software developers tend to rely on expatriate staff for undertaking the customisation and adaptation of software. This denies exposure and work to locals. Thirdly, access to core programs by local staff is often denied under agreements to ensure that local developers do not understand the intricacies of the system, and to create dependence. Fourthly, most of the imported systems require the local institutions to make a huge leap into modernised systems from primitive manual systems. This results in a disruption of operations, resource waste and delays. Finally, most imported interactive software use only the English language. This denies a large class of Sinhala/Tamil educated persons from competing for jobs at institutions that use electronic systems. Thus, there is a high demand for developing software in particular within the country and with it huge potential for youth.

But the focus need not be software development alone. The ICT industry is a gold-mine in terms of offering a variety job opportunities for youth. Moreover, it could contribute towards increasing labour mobility, vertically and horizontally.

However, there are certain structural deficiencies in the economy that constrain the speed of growth in the sector. One of the most pertinent is that there is currently no IT policy governing the direction of the industry. Nor is there any significant research indicating market structures, potentials, paths, etc. The Computer Information and Technology Council (CINTEC) has been established by the government to form national guidelines for the sector, amongst engaging in other tasks such as increasing computer awareness, performing a co-ordinating role, etc. The CINTEC has identified several thrust areas within which to work and improve the IT sector. These areas are HRD, e-governance (amongst the public sector in particular where activities are computerised), e-commerce, software enabling services and the development of private sector incentives, infrastructure development. Various steps have been taken, especially in the capacity of co-ordinator to move in this direction. These are elaborated in the discussion below. Unfortunately, however, the lack of a clear policy direction and commitment to that direction the full potential of the industry may not be realised.

registered (unlike the current system where *employers* are registered) and are required to carry a unique identification number until retirement or death, whichever is early; the off-site surveillance of transactions involving foreign exchange, etc.

Moreover, computer literacy may well become a repressive device benefiting an advantaged segment of the youth and marginalising others. This may lead to lop-sided development particularly in the short run. It is likely that such effects may be temporary and that a spill over effect will eventually benefit all segments of the labour market. To minimise temporary disadvantages, however, it is essential that the government encourages computer literacy throughout the island, increasing awareness and penetration rates, working within the clear framework of medium to long term policy.

Another problem within the industry is that there are no strict national guidelines (imposed by the state or a professional body) as to the standards and quality targets that should be met by the local producers. Similarly there are no national standards for ICT-based education. CINTEC has linked up with the TEVC to delimit standards that improve and make consistent the quality of various courses offered by institutions. The standards pertain to course content, lectures, etc. In order to ensure international recognition, it has been planned to affiliate local bodies to international organisations such as the ACS, BCS, NIIT, etc.

Inadequate human resources in the local labour market is another major stumbling block. At present there are very few persons in the domestic labour market who possess requisite skills and expertise in software engineering and other ICT related areas. Most local institutions that teach computing skills often focus on out-dated languages and operating systems that have little professional relevance. Inadequate finances constrain the training of employees on-the-job. The problem is compounded when trained software engineers look for more challenging and remunerative jobs overseas. This poses the vital question as to who should bare the cost of training and educating individuals in developing the relevant skills. The lack of qualified and recognised teachers and trainers exacerbates the problems in HRD.

On a more positive note, however, the CINTEC has identified HRD as being vital in developing the IT industry. At present there are no firm statistics available as to the number of professionals in the industry. A rough estimate is that Sri Lanka has about 2500 IT qualified IT professional in industry, and that only around 10 per cent of this figure comprises those with graduate level education. The target is to raise the number of computer professionals to 25000 in the next 5-6 years. Towards this end, the CINTEC encourages the introduction of computer science as a discipline at the major universities. Qualification is important especially as a screening device in the job market. CINTEC role is in setting national standards and accreditation for the training provided by most of the courses.

Finally, inadequacies in physical infrastructure results in congestion in the networks and limits the construction of large interstate networks. A closely related issue is the need to build a macro environment (both political and economic) that facilitates the growth of the industry. Experience of the Indian software industry shows that reputation is of fundamental importance in winning contracts in an industry where contracts are inherently incomplete (Bannerjee and Duflo 1999). A strong element facilitating the building up of a sound reputation lies within the individual firm as well as the general macroeconomic environment and infrastructure.

5.2.3. Promoting self-employment and supporting small enterprises

Promoting self employment has become a much discussed and practiced issue in Sri Lanka, with numerous government and non-government organisation promoting this in various ways such as improving access to credit, technical skills, guidance, advise in marketing, etc. The most common support, however, is in terms of facilitating credit. The target group for most of the efforts are those in poverty.

The Small Enterprises Development Division under the MYA is the key public sector organisation that targets youth in particular (section 5.2.3.1). It should be noted, however that this Division accounts for only around 6 per cent of the MYA program expenditure and thus is relatively low key within the Ministry agenda itself. The Samurdhi scheme is another key player offering both credit and guidance for self-employment. This program targets both those in poverty and youth (section 5.2.3.2). The state banks and rural development banks too have various schemes to start self employment projects. But the target group is not confined to youth and hence will not be discussed in detail. Some of these programs are initiatives jointly implemented by the public and/or private and/or NGO sector. Apart from these programs private sector banks and development banks too have initiated several schemes, of which the Gami Pubudu Program under the Hatton National Bank takes priority (section 5.2.3.3.). Various public, private and NGOs are also involved in giving technical and other support to youth. These will also be discussed within the sections below.

5.2.3.1. Small Enterprises Development Division of the MYA

This division, as its name reveals, focuses exclusively on promoting small-scale enterprises. Activities carried out include one day awareness programs and courses conducted in developing entrepreneurship, managing small businesses, marketing and accounting, providing consultancy services and the compilation of handbooks for entrepreneurs. Some of these functions (particularly the training programs) are performed at the district level. In the year 2000, 680 training programs were conducted in 18 districts incurring over Rs. 5 million. Around 20000 young people are reported to have participated in these sessions. Evaluating the external and internal effectiveness of such programs is difficult, given the lack of data and tracer studies. Consultancy services have been provided with the help of other specialist organisations such as the Industrial Development Board, the Divisional Secretariats, District Agricultural Centres, the Bank of Ceylon, etc. Most of these institutes are fellow public sector organisations. Around 462 young entrepreneurs had approached these organisations via the NYSC to solve special issues and problems that arose in their enterprises. Several state and private banks had been referred to for specific financial needs (MYA 2000:37-46).

5.2.3.2 Credit schemes with public participation

The Surathura program

The Surathura program is a key micro-credit program operated by the Rural Credit Division of the Central Bank of Sri Lanka, funded by the three participatory credit insititutions: the Bank of Ceylon, People's Bank and the Hatton National Bank. It is targeted towards educated unemployed youth to enable them to undertake income generating activities or a micro-finance project. The government paid an interest subsidy of 10 per cent per annum to the PCIs to maintain the on-lending rate of 10 per cent per annum. The program commenced in 1996. A survey conducted on the performance of the project in 1997 revealed that although the target group was educated unemployed youth, the Scheme had in fact

funded relatively well-off individuals from outside the target group. Moreover, 58 per cent of the loans had been taken to support existing enterprises. Nearly 80 per cent of the loans had been taken to finance trading activities the balance had been for agriculture and services. Only 39 per cent of the projects funded recorded satisfactory loan repayment (Central Bank 1998).

In the light of the findings the scheme was re-designed and implemented as a second phase in 1997/98. In 1999, the Project had financed 16 433 sub-projects to the value of Rs. 614 million throughout the island. A Central Bank based survey on loan defaulters of the project had indicated that the key cause for default was due to the poor identification of borrowers (Central Bank 1999:XXI).¹⁹

SASANA under the Samurdhi program

Samurdhi has initiated several types of credit programs for the poor. These include the Small Credit Program (SASANA) that commenced in 1995, the Accelerated Loan Animator Scheme that commenced in 1996, and the Enterprise Development Credit Scheme (SAVANA) and the Samurdhi Leasing Scheme that were introduced more recently in 1998.

Of these programs, SASANA uses the largest amount of financial resources annually. In 1998, SASANA loans to the value of Rs. 500 million had been granted to around 75 000 recipients. The size of loans varied from Rs. 2 500 to Rs. 10 000 at a 10 percent interest rate. The loans have been granted to develop small enterprises.²⁰ The main focus of this section will be the SASANA program as it is the longest standing credit scheme within the Samurdhi, and youth in poverty are a particular target group.

The key objectives of the SASANA program are to make credit accessible to the poor and youth in particular so that they can set up and sustain micro enterprises for self-employment. The loan is accessible island-wide to over 50 per cent of the population given the scope and coverage of the *Samurdhi* program.²¹ This implies that SASANA loans are accessible to a large proportion of youth in poverty.

¹⁹ There are several other credit, micro-enterprise development and employment promotion projects operated by the Rural Credit Division of the Central Bank. These programs are accessible to youth, but not targeted specifically to them. Such projects include the North-Central Province Participatory Rural Development Project (1996-2002 and 1997-2003) funded by the ASDB, IFAD, SIDA and WFP; Small Farmers and Landless Credit Project (1990-2000) funded by the IFAD, CIDA and the Government of Sri Lanka; the Kegalle District Integrated Rural Development Revolving Fund Project (1997-2001) funded by the Government of Sri Lanka and the Japan U-Ko Micro-Finance Project funded by the JBIC.

²⁰ 'Unlike the SASANA scheme the Accelerated Loan Animator Scheme is mainly meant to cover emergency credit needs. In 1998 Rs. 45.8 million had been awarded under the Scheme. The two other initiatives, the SAVANA and the Samurdhi Leasing Schemes were budgeted Rs. 200 million each in 1998. The SAVANA loans are meant for developing enterprises of a larger scale than the type of projects the SASANA targets and this reflects in the size of the SAVANA loans that range from Rs. 10 000 to Rs. 50 000. Successful SASANA loan recipients are encouraged to apply for SAVANA loans and thus graduate onto receiving larger loans that will enable them to further develop their business ventures. The SAVANA loan is granted without collateral at a 10 percent interest rate payable within a period of four years. Roughly 5000 loans were expected to be granted in 1998. The Samurdhi Leasing Scheme aims to provide capital assets (e.g., two-wheel tractors, welding machines, etc.) to selected beneficiaries. The cost of such assets is expected to vary from Rs. 50 000 to about Rs. 200 000 and around 200 loans were to be granted in 1998' (Extracted from Gunatilake and Salih 1999).

²¹ The program targets those in poverty. Recent World Bank estimates calculate poverty in Sri Lanka to capture around only 22-23 per cent of the population. The Samurdhi, however, being a programme cast in the political economy of Sri Lanka, peppers its grants over 50 per cent of the population.

The loans have been used mainly to fund itinerant trade such as the door-to-door sale of clothes, sweets, household items, etc., and more metropolitan areas dress making and sewing (albeit to a lesser extent than itinerant trade). As mandated by the Samurdhi Authority, no loans had been given to conventional agriculture-oriented projects such as paddy cultivation, plantation, etc.

Even though youth in poverty are a particular target for the SASANA loan, Gunatilake and Salih (1999) find out that most of the project holders are clustered around the 35-44 age group. Thus poorer youth do not clamour to obtain credit via SASANA for small-scale enterprise development, in spite of its relatively high accessibility. This may well be because self-employment is not perceived as an appealing job to hold by youth. In fact, SASANA project holders themselves (largely in the non-youth category) indicate that self-employment as afforded by the SASANA program was not what they had *aspired* to do. It had been a last-resort option, often driven by credit availability rather than genuine interest. The Gunatilake and Salih study shows that over 50 percent of the entire sample prefer their children to be employed in the public sector. Around 20 percent prefer private sector employment. This “aspirations mismatch” between what Samurdhi offers and what the poor really want poses a real threat to the longer-term sustainability of the micro enterprises, and certainly for targeting youth for self-employment via such a broad-based poverty alleviation scheme.

Another serious problem with credit programs in a poverty alleviation context as argued in Gunatilaka and Salih (1999:25) is whether ‘the type of markets that the projects cater to can sustain the projects in the medium and longer-term. Almost all the enterprises cater to a poor, limited, segmented market where demand is rather inelastic. For example, a soap-maker in Eheliyagoda could market his tissue-wrapped, home-made cakes of soap mainly amongst plantation workers who appreciated the 0.25 cent reduction in the price of the cake of soap compared to more advertised and popular brands of soap. Moreover, most of the buyers of the home-made soap had been persuaded to purchase it because it was a way of “helping” a fellow Samurdhi recipient. It is doubtful, therefore, whether this industry could expand beyond this segmented market, even to the less-rural areas of Eheliyagoda. This is true for most of the other micro-enterprises supported by SASANA. Poor quality and packaging, poor marketing skills and the lack of effective advertising (apart from attempts at moral suasion) and the lack of benefits of economies of scale that larger manufacturers enjoy, confine these tiny businesses to very limited, segmented markets catering to the poor. A possible implication of the nature of the markets is that the projects may not profit and expand enough to propel its holders out of poverty. Indeed, the projects may well cause social exclusion and increase the incidence of relative poverty.’ These results may hold true for youth embarking on such projects as well. Catering to a niche, non-expanding, inelastic market may well exacerbate social exclusion and restrict labour mobility rather than encourage it. So even if youth in poverty obtained credit and commenced upon projects, it is arguable whether such projects would be an avenue out of poverty and social exclusion.

The sustainability of the SASANA program itself is suspect, given the high loan default rate and the low profit margins of most projects. The expectation of some recipients of loan-forgiveness in a government-sponsored program only exacerbates the problem. Moreover, the SASANA seems to have been more successful at being a measure protecting the poor rather than increase their income generating capabilities through self-employment generation. This is particularly so when micro enterprise credit is targeted at the ultra poor or labouring poor categories, who comprise the lowest tiers of those in poverty. Poor youth in these tiers in particular, suffer a high opportunity cost associated with starting up a business. Most projects

have long gestation periods before returns are received. If youth are also main income earners of the family, they are likely to trade off future income for present income, choosing to seek, say, casual employment over self employment projects. The 'upper-ranks' of the poor, namely the self-employed poor (those in self employment who work alone or employ a few others), entrepreneurial poor (those in self employment employing five or more people) or near poor (those in stable wage employment characterised by low earning power) are often better targets for micro-finance. This perhaps contributes to the success of the *Gami Pubuduwa* Programme, whose target group is the upper-end of those poor, discussed next.

5.2.3.3. *Private sector initiatives in targeting credit to youth: the Gami Pubuduwa Program (GPP)*

Sri Lanka's handful of private commercial banks generally stay away from offering micro credit for self employment, given the high risk of default such programs carry and high operational costs they incur. The Hatton National Bank of Sri Lanka (HNB) is an exception to the rule. The HNB launched the *Gami Pubuduwa* or 'village reawakening' program in October 1989 providing an example of how a commercially profitable micro finance program is carried out within the operating structure of a private commercial bank. The Bank's involvement in micro-finance, however, has meant high operational costs and specialised human resource requirements.²² These constraints also mean that expansion opportunities for such an operation are limited once a break-even point has been reached.

The GPP provides banking services to households in rural and semi-urban areas in Sri Lanka, geared to micro enterprise and non-farm business development. It works through GPP units operating in 20 administrative districts through HNB's branch network. Between 1989 and 1995 the program had reached 12 654 borrowers with an average loan size of US \$ 360 and USD \$ 4.6 million in total loans approved. It has mobilised 44, 500 deposit accounts with average balances of US \$145 and total deposits of US \$ 8.15 million. The scheme is implemented by 105 delivery units staffed by 114 field offices who carry out the credit delivery and recovery facilities.

The GPP caters to the rural entrepreneurial credit needs but has targets in particular credit for educated rural youth, particularly school leavers and university undergraduates. It is also interesting note that the program was first initiated in 1989 in areas where youth unrest was highest. So far, youth between the ages 18-25 have obtained around 20 per cent of the loans. Around 12.5 per cent of the loans have been taken by females. Roughly half the customer have taken loans to improve existing projects. The most popular sectors have so far been transportation followed by carpentry, grocery sale and garment production (HNB 2000). The loan default rate is reported to be very low at around 3 per cent.

The GPP is more than just a credit program. It is an integrated approach that educates its customers about product quality, marketing, budgeting and banking. The program also helps in coordinating, channeling technical help and organising special marketing events and fairs. The GPP has also made institutional relationships with the Sarvodaya village-based organisation, the SANASA federation of thrift and credit co-operatives and other NGOs through the UNDP-CARE network of micro-finance institutions in Sri Lanka. These are

²² For example, the programme has village banking advisors, who are themselves given special incentives (motor cycle allowances etc), whose initial is to promote in rural areas banking services available through the HNB and to accumulate information on non-farm micro enterprises and small-scale business projects suitable for HNB financing support. This is a rather tedious and specialised function of information gathering that involves high operational costs.

invaluable sources for information about customers and sources that assist customers with their entrepreneurial endeavours. Moreover, the GPP has benefited from international organisations that carry out similar ventures such as the Bangladesh Rural Advancement Committee and Australia-based Opportunity International.

The HNB experience shows that institutional commitment, operating autonomy and a management environment that encourages responsive procedures to enhance program sustainability, are vital ingredients for a successful micro finance initiative (Gallardo et.al.1997:vi).

5.2.3.4. Other Private sector/NGO initiatives in supporting self employment

Various other private sector organisations have carried out a significant number of income generating and job-creating programs, funded mostly by financial resources generated on their own initiative and/or supplemented by international donor initiatives. The most prominent examples are the *Sarvodaya* movement with its network of village societies, the SANASA Thrift and Credit Co-operative societies,²³ Women's Development Federation of Hambantota District and its Janashakthi Bank Societies and the People's Rural Development Association. The target group of the latter program is women and is therefore accessible to young women as well (see section 5.2.4.)

With their established outreach and experience, these private sector institutions have also been important channels or government-funded rural and micro-finance programs. Government-directed micro finance programs such as the NDTF increase access to funds for on-lending funds. However, most of these institutions continue to rely on self generating resources and other resources rather than risk uncertainties associated with the continued availability of government funding, especially in an environment of privatisation, deregulation and devolution. Some private and public sector institutions accumulate sufficient resources to support their micro-finance operations, leading to a lack of demand for NDTF funds (Gallardo 1997:6).

5.2.4. Community Development through local initiatives

Community development is the focus of many organisations throughout the island, most prominent of which are the Samurdhi poverty alleviation program, the Janashakthi Banking program, activities of the NYSC, various religious groups and NGOs. Information regarding the Samurdhi initiatives in this regard are well documented and can be found in Gunatilake et. al. The activities of the NYSC targeting youth in particular and the Janashakthi Banking Societies are briefed below.

An analysis of *local initiatives* in this regard are more difficult to obtain given that activities of religious and community organisations are not well documented. It is beyond the scope of this paper to provide a coherent analysis of such activity.

²³ Under this scheme savings are mobilised from and granted to TCCS members by the SANASA Development bank (SDB) and the TCCS. The SDB was established in 1997, and has been providing loans to TCCS members and other customers under several loan schemes designed by the SDB. The total savings of the SDB at the end of 1999 should at Rs. 966 million. It had also granted loans to the value of Rs. 324 million.

NYSC

NYSC attempts are based largely on increasing social and political awareness and mobility and fostering national integration in the longer term through many of its activities such as aesthetic tours and friendship programs. Apart from this, the Youth Club division of the NYSC organises various events such as nature camps, the organisation of Youth Divisional Councils to improve understanding of politics, financial support programs for young writers aged 17-35, do-you-know contests, youth forums and leadership training programs.

Janashakthi Banking Societies (JBSs) in Hambantota.

The JBSs were first set up in 1989 as informal saving and loan associations by the Women's Development Federation (WDF), a NGO operating in the Hambantota District. The key aim of the program is to empower women in poor families in the area to become socially and economically self-reliant. A multi-pronged approach has been used to realise this aim including participatory association, mutual help, inculcating awareness and education, and micro finance to start on income generating activity. Even though the target group is women of any age, the program is accessible to young women of the area as well. It is an attempt at developing a viable community-based approach towards self improvement, but the societies need managerial expertise, sound accounting practices and reliable fund flows in order to sustain them as prudent and viable savings and loan associations in the long run.

5.2.5. Supporting private sector development.

The policy stance of the Sri Lankan Government since 1994 with a new political party coming into power (the People's Alliance-PA) has been one of following more or less the same path as the government before (the United National Party-UNP). The key intention was to use the private sector as the engine of growth. The main elements of reform have been in terms of tariff and tax changes, public enterprise reform including privatisation and commercialisation, attempts to reduce the budget deficit and human resource development, detailed below.²⁴

Trade reform has led to the rationalisation of the tariff structure and reducing certain price distorting elements especially in the agricultural sphere. These reforms have taken place (e.g., changes to the tariff structure) mainly because of the political will and commitment to implement them. However, in several cases (e.g., the elimination of quantitative restrictions on certain agricultural produce), the poor timing of the reform led to near-disastrous consequences.

The key tax reform has been the implementation of the GST with the aim of making the tax system simpler and more efficient. Strong political commitment has been a key contributor to the implementation of this change in the tax system. It is doubtful however, whether the GST is revenue neutral, given the many exemptions offered. It is also doubtful whether the GST is price neutral (especially during the initial months of implementation) especially due to malpractices on the part of the trader, arising from inadequate public awareness campaigns.

²⁴ The ensuing discussion has been extracted from Salih et.al.(1998).

In the case of public enterprise reform, the main obstacles have arisen from poor labour-management dialogue. In several privatisation attempts, the main problem had been union resistance. This is hardly surprising, given the poor legal and policy framework currently available to handle labour issues during privatisation. More importantly, the problems were also reflective of the inadequacies in the exit policy of the Sri Lankan labour market (Kelegama and Salih 1998).

In terms of improving investment in human capital, the government has attempted restructuring public institutions directly supporting the private sector. Thus the private sector has increased its participation in Research Institutes' activities in the sense that more research projects are being taken on by the University of Colombo, the University of Peradeniya, the University of Moratuwa, the Post Graduate Institute of Management and the CISIR for the private sector in the last four years. An Amendment has been made to the 1978 University Act by the Department of National Planning to encourage universities to undertake private sector consultancies to raise more funds for their departments. These various research institutes have retained revenue from their private sector clients and are increasingly attracting more clients. However, no public sector institutions have been fully converted to private institutes.

There are also various instances where government policy has been inconsistent. One such example is the continuing activity of the Co-operative Wholesale Establishment (CWE) in spite of eliminating certain distortions in trade. Another example is the "rehabilitation" of privatised enterprises that performed poorly. Such inconsistencies are likely to cause a systemic failure in macroeconomic policy. Several members of the private sector feel that policies lack continuity and are *ad hoc*, implemented to suit political needs. Even budget proposals are often incremental (based on the previous years' budget) rather than being efficiency-oriented. Inconsistencies in government policy are also apparent in its handling of labour: On the one hand, the public sector is engaged in down-sizing exercises during public sector restructuring programs. On the other hand, employment is created for unemployed youth and graduates through the National Poverty Alleviation scheme. Currently, around 40,000 youth have found employment as animators or managers of the *Samurdhi* scheme. It has been argued that the main aim of such employment creation is for the political purpose of patronage disbursal.

5.3. Job brokerage

Job brokerage deals with the issue of matching job seekers with employment opportunities. This includes methods that open 'pathways' from school to work, from inactivity to activity, from unemployment to employment, from job search to training programs and from unproductive jobs to decent work.

In Sri Lanka, recent attempts have been made to open such pathways. Amongst this is the activity carried out by organisations such as Young Entrepreneur Sri Lanka, an NGO that aims to provide young Sri Lankan citizens with experience in practical economic and business education in the private enterprise to help them be 'work force ready'. This NGO that was launched in 1997, is affiliated to Junior Achievement International, a non-profit organisation financed by over 100000 businesses, foundations and individuals. The purpose of the organisation is to educate and inspire young people to value free enterprise, understand business and economics. The organisation works together with the Ministry of Education and Higher Education, USAID and TIPS, as well as business organisations. The program is

carried out in three levels—elementary, middle and senior, encompassing grades 1 through grade 13 of the formal educational curriculum. At present schools in both urban and rural areas participate in this program. School children are encouraged to form their own company, establish their own Board of Directors, open bank accounts under the name of the company in commercial banks, prepare company reports, advertise, market, sell and keep accounts. The schools-based companies are more or less miniature versions of their counterparts in the formal business world. This hands-on experience in actual contact with the ‘real world’ and the use of the English language to present ideas and performance reviews, enables students to be more work-force ready by the time they actually leave school. It also gives them invaluable insight and awareness as to the options available outside wage employment or the public sector.

Such initiatives however are rather rare. Job brokerage remains an area to be exploited.

6. Lessons learnt from implementing labour market policy

This section summarises lessons learnt from the many demand and supply oriented active labour market policies discussed in the section above. Before proceeding, it should be reiterated that overall, the lack of follow up and tracer studies is a significant constraint to gauging program efficiency and methods of improvement. Moreover, since there are no meaningful guidelines to follow in terms of performance targets to be achieved, comparison within and across programs almost impossible. Exacerbating the issues is that there is no central data base or source of information that keeps updated records of nation-wide statistics on youth, programs available and their costs.

More importantly, it is difficult to say whether these policy efforts target the root *causes* of youth unemployment or offer short and medium term solutions to say, reducing vulnerability. Very little research has been done on the spatial variations and causes to youth unemployment, or community (group) specific attributes constraining employability. If there are significant variations in this regard, then an effective labour market policy would be one that reflects this. With this caveat in mind, the remainder of this section would proceed to draw lessons from the attempts that have been implemented so far.

Vocational training

With regard to vocational training, the key lessons are that the system has to be more demand driven and that a clear policy for the sector (with long term goals) is needed to make delivery more effective and less duplicative. Moreover, national standards for quality and accreditation have to be developed and monitored. The TEVT system also needs to improve staff quality, equipment and training quality. Certain courses need to be updated and in some cases replaced to meet current market demands. The sector could also benefit from more research into external and internal effectiveness. Conducting tracer studies in this regard is essential. A key drawback constraining a comprehensive study of the services provided in the sector by the various partners is the unavailability of an inventory of such activity and organisations.

At present, females tend to pivot around a few types of courses. Increasing awareness and access to the more technical courses available would help females move out of being occupationally segregated and instead be horizontally mobile.

A positive lesson learnt from the activities so far is the benefit of adopting a holistic approach by organisations such as the NYSC in providing training. Here TEVT is delivered more as an integrated package, which at best combines career guidance and job market information along with various recreational activities and residential facilities if the need arises, for the trainees. The NYSC also has well established partnerships and links with NGOs, the private sector and several other public training providers which has the potential to make TEVT much more effective. Further involvement with the private sector for practical exposure will enhance the quality of courses. Much as these positive features are best practices that could be whetted further, full potential is not realised due to institutional rigidity within the NYSC and the poor monitoring of performance and quality.

Another lesson is that certain training providers seem to have developed a comparative advantage and indeed reputation over time that is conducive towards specialising in a particular area and providing for skills upgrading facilities and defining national standards rather than expanding horizontally. For example, NAITA has developed skills and experience in providing industrial urban-based training through apprenticeship schemes. This experience together with that of developing training standards and skill testing and certification could be developed further to set national guidelines and standards. The VTA on the other hand can exploit the extensive network of community-based training centres to deliver skills in, say, self-employment to particularly rural youth.

A principle measure to reduce overlap and duplication in programs is to foster partnerships within the various public sector organisations, NGOs and private sector organisations working in TEVT.

Finally, TEVT programs should target youth much earlier than they do at present. Most teenage youth who opt to leave formal education do so at the Grade 8 to 10 level. School-based training sessions and awareness programs can by and large be a more effective way of targeting youth than expecting youth to turn up at training centres as a last resort when all other options fail. Moreover, formal education and non-formal education must merge within the school curricular so that youth entrants to the labour market will be work-force ready at the time they enter the market. This leaves less time to be discouraged and eventually frustrated. TEVT is as much an issue of awareness of options as it is the delivery of quality market-oriented training.

Guidance and counseling

Current efforts in career guidance and counseling are rather limited in terms of accessibility. The main way forward seems to be to develop partnerships amongst the various service providers to build a strong national network. This would enable youth seeking assistance to be guided and referred to more appropriate service providers, if the necessity arises. It will also have large positive externalities through information flows that cannot be achieved when service is provided in isolation.

Career guidance in particular could benefit from networked databases advertising vacancies and positions. An electronic database that is dynamic in its information would be an end that is worth working towards. Until then, career guidance units could play a strong role towards guiding youth towards various electronic and non-electronic sources of obtaining information.

Job placement

There are virtually no job placement programs for youth in general. However, graduates have been the subject of various placement programs for many decades. These programs have by and large been unsuccessful. This has often led the government to engage in the bulk recruitment of unemployed graduates (and in some cases unemployed youth) in various ways. The dangers of such bulk recruitment into the public sector are manifold. The most pertinent to the Sri Lankan labour market is the 'wrong' signals it sends to youth, entrants and those already in the market. Manifestations of this is that youth tend to 'queue' for public sector jobs, develop aspirations that are difficult if not impossible to match. It also creates a culture of dependency and an attitude where a public sector job is often considered a *right* and that such employment is an *obligation* on the part of the government.

One way out of this trap would be market-orienting university and school education with non-formal education, TEVT and partnerships with the private sector incorporated as a part of the curriculum.

Public works

Public works are a poor source of employment in Sri Lanka even amongst those in poverty or transitional poverty. The way it is currently operated in Sri Lanka, public works are non self-targeting leading to high opportunity costs of joining in such work and disrupting traditional sources of earning a living. A self targeting program would be when the poor themselves approach public works programs for temporary income support as in the Maharashtra Employment Guarantee Scheme in India. In Sri Lanka, poverty alleviation programs such as the Samurdhi tend to force participation in rural works. Thus, even though useful in certain one-off situations such as a severe drought or famine, job creation through public works cannot be used in a prescriptive fashion.

Job prospects in the information economy

The sector has high prospects especially for youth. Unfortunately there is no clear policy guiding the sector. The lack of a national policy in terms of IT training and education is particularly important in order to make sure that computer literacy does not become a repressive device benefiting an advantaged segment of the youth and marginalising others. The sector should also define national standards to be met by service providers and trainers.

Currently the sector also suffers from a severe shortage of resource personnel, qualified professionals and technical staff. This constrains rapid expansion. The unstable political and macro economic conditions are another drawback affecting the growth of the sector. The information economy is particularly responsive to these factors.

Self employment

Sri Lankan experience shows that supporting self employment includes providing support in a vast array of factors including credit, technical skills, marketing accounting, advertising, sales and transport facility. The provision of credit alone without providing support and guidance in these other areas is a futile effort. Thus the best support for self-employment comes from organisations whose approach is integrated. Moreover, regional disparities mean that a single approach to developing self-employment will not work in all the areas. Supporting youth in metropolitan areas for instance requires techniques vastly different from supporting rural youth with little physical access to a market. Thus large-scale prescriptive nation wide attempts at boosting self employment is not cost effective and is in fact a sheer waste of resources.

In terms of credit programs, those that work best (in terms of low default rates) are those handled by loan providers other than the government. Most government credit schemes tend to be highly politicised nurturing a culture of dependency and an expectation of loan forgiveness.

The more successful credit programs are those whose target groups are above tiers that are ultra-poor or are labouring poor. In other words, youth that are close to and above the poverty line tend to fare better in self-employment projects for which they obtain credit than their much poorer counterparts. The better credit programs are also those that gather sufficient information about the feasibility of the project before implementation. Better the information, lesser are the problems of adverse selection. A rather costly but effective way of information gathering adopted by the GPP programme was to send program offices to selected villages, where the offices first introduced development banking facilities to the poor, networked with the villages and various other NGOs in the area as well as NGOs around the world who work on similar issues. The GPP experience is a clear example that proves the effectiveness of forming partnerships and liaisons with various stake holders and service providers.

Commitment and dedication towards efficient delivery amongst all tiers of those involved in the project—including the youth who ultimately benefit from the project, is another vital ingredient for success.

Increasing awareness amongst youth as to options available outside wage employment is important, as the dominant attitude amongst contemporary Sri Lankan youth is to turn to self employment as an option of last resort.

Finally, self-employment works best when the economy is growing rather than otherwise. It is also more successful when political and economic uncertainties are minimal.

Private sector development

Private sector development has been supported by various State initiatives in making the economy more flexible, efficient and liberal in terms of trade, taxes, finances, etc. At the same time several regulatory bodies have been instituted especially with the privatisation of utilities such as telecommunications. The key lesson that emerges out of such experiences since liberalisation in 1977 is that political commitment is a must for the success of most such policy initiatives. Equally important is public and consumer awareness of such initiatives as is care in timing and sequencing such reforms. Overall a stable political environment is vital for private sector development and investment. Together with this a stable macro economy along with policy credibility (perhaps through pre-commitment) is essential for growth and employment generation.

Job brokerage

Very few programs exist at present facilitating job brokerage. This is an area that should receive special attention in the NYP action plan.

7. Conclusions

Since liberalisation in 1977 the Sri Lankan economy has enjoyed a significant rise in jobs created by the private sector and a decrease in rates of open unemployment.

Participation rates among females have risen in particular. Unfortunately, most of the jobs created are in the low or semi-skilled category in factory type environments, earning Sri Lanka cost-based advantages rather than those in quality, technology or skills. A very real danger with this situation is that a dynamic comparative advantage has not been developed and it is likely that these cost based advantages are rather short-term in nature.

The situation of youth in the labour market is not vastly different to that of the overall labour market. Participation rates have increased particularly in the 1990s amongst both male and female youth. Youth are mostly employed in the agriculture, manufacturing or personal services industry largely in lower occupational tiers as semi or unskilled workers. Thus most youth are employed as labourers, factory workers or domestics working abroad. Recruitment in the armed forces is common especially among rural youth with basic education. It is probable that underemployment (in terms of an underutilisation of skills) is prevalent in most occupational categories.

The incidence of youth being in the informal sector is slightly less than that for all employed. But this does not negate the necessity to look at what drives these young people into the informal sector and what their working conditions and future prospects are. A bulk of the youth are in wage employment and only about a quarter are self employed. Self employment is often taken up as an option of last resort with most youth indicating that they prefer white-collar wage employment.

Youth unemployment rates are three times as high as overall rates with females worse off than males. The double-digit levels have persisted for decades, suggesting ingrained labour market inefficiencies. By education category, unemployment is highest in the grades 8 to 13 group (i.e., grade 8 to A/L). Unemployment among university graduates is relatively low, compared to all youth or the labour market as a whole. There is also the recent emergence of vocationally trained unemployed. Job search time among youth is high as well with around 47 per cent claiming to be seeking employment for over a year. During this time youth are often supported by their families. The unemployment duration figures for the labour force as a whole is worse for all unemployed. This reflects a baseline inefficiency in the job matching process in the labour market.

The high levels of unemployment among youth and the persistence of such unemployment across time along with high job search periods are manifestations of various micro, macro and institutional level constraints and characteristics.

Defining the micro level causes for unemployment among youth with a view to offering policy directions is rather difficult at this stage given that very few rigorous analyses have been done in this regard. Possible research areas include applied micro-econometric analysis at the household level on links between poverty and the labour market, education investment decisions and returns to education, the incidence of recurrent unemployment, etc.

Macro level inefficiencies have often been cited as a key cause for high rates of unemployment and its persistence. Political instability, weak governance, the lack of policy credibility, corruption and bottlenecks in physical infrastructure (e.g., electricity, roads, telecommunication) together with internal civil strife and external shocks to the economy have all dragged down the momentum of economic growth and investment. This has had an impact on the generation of employment opportunities. The turbulent political economy has also taken its toll in deteriorating social capital and the element of trust within various

segments of society. A clear manifestation of this is the fact that fresh attempts at defining a NYP are often scoffed at or treated with distrust by youth themselves.

Apart from micro and macro reasons, unemployment might also be fed by institutional rigidities within the labour market such as labour regulation and unions that constrain flexibility. But the mere removal of regulations may not necessarily improve flexibility. Improving flexibility would require the simultaneous improvement of overall efficiency of the labour market in terms of matching vacancies with job seekers, minimising structural unemployment, improving productivity through incentive structures, investigations into the effect of hysteresis (i.e., past levels of unemployment have an impact on current levels), etc. It is essential that more research be conducted in these areas in order to define the appropriate policy measures to improve labour market flexibility at the macro and micro levels. Without such careful analysis it is difficult to say whether many of the current efforts of improving youth employability discussed in section 5 target the *causes* for the apparent labour market inefficiencies or simply treat manifestations.

Public sector employment practices and the precedences the State has set in terms of employment creation have also had an insidious impact on youth aspirations and expectations. Put rather simply, youth prefer to queue for public sector jobs, incur long search periods and consider public sector employment as a right. The fact that ‘wrong’ signals have been repeatedly sent to the labour market means that history is a significant factor to be considered when defining and implementing an effective NYP. Special care should be taken to avoid a continuation of sending wrong signals and of applying ad hoc measures. Winning trust and gaining credibility (perhaps with the use of pre-commitment as a strategy) will be a significant challenge.

University graduates as a group seem distinct to youth and to the labour market as a whole. This suggests that policies catering to improving the situation of graduates will not necessarily improve the situation for youth.

Graduates are better off relatively in terms of employment and unemployment rates and enjoy employment in higher occupational categories and faster growing industries, implying that they are somewhat successful in earning higher returns on education. However, the better situation is one propped up by the State. Even twenty years after liberalisation, most graduate entrants to the labour market (68 per cent in 1997) find employment within the public sector and various ad hoc recruitment schemes are used to create employment for those graduates unemployed. Graduate employment also seems to cluster around one particular industry hinting at underlying asymmetries in the incentive and opportunity structure. Moreover, their occupational expectations pivot around higher-rung professional, managerial and technical positions irrespective of skills acquired. Graduate supply trends do not offer any consolation. Almost all university education is publicly funded and severe resource constraints limit the expansion of the education system to meet demand. There is a consequent rise in the tendency for students to choose studying in various professional organisations, external degree programmes affiliated to foreign universities and seeking education overseas. This is not an unfavourable trend in itself. The underlying issue, however, is that these options are available only to the handful who can afford it, implying that social inequalities will become further entrenched and access to more rewarding labour market opportunities may become even more exclusive.

To re-iterate, graduates come up as a distinct group with several unique issues and concerns that are best distinguished from those of youth in general.

There are several programs in contemporary Sri Lanka that aim to improve the labour market opportunities for youth. A bulk of the efforts –as far as expenditure is a proxy, is in terms of offering TEVT. Other efforts include offering career guidance and counseling, supporting self employment and entrepreneurship and supporting the private sector. Particularly weak are efforts in job placement and job brokerage. As section 6 briefed, there is a lot of room for improvement with various lessons that could be drawn from their implementation and coverage.

Most of the current programs implemented in the labour market cover certain aspects described in the NYP that is still in draft form. But there are some glaring gaps common to most of the policies and programs that could well be addressed in the NYP and the action plan. The first of these is that there is very little coordination or networking among the service providers. Even though establishing partnerships and working through dialogue between various stakeholders and service providers is not unheard of, there is much room for further development and improvement. Such efforts will render net positive externalities through a network that facilitates more participation, interaction and information and the effective implementation of the action plan.

The second is that there are no effective ways of measuring performance developed so far. This is an area that could benefit much from local experiences (e.g., performance indicators developed by the Ministry of Women’s Affairs for instance) and from international experience.

Apart from this, the youth policy itself would be better whetted with insight into the economic issues facing youth such as employability, quality of education, labour market incentive structures, working conditions, poverty, human capital, and technology. There are also various links between the macro economy and the labour market in Sri Lanka that begs for further research. Some of the possible research areas have been briefed in the main text and in conclusions above. Insight from such analysis would help carve a clearer and more focussed long-term policy direction that is both effective and practical. What ever the policy, the action plan would best be one that promotes co-ordination of activities within the social partners, patching up areas that are currently weak such as job brokerage and information dissemination, rather than be yet another effort in, say, training provision.

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Appendix 1

Data Sources

A large number of Sri Lankan agencies are engaged in data collection but their results often show discrepancies. For instance, two key data collectors- the Central Bank and the Department of Census and Statistics (DCS), produce independent sets of national income accounts and many aggregate economic variables that are at variance with each other. This study relies on published data of the Central Bank for most macro-level indicators, supplemented by other primary sources where appropriate. This is mainly because the Central Bank publishes data with less delay than does the DCS, permitting recent information to be used. Employment data is perhaps the weakest link in the national data system (Athukorala and Jayasuriya 1994:129).

The discussion relies heavily on data analyses of the youth labour market based on own calculations using the QLFS carried out by the DCS from 1992-1998. This data is superior in terms of quality and consistency compared to similar data for previous years. For labour data before 1992, census reports (1971 and 1981), household income and expenditure survey (1985/86) and the Demographic survey (1994) are used. It should be noted that apart from the census data, all other sources exclude the North and East of Sri Lanka (3 districts) subject to the ethnic conflict. So this data is not entirely representative of the whole island. Various other limitations pertaining to these sources (dealing mainly with limits to comparability given varying definitions of employment and unemployment, collection and enumeration issues, sampling issues and indexation) can be found in studies such as Korale (1992). These issues do add some amount of noise to the data, but do not completely debilitate its use for purposes of comparison and contrast. The analysis also benefits from a recent survey done by the Centre for Anthropology and Social Sciences (CASS) of the University of Colombo on Youth. This source gives qualitative insight into sociological aspects pertaining to youth.

Unfortunately, the data does not avail the observation of trends for disabled or less able youth as a special group.

Data from various other sources such as the World Bank (World Development Indicators), ILO, International Financial Statistics are also used for international comparisons of education and higher education. It should be noted that some of these international data do not strictly correspond to data published by the various local authorities.

Information regarding youth policy and programs have been obtained mostly from the Ministry of Youth Affairs, NYSC, Entrep. Division, Research and Planning Division, The Saumrdhi Authority, the TVEC and the TVA of Sri Lanka. Apart from this, the study rests on a large number of secondary sources of information such as research publications and reports.

Appendix 2

Table 1: Proportion of youth by economic activity and gender, 1997

	Youth aged 15-19			Youth aged 20-24			Total (youth aged 15-24)		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Employed	11.4	5.8	17.2	31.5	15.7	47.2	20.2	10.1	30.4
Unemployed	4.7	3.9	8.6	9.5	9.9	19.4	6.8	6.6	13.4
Not in the labour force	35.2	38.9	74.1	8.1	25.1	33.2	23.3	32.9	56.2
Total	50.3	49.6	100	49.1	50.7	100	50.3	49.6	100
Participation rate (%)	30.1	19.6	25.8	83.5	50.5	66.6	53.7	33.7	43.8
Unemploy- ment rate (%)	29.1	40.2	33.0	23.2	38.7	29.1	25.0	38.4	30.5

Source: DCS(various issues-a) and DCS(various issues-b)

Table 2: Employment by industrial category 1981-1997, All employed, youth and university graduates

	All Employed				Youth				Graduates	
	1971	1981	1992	1997	Age 15-19		Age 20-24		1992	1997
					1992	1997	1992	1997		
Agriculture	50.1	45.5	31.0	39.9	39.2	38.7	28.1	30.1	4.9	5.0
Mining and quarrying	0.4	0.8	1.3	1.2	1.0	1.6	1.9	1.4	0.0	0.0
Manufacturing	9.3	9.9	12.2	14.0	16.7	23.9	17.9	24.6	3.4	5.9
Electricity, gas and water	0.3	0.4	0.0	0.5	0.1	0.4	0.5	0.4	0.0	1.2
Construction	2.8	3.3	4.3	4.9	3.6	6.3	4.4	4.6	3.0	3.2
Trade and hotels	9.4	10.6	17.3	13.0	13.7	13.4	17.0	14.4	5.5	3.8
Transport, storage and communication	4.9	4.8	4.7	4.7	2.2	1.4	3.3	4.7	1.4	1.8
Insurance and real estate	0.7	1.4	2.1	1.6	0.3	0.1	1.6	1.5	8.3	10.4
Personal services	13.5	14.3	23.4	16.9	16.9	11.5	20.9	15.3	72.1	67.3
Not defined	8.6	9.0	3.3	3.3	5.4	2.7	4.4	3.2	0.0	0.0
	100	100	100	100	100	100	100	100	100	100

Source: Census 1971, 1981, DCS(various issues-a) and DCS(various issues-b)

Table 3: Employment by occupational category 1981-1997, All employed, youth and university graduates

	All Employed				Youth				Graduates	
	1971 ¹	1981 ¹	1992	1997	Age 15-19		Age 20-24		1992	1997
					1992	1997	1992	1997		
Managerial	0.4	0.9	2.5	1.4	3.5	2.4	5.1	4.5	0.0	0.0
Professional	4.9	6.7	4.2	2.4	0.7	0.2	1.5	1.0	15.3	9.4
Technical			7.7	5.7	0.6	0.7	6.0	2.4	62.3	63.1
Clerical	5.1	6.3	4.4	4.2	1.2	0.6	2.6	3.6	10.8	11.1
Sales and services	12.9	13.4	5.6	3.7	1.7	1.2	5.5	4.7	5.9	8.0
Agriculture and fishery	48.8	44.7	14.3	12.1	12.2	11.8	13.6	13.4	2.3	2.7
Craft and related works	27.9	28.2	20.9	24.7	30.0	23.7	19.8	17.3	1.3	1.7
Plant and machine operators			14.5	13.2	18.0	22.4	20.9	20.1	0.0	1.7
Elementary occupations			4.8	5.3	2.9	5.1	3.7	6.7	0.0	0.0
Others			21.2	27.4	29.1	31.7	21.3	26.2	0.0	1.6
	100	100	100	100	100	100	100	100	100	100

Notes:

¹ Data for 1981 is from the All-Island census, whereas the data for 1992 and 1997 are from the Quarterly Labour Force Surveys. Occupational classifications for 1981 are not the same as for 1992 and 1997. The census tables give grouped results, and as such, have been expressed as grouped results in the table above. This stunts comparisons somewhat, but general patterns are still discernible as discussed in the main text.

Source: DCS(various issues-a) and DCS(various issues-b)

Table 4(a): Employment status by sector (urban/rural/estate) for Youth in 1997

	Age 15-19				Age 20-24			
	Urban	Rural	Estate	Total	Urban	Rural	Estate	Total
Employed ¹	3.3	12.8	1.1	17.2	9.9	33.8	3.3	47.0
Unemployed ¹	1.6	6.3	0.7	8.6	3.8	14.6	0.9	19.3
Not in the labour force ¹	15.9	54.3	3.9	74.1	9.6	22.2	1.4	33.2
Total	20.8	73.4	5.8	100	23.4	70.6	5.7	100
Sectoral Unempl. Rate ²	32.7	33.1	38.8	33.0	28.0	30.2	21.4	29.1

Note:

¹Expressed as a proportion of all members of the relevant age group.

²Number unemployed in each sector expressed as a percentage of all the economically active youth in each sector. For example, the unemployment rate for urban youth in the Age 15-19 category would be:

$$\frac{\text{number of unemployed urban youth in the 15-19 category}}{\text{total number of unemployed and employed urban youth in the 15-19 category}} \times 100$$

Source: DCS(various issues-a) and DCS(various issues-b)

Table 4(b): Employment status by sector (urban/rural/estate), for the labour force as a whole for 1981 and 1997.

	1981			1997			
	Urban	Rural and Estate ¹	Total	Urban	Rural	Estate	Total
Employed	7.9	28.5	36.4	7.5	28.8	2.6	38.9
Unemployed	1.9	5.9	7.8	0.9	3.0	0.2	4.1
Not in the labour force	12.7	42.9	55.8	13.1	40.7	3	56.8
Total	22.6	77.3	100	21.5	72.5	5.8	100
Sectoral unempl. Rate ²	19.4	17.1	17.6	10.7	9.4	7.1	9.5

Note:

¹Census data for 1981 classifies the rural and estate sector as one category in the published tables, unlike the LFS data used for 1992 and 1997

²Number unemployed in each sector expressed as a percentage of all the economically active population in each sector. For example, the unemployment rate for the urban category would be:

$$\frac{\text{number of unemployed in the urban category}}{\text{total number of unemployed and employed in the urban category}} \times 100$$

Source: DCS(various issues-a) and DCS(various issues-b)

Table 5: Employment status of employed youth and all employed in 1997

Status	All Employed %	Employed Youth aged 15-19 %	Employed Youth aged 20-24 %
Employee	58.0	65.2	69.8
Employer	2.3	0.3	0.6
Own account worker	29.7	9.4	13.9
Unpaid family worker	9.9	25.1	15.6

Source: DCS(Various issues-b)

Table 6: Economically active population and youth by educational attainment for 1997

	Entire population %	Youth %	
		Age 15-19	Age 20-24
No Schooling	5.1	2.6	2.2
Passed grades 1-4	22.6	14.6	11.0
Passed grades 5-7	19.5	24.9	14.7
Above grade 8, less than O/L	23.6	40.8	35.8
Above O/L, less than A/L	17.8	14.5	22.3
A/L	8.7	2.3	13.5
Degree/postgraduate	2.4	0.1	0.4

Source: DCS(Various issues-a) and DCS(Various issues-b)

Table 7: Public versus Private sector employment for 1997

	All employed	Youth	
		Age 15-19	Age 20-24
Public sector ¹	19.2	4.2	10.9
Private sector	80.7	95.8	89.1

Notes:

¹Includes central government, provincial councils, local authorities, public corporations, universities, boards and banks.

Source: Central Bank of Sri Lanka, DCS(Various issues-b)

Table 8(a): Unemployment as a percentage of Labour Force by gender and age 1953-1996¹

	1953	1963	1973	1978/9	1981/2	1986/ 7	1996/ 7
Total	16.6	14.6	24.0	14.7	11.7	15.5	11.5
Male	15.3	n.a.	18.9	9.2	7.8	11.3	6.9
Female	20.0	n.a.	36.4	24.9	21.3	23.6	19.7
Unemployment by Age Groups							
14-18 Years	n.a.	47.5	65.8	30.7	30.8	48.0	39.7
19-25 Years	n.a.	30.3	47.5	31.1	28.8	35.3	32.1
26-35 Years	n.a.	7.8	15.2	13.1	8.8	10.6	10.5
36-45 Years	n.a.	2.4	3.9	2.7	1.7	3.2	3.1
46-55 Years	n.a.	2.7	1.2	0.8	0.5	0.7	1.2
Above 55 Years	n.a.	1.9	0.8	0.2	0.1	0.6	0.8

Note:

¹This table uses a different age classification such that the 15-24 group that is being considered falls into 14-18 years and 19-25 years. This is because the table aims at giving a long-term break-down of unemployment, and published data for the pre-1992 period is available only in the tabled form.

Unemployment rates as per the teenage-youth, young adult categorisation used elsewhere in the paper can be observed in Appendix 3-Table 8(b) below.

Source: DCS (various issues-a)

Table 8(b): Unemployment rates by age and gender for 1997

Age	Total	Males	Females
15-19	33.4	29.1	40.2
20-24	29.2	23.2	38.7
25-29	15.3	11.6	21.5
30-39	4.9	2.9	8.9
40-49	1.3	1.0	1.9
50-59	0.4	0.5	0.0
60 and over	0.1	0.2	0.0
All ages	10.3	7.7	15.4

Source: DCS(various issues-b)

Table 9(a): Youth unemployment by education level for 1997

	Youth Aged 15-19		Youth Aged 20-24	
	Both males and females	Males	Both males and females	Males
No Schooling	0.4	0.7	0.6	0.8
Passed grades 1-4	13.0	14.0	4.7	4.95
Passed grades 5-7	59.3	66.7	41.2	50.5
Above grade 8, less than O/L	22.1	15.0	28.8	26.8
O/L, above O/L or less than A/L	5.7	3.6	24.4	16.7
A/L	0	0	0.3	0.2
Degree/postgraduate	0	0	0	0

Source: DCS(various issues-b)

Table 9(b) : Unemployed as a per cent of those in the labour force with the same education

	1971 ¹	1981	1985/86	1996
No Schooling	8.4	8	6.1	3.7
Passed grades 1-4	14.1	6.3	7.7	4.1
Passed grades 5-7		17.5	11.2	6.2
Above grade 8, less than O/L		27.9	20.8	16.9
O/L, above O/L or less than A/L	47.1	26.7	22.3	16.24
A/L	44.4	20.4	32	22.7
Degree/postgraduate	16.2	6.3	10.2	7.3

Notes:

¹ Due to incompatibilities in classification, data for the grades 5-O/L category have been omitted.

Source: DCS(various issues-a), DCS (1987) and DCS(various issues-b)

Table 10: Percentage of employed youth, graduate and the all employed by number of hours worked, 1996-99

Hours worked (x)	Youth (%) 1997	Graduates (%) 1997	All employed 1997
More than 35	68.6	57.8	64.5
25>x>=35	12.4	26.1	13.03
15>x>=25	10.0	9	11.1
5>x>=15	3.7	2.1	5.2
Less than 5 hours	5.2	4.9	6.1
Total	100	100	100

Source: DCS(various issues-b)