

# Improving Youth Employment & Entrepreneurship in Sri Lanka: Insights and Strategies

Prepared for YouLead By  
Verité Research

# Improving Youth Employment & Entrepreneurship in Sri Lanka: Insights and Strategies

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## Introduction

There is a high economic cost to society when youth labour remains underutilised. Therefore, the provision of opportunities for youth to integrate into the labour market is critical for enabling the better utilisation of human capital, the creation of job opportunities, and increased competitiveness of markets.

As highlighted in the previous edition of the Market Assessment, youth unemployment in Sri Lanka is characterised by a paradox: high youth unemployment on the one hand, and a large number of employment opportunities on the other. This paradox is framed by four gaps, which are outlined below. The 2018 Youth Labour Market Assessment addressed the impact of each of these four gaps on youth employment and youth entrepreneurship in Sri Lanka.

- Skills gap – the disparity between the skills demanded by employers and the skills that are available among current and potential employees.
- Aspirational gap – the gap between the jobs that youth want (specifically, employment opportunities with high security, social status, better pay and benefits), and the ability of the labour market to provide such opportunities.
- Information gap – the gap arising from the lack of information flow between employers and potential youth employees, regarding job prerequisites and employment opportunities.
- Structural gap – the gap between the available skills and experience of job seekers and those currently employed, and the changing needs and demands of the economy.

Building on the previous report, the current Market Assessment focuses on a series of specific issues that represent key barriers to increasing youth employment and youth employability in the country. Given the potential of youth entrepreneurship to serve as a key driver for increasing the labour force participation of youth, including young women, the current report also investigates key challenges and opportunities for increasing youth entrepreneurship in Sri Lanka.

The current Market Assessment takes a deep dive into several key issues and provides insights and strategies to address these challenges. The report responds to the following areas of interest:

- An in-depth analysis of national data sets such as the 2012 and 2016 Labour Force Survey and Household Income and Expenditure Survey, and the previous 2018 Youth Survey.
- A review of the ‘Thurunu Diriya’ initiative set up by the Sri Lankan government to promote youth entrepreneurship.
- An annotated bibliography of selected literature focused on youth employment and entrepreneurship, including topline findings.
- Engagement with leading academics and key government officials to obtain insights and perspectives on the latest research and policy initiatives, including the ‘Thurunu Diriya’ project.

This report comprises three chapters. The first chapter contains four insights, which address several key questions that remained unanswered in the previous Market Assessment. The first insight outlines the importance of promoting English language proficiencies among youth in Sri Lanka. The second insight observes the constraints faced by NLET youth (that is, youth not in the labour force, education or training). The third insight focuses on enhancing youth self-employment in Sri Lanka by providing youth with the resources needed to set up as an Own-Account Worker. The fourth insight develops a case for transferring the funding of maternity leave benefits from the employer to the state, in order to reduce the discrimination faced by women in the job market. Each of these insights concludes by providing recommendations and practical strategies for implementation.

The second chapter provides an analytical review of the Thurunu Diriya project. The concluding chapter of the report includes the topline findings and an annotated bibliography of the selected literature.

## Chapter 1: Insights and Strategies

### 1. Achieving English Language Proficiency among Youth in Sri Lanka

The lack of soft-skills and the lack of job-specific technical skills among applicants are deeply problematic challenges faced by employers in Sri Lanka who seek to increase their workforce. The Youth Labour Market Assessment of 2018<sup>1</sup> identified that the largest skills gap relates to the lack of English language skills in reading, writing and speaking. The study also found evidence that unemployed youth, in particular, lack the language skills required to obtain jobs. While English language skills rank as the most-demanded skill by employers in Sri Lanka, better English language skills can greatly boost an unemployed youth's access to the labour market.

#### History of English language education in Sri Lanka

The importance of the English language has ebbed and flowed over the course of the country's history. However, it is now widely seen as a means of upward social mobility in Sri Lankan society. English is currently taught as a compulsory subject at the primary and secondary school levels. Youth and parents alike yearn to improve a young person's English language capabilities.

#### The evolution of English language education in Sri Lanka

- Pre-colonial era – Education mainly provided by Buddhist temples and Pirivenas, limited to the elite, and the Buddhist monks centered education around religious knowledge. Tamil education was based on Indian traditions and limited to high-caste young men who were given the opportunity to learn from Brahmin schools near Hindu temples.
- Post colonization – Temple-centered education was changed into an English-based education system, carried out by missionaries of the church.
- 1836 – The Colebrooke Commission establishes a standard system of education in the country and reduces the hold of the church over education, increasing the number of schools which focus on providing English language education for the populace.
- 1942 – A special committee appointed by the Donoughmore Commission establishes free education for all via government-funded schools.
- 1945 – Free education is offered from kindergarten to university level, and the mother tongue is introduced as the medium of instruction.
- 1948 – Sri Lanka gains independence from British rule.
- 1956 – The Sinhala Only Act reduces the role of English as an official language and Sinhala and Tamil become the sole medium of instruction in all government-funded schools. The Act introduced Tamil language as a medium of instruction to Tamil speaking communities by 1958. English was taught as a second language, and no longer used as a medium of instruction.

<sup>1</sup> Youth Labour Market Assessment: Sri Lanka, Verité Research published by YouLead

- 1978 – The constitution makes Sinhala and Tamil the official and national languages of the country.
- 1987 – An amendment to the constitution recognizes English as a “link language” in the country.
- 1997 – General education reforms revitalize English language education at the primary school level.
- 2001 – A bilingual education system is gradually put into place in an effort to cater to increasing global demand for English language skills, but uptake is low.<sup>2</sup>

The 1980s saw several policies introduced to develop English language education in the country. By 2001, a bilingual education system was established, and English was taught as a compulsory subject for GCE O/L examinations. However, despite strong recognition of the necessity of English language skills, evidence suggests that Sri Lanka’s achievements in skilling its youth with satisfactory language skills have been well below par. According to the EF English Proficiency Index, Sri Lanka is categorized as having “very low proficiency” and ranks 78<sup>th</sup> out of 100 countries included in the index. In 2019, Sri Lanka experienced the largest decline in proficiency in Asia in the same index.<sup>3</sup>

### **English language capabilities of Sri Lankan youth**

Acquiring English language skills from the public general education system, which has had a messy history with the language, has been difficult. Similar to the language policies of Malaysia, the irregular use of English language in an official and administrative capacity has led to an erosion of citizens’ proficiency.

Out of 10,000+ public schools in Sri Lanka, there are 806 bilingual schools, out of which 778 use English as a medium of instruction for a portion of its students, and 47 trilingual schools use English as a medium of instruction for a portion of its students. Therefore, of the public-school student body of 4.2 million, only 2 percent learned in English as a medium of instruction in 2017.<sup>4</sup>

The GCE O/L national pass rate for English in 2017 was 51 percent; in comparison, the pass rate for the first language, Sinhala was 90 percent and Tamil was 89 percent. The pass rate for English was lower than the pass rates in Science and Mathematics. While pass rates have improved over time, as evidenced in the graph below, among the 51 percent that passed the O/L English language examination, only 17.4 percent received an “A” or “B” grade in any province, indicating a below-average overall proficiency at this level. Even among those who

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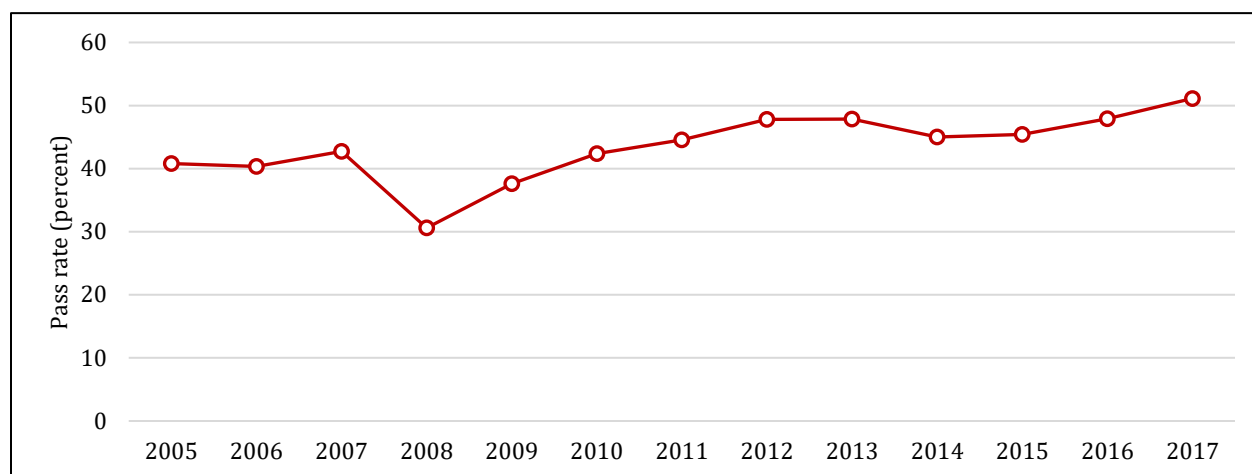
<sup>2</sup> ‘Overview of changes in the Sri Lankan English education system: From the colonial era to present day Sri Lanka’, Prasangani, K.S.N (2014), International Journal of Humanities and Social Sciences, Vol 1 Issue 2 & ‘Teaching English as a second language in Sri Lankan primary schools: Opportunity and pedagogy’, Litte, A. W et al (2019), Language, Culture and Curriculum Journal, Taylor & Francis Online

<sup>3</sup> “EF EPI English Proficiency Index 2019: A Ranking of 100 Countries and Regions by English Skills”, 9<sup>th</sup> Edition, Education First

<sup>4</sup> ‘School Census Report 2017’, Ministry of Education Sri Lanka

choose to study English as a subject for the A/L examination, only 58 percent passed and less than 5 percent received an “A” or “B” grade.<sup>5</sup>

**Figure 1: GCE O/L examination pass rates for English, 2005-2017**



Source: Department of Examinations

According to the 2016 report released by the National Education Research and Evaluation Centre (NEREC), which assessed the achievements of students completing the 4<sup>th</sup> grade, the mean score for English was 53.5 (out of 100), with 36 percent scoring below 40 marks.<sup>6</sup> However, a similar assessment conducted for students completing the 8<sup>th</sup> grade shows a depletion in proficiency with age – the mean score for English was 35.8, with a majority (68 percent) scoring below 40 marks.<sup>7</sup>

### Regional disparities

Regional disparities in educational achievements as well as funding allocations are well-established in Sri Lanka. Schools in the richer provinces tend to get better funding and have better physical infrastructure and more competent teachers. For example, 45 percent of 1AB schools, the highest functional grade of a school denoting the infrastructures available to students, were located in the Western, Central and Southern provinces.<sup>8</sup>

The data shows that these disparities tend to extend to students’ proficiencies in the English language – students in schools in richer provinces, and higher tier schools, outperform their counterparts. A majority of schools which offer English as a medium of instruction are located in the Western Province (22 percent) and the Central Province (16 percent). Among

<sup>5</sup> GCE A/L Examination 2019: Performance of candidates, Department of Examinations

<sup>6</sup> ‘National report – National assessment of achievements of students completing grade 4 in year 2015 in Sri Lanka’, National Education Research and Evaluation Centre, Chapter 5

<sup>7</sup> ‘National report – National assessment of achievements of students completing grade 8 in year 2016 in Sri Lanka’, National Education Research and Evaluation Centre, Chapter 5

<sup>8</sup> ‘School Census Report 2017’, Ministry of Education Sri Lanka

the students who study in the English language, 30 percent are from the Western Province and 15 percent from the Central Province.<sup>9</sup>

According to the same NEREC study referenced above, the mean scores for 4<sup>th</sup> graders were lowest in the Uva, Eastern and Northern provinces, and as children progressed to grade 8, proficiency levels fell in all provinces – the highest ranked province, the Western province, had a mean score of 41.6 while the lowest ranked province, the Northern province, had a mean score of 28.9. As noted by Abayasekara (2018),<sup>10</sup> students in both grades from urban schools outperform their rural counterparts. Samaranayake<sup>11</sup> also notes that rural schools show relatively low or limited English language proficiency, particularly in oral proficiency.

Therefore, there is evidence that the general education system is unable to properly skill young people with the high quality English language skills that are demanded by the job market, and that these shortcomings in the education system are exacerbated by regional disparities.

### **Capabilities at a higher education level**

It is no surprise that the unsatisfactory performance in English language proficiency exhibited at a school level carries forward to the higher education levels. A study by Wijewardena et al (2014)<sup>12</sup> highlights the struggle faced by local university graduates in finding employment in the service sector due to the low English language capabilities. The medium of instruction in Sri Lankan state universities is primarily English (with a few faculties using a bilingual approach). However, with an inadequate proficiency when entering the university, many students find it difficult to keep up with the ever-increasing demands for English language skills.

Furthermore, English is not a skill that youth are willing to forego. Several studies find that university students believe English is necessary to do well in higher education and consider it a driver of upward career and social mobility.<sup>13</sup> As cited in De Silva (2014),<sup>14</sup> one study found that English skills led to better academic performance while another study found that even amongst the most educated individuals in the country, many are unable to reach an international level required in English writing skills.

### **English language and the labour market**

So why does English language matter when we consider youth and labour outcomes? With analysis on the youth survey of 2018, we find that there is a positive relationship between

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<sup>9</sup> 'School Census Report 2017', Ministry of Education Sri Lanka

<sup>10</sup> 'Building a more English-literate Sri Lanka – the need to combat inequities', Abayasekara, A (2018), Talking Economics Blog of the Institute for Policy Studies (IPS)

<sup>11</sup> 'Oral competency of ESL/EFL learners in Sri Lankan rural school context', Samaranayake, S.N. (2016), SagePub

<sup>12</sup> Wijewardene, L., Yong, D., Chinna, K (2014) 'English for Employability – the need of the hour for Sri Lankan graduates', British Journal of Arts and Social Sciences Vol. 17 No. 1, pp. 137-145

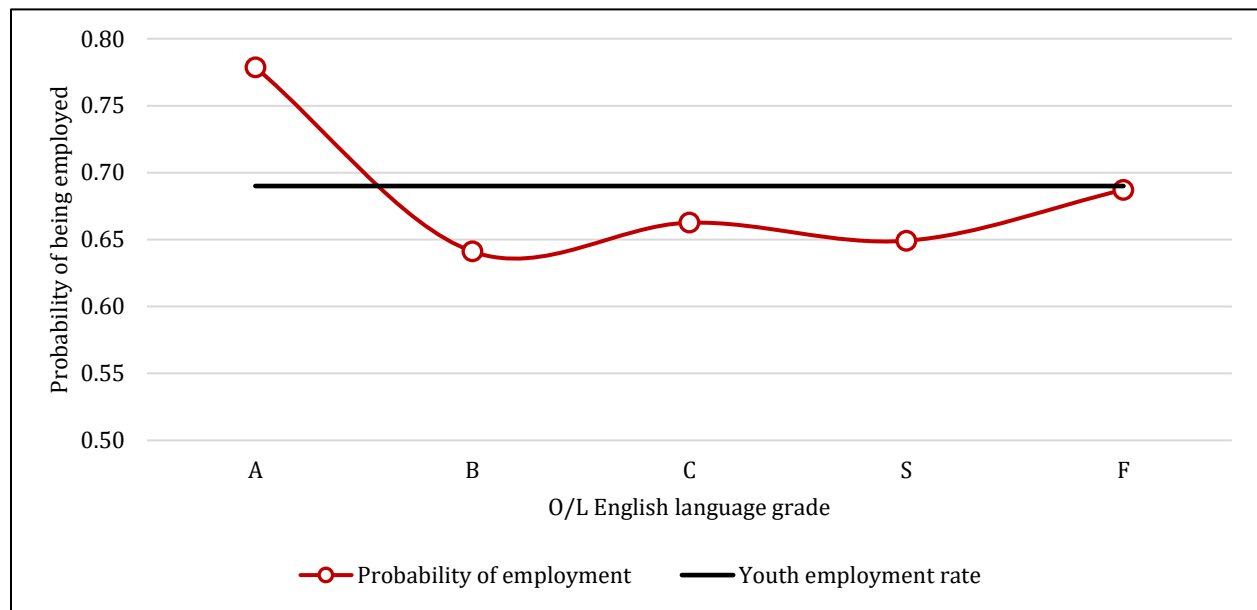
<sup>13</sup> 'Responding to English language needs of undergraduates: challenges and constraints', Decendra, D., De Silva, R. (2014), OUSL Journal Vol. 7, pp. 1-24

<sup>14</sup> Ibid.

English language proficiency and employment outcomes. As the figure below shows, youth with the highest GCE O/L grades for English had the highest chances of being employed (78 percent) – in fact, they did better than the national youth employment average. This is despite controlling for household incomes (which removes the effect of higher incomes leading to better English language grades). As the grade declines from an “A” to a “B”, we see a 14 percentage-point drop (from 78 percent to 64 percent) in the chances of being employed.

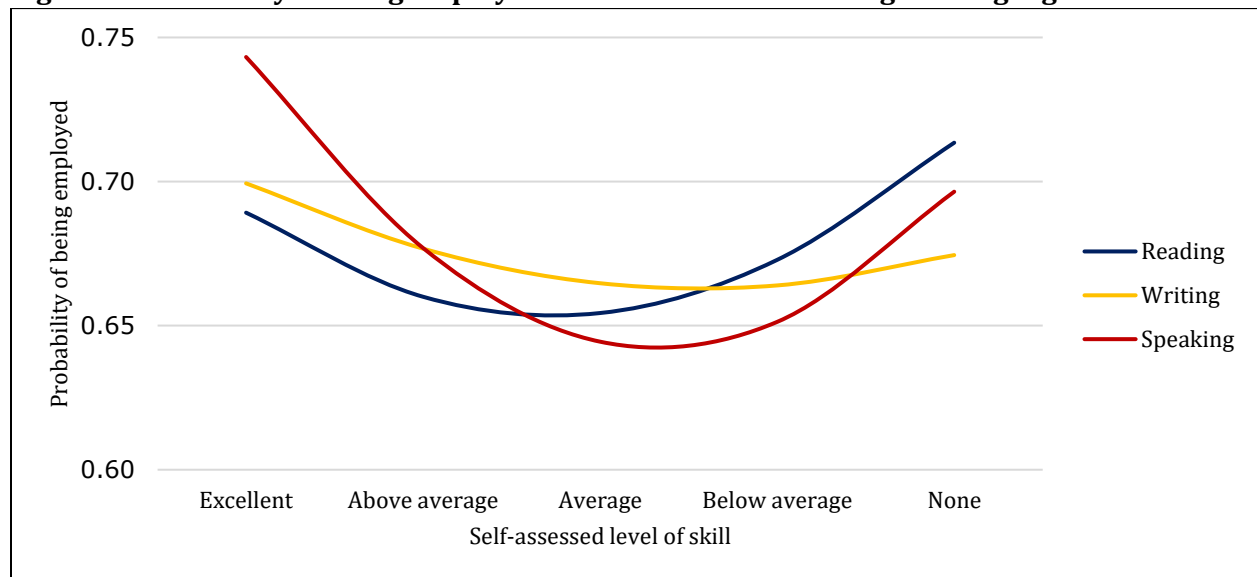
At the lowest end of the spectrum – a “F” or fail grade – the probability of being employed increases slightly, but we attribute this to the fact that those with such grades would be more likely and willing to settle for jobs which require little to no English language skills and are in plentiful supply. Those in the middle of the spectrum have a lower probability of being employed compared to their “A” grade counterparts, signalling the aspiration gap between the capabilities of these youth and the jobs to which they aspire.

**Figure 2: Probability of being employed vs. GCE O/L English grade**



Source: Analysis of the Youth Survey 2018

A self-assessment of an individual’s skill level was performed during the data collection in the youth survey of 2018. We use this self-assessment as a proxy to reflect an individual’s confidence in their skills. Here, we find that youth who self-assessed at a higher level in speaking and writing English had higher levels of employment in comparison to those with lower skill levels (not those with no skill level).

**Figure 3: Probability of being employed vs. self-assessment in English language skills**

Source: Analysis of the Youth Survey 2018

This is an interesting and important finding as it suggests that it is not skill level alone, but also confidence in one's English language skills, that play a role in determining one's employability.

### Why has the current English language education system failed?

Several previous studies have identified reasons as to why English language education has not yielded the desired outcomes, despite the level of effort spent on it.

According to Perera (2010)<sup>15</sup>, student heterogeneity in classrooms in Sri Lankan schools – especially urban schools – is high, as a result of the grade 5 scholarships examinations, which admits several high-performing rural students into urban schools. As a result of hailing from varying socioeconomic backgrounds, experiencing differing levels of exposure to the language in their home environments and varying levels of English use in their day-to-day lives, there is wide heterogeneity in students' capabilities in the same classroom. Teachers find it difficult to cater to such varying levels of need from students.

According to Sanmuganthan,<sup>16</sup> one driver of the difference in outcomes is the teaching style adopted by Sri Lankan teachers, where teachers play a dominant role in teaching, often teaching from the front of the classroom, expecting complete student obedience and relying heavily on textbooks throughout the lesson. However, he argues that this approach is not conducive to effective language education. Additionally, he observes that teachers and

<sup>15</sup> 'Coping with student heterogeneity in English language classrooms: A collaborative action research', Perera, M. (2010), National Education Commission

<sup>16</sup> 'Historical perspective of English and some pedagogical problems and solutions in teaching English in Sri Lankan schools', Sanmuganthan, K. (2017), International Journal of Scientific and Research Publications, Vol 7, Issue 6

students both rely excessively on the mother tongue during English language classroom activities, which is counterproductive to improving one's English skills.

Further, there is excessive dependence on textbooks, while the use of a variety of teaching methods which include text-based, task-based and real-world teaching is limited. This learning environment fails to build students' confidence in using the language – while students may know how to write and spell, they do not have the confidence to speak in English and are often reluctant to speak or read aloud.

One study, which examined the interference of first language (mother tongue) in teaching a second language (English) at a degree level, found that most language lecturers use the first language while teaching vocabulary in the second language (English), in the form of definitions and explanation. Although the degree programme was instructed in English, several of the target group expressed difficulties in following their studies in the English language. This was because they had completed their primary and secondary education in their first language, and their exposure to English was low. A control trial in which one group was exposed to the first language in teaching English, and the second group, which was taught purely in English, showed that the second group registered an improvement in vocabulary, compared to the first group which did not show considerable improvement in the post evaluation.<sup>17</sup>

Another study which surveyed 176 students in the North Western and Western provinces found that, while students struggle with English language, a majority (83 percent) liked the subject. Of the 17 percent who did not like the subject, 81 percent said they disliked it because of “the way it is taught”.<sup>18</sup> So, while there are several reasons as to why English language education has failed in Sri Lanka, the subsequent sections of this report will focus here on the role that teachers can play in improving the delivery of English language training to young people.

### **The role of teachers**

We examine the cases of Pakistan and Singapore, both former colonies of the British Empire, which introduced English language as a medium of instruction in their schools. According to the EF English Proficiency Index, Singapore is categorized as having “very high proficiency”, ranks 5<sup>th</sup> out of 100 countries included in the index and has the highest score in the Asian region. On the other hand, Pakistan is categorized as having “low proficiency” and ranks 54<sup>th</sup>.<sup>19</sup> We highlight the key outcomes and differences in both cases.

In 2009, the Government of Punjab in Pakistan introduced English as a medium of instruction in mathematics and science in all Punjab public schools from grades 1-12. However,

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<sup>17</sup> “The use of first language in teaching second language vocabulary to Sri Lankan undergraduates”, Weeraratna, WMMMJT, Wijetunge, MTN & Jayasinghe, VU (year unknown), General Sir John Kotelawala Defense University

<sup>18</sup> Weerakoon, U. et al. (2018), ‘IELTF: An ICT-based framework to leverage English language education in Sri Lanka’, 13<sup>th</sup> International Conference on Computer Science & Education

<sup>19</sup> “EF EPI English Proficiency Index 2019: A Ranking of 100 Countries and Regions by English Skills”, 9<sup>th</sup> Edition, Education First

outcomes were less than desired. In the 4 years of its implementation, before being dropped in 2013, student's cognition of subjects dropped drastically, cramming increased, student-teacher relationships deteriorated and confidence suffered. Many studies blame the lack of capacity, competence and due diligence on the part of the teachers.<sup>20</sup>

A study by the British Council on the Punjab programme found that 62 percent of private school teachers and 56 percent of public-school teachers lacked even basic knowledge of English, including the ability to understand and use familiar everyday phrases. Additionally, a majority of the rest of the teachers placed at beginner levels – even in English medium schools about 44 percent of teachers scored in the lowest Aptis band.<sup>21</sup> While teachers are not solely to blame, this is evidence of the catalytic role that teachers can play in transforming government educational reforms into outcomes in English language education.

Singapore also uses English as a medium of instruction and local languages are taught as a second language. Young Singaporeans exhibit extremely high levels of English language competency – Singaporean students consistently perform better than the OECD averages in most aspects of the Programme for International Student Assessment (PISA), and Singapore consistently does well in the Progress in International Literacy Study (PIRLS).

In stark contrast to the case of Pakistan, Singaporean teachers are highly proficient in English – 48.7 percent of graduating teachers obtained a band score of 8.0 on the IELTS examination (0 to 9, with 9 being an “expert user”) and another 44 percent obtained band scores between 7.5 and 8.5 level.<sup>22</sup>

Singapore has a strong and well-structured teacher recruitment and training programme with mandatory national level training for all teachers, including 2 years of apprentice level training. Additionally, teachers are subject to a mandatory 100 hours of professional development a year, focussing on subject matter and pedagogical knowledge.<sup>23</sup> As a result, Singaporean teachers are also highly proficient in pedagogic practices.

In contrast, in Pakistan, there are very low prerequisite entry qualifications for teachers: ten years of schooling, and a short, one-year pre-service training period. As a result, many Pakistani primary school teachers have low pedagogic competency and are unable to even reach the minimum competency level.<sup>24</sup> One study found low levels of adoption of varying didactical strategies among secondary school teachers in Pakistan,<sup>25</sup> indicating low pedagogic proficiency among Pakistani schoolteachers.

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<sup>20</sup> Bukhari, F.B. (2017), ‘English as a medium of instruction in Punjab: The 2009 experiment’, *Journal of Policy and History*

<sup>21</sup> Premaratna, Prof. A et al. (2014), ‘Study on medium of instruction, national and international languages in General Education in Sri Lanka’, Conducted for the National Education Commission and funded by the World Bank.

<sup>22</sup> Low, E., Chong, S. & Ellis, M. (2014), ‘Teachers’ English communication skills: Using IELTS to measure competence of graduates from a Singaporean teacher education program’, *Australian Journal of Teacher Education*, Vol 39 Issue 10

<sup>23</sup> ‘How Singapore Developed a High-Quality Teacher Workforce’, Centre for Global Education

<sup>24</sup> ‘Assessing competency of Pakistani primary school teachers in mathematics, science and pedagogy’, Saeed, M & Mahmood, K (2002), *International Journal of Educational Management*, Vol 16 Issue 4.

<sup>25</sup> ‘Secondary school teaching in Pakistan: the interrelationship of didactical strategies with pedagogical and self-efficacy beliefs’, Shahzad, A et al (2016), *Il Ponte*

## Pedagogic and language competencies of Sri Lankan teachers

In order to become an English teacher in a government school in Sri Lanka one has to obtain a teaching degree or take an English medium degree course. Once graduated, they can become an English language teacher in a government school. In college or university, only 57 percent studied in English, 36 percent studied bilingually in Sinhala or Tamil along with English, and 4 percent studied in Tamil or Sinhala only. Teachers also undergo the sharp change in medium of instruction between their own schooling years and higher education years.<sup>26</sup>

One study which investigated the English language proficiency of 412 teachers in state secondary schools found that just 10 percent of teachers received a C (lower or upper advanced) level CEFR result. A majority (48 percent) received a B2 (upper intermediate) and a further 36 percent receiving a B1 (lower intermediate) level in the assessment.<sup>27</sup>

The Sri Lankan system is such that teachers are not required to have any professional training prior to being recruited as teachers. As a result, there is a large number of untrained graduate teachers in the school system with no pedagogic training. However, there are also several pre-service and in-service education programmes that are used to train current and aspiring teachers,<sup>28</sup> such as a Bachelors in Education from state universities and National Diploma in Teaching from one of the National Colleges of Education.

Sethunga (2014)<sup>29</sup> notes that, while there is great demand for undergraduate programmes in education offered in state universities, several of the Bachelors in Education degree programmes offered in universities are via its arts faculties. Therefore, subjects are confined to those offered by the Faculty of Arts, and the limited number and scope of subjects offered in the academic components on these programmes are insufficient to match the needs of school curricula. Therefore, these graduates are not trained adequately or competently to teach mathematics, science, English, ICT, aesthetic subjects or other subjects which face teacher shortages.

For in-service training, the Postgraduate Diploma in Education is popular and oversubscribed in the country. The PGDE also has several weaknesses that contribute to the matter at hand – Sethunga<sup>30</sup> notes that a major revision of the curricula has not taken place in the last 10 years (as at 2014), and there is a lack of facilities in the universities to implement programmes like special needs education, career guidance and counselling and bilingual teaching.

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<sup>26</sup> 'Investigating English language teacher proficiency in State secondary schools in Sri Lanka', Allan, D. & Mackenzie, A.S. (2019), NILE, Transform ELT and British Council

<sup>27</sup> Ibid.

<sup>28</sup> 'Study on the professional development of teachers and teacher educators in Sri Lanka', Sethunga, Prof. P. et al (2014), National Education Commission

<sup>29</sup> 'Study on the professional development of teachers and teacher educators in Sri Lanka', Sethunga, Prof. P. et al (2014), National Education Commission

<sup>30</sup> 'Study on the professional development of teachers and teacher educators in Sri Lanka', Sethunga, Prof. P. et al (2014), National Education Commission

## Recommendations

The following practical recommendations are presented to address some of the barriers that have stood in the way of better English language education in the country.

### 1. Create an incentive for teachers to improve their own English language skills by creating a “Top tier English teacher” reward and award system.

- Introduce a programme in which English language schoolteachers are invited to undergo a standardized skills test (such as IELTS).
- If they meet a pre-determined standard, they will be refunded of the costs and invited to undergo a pedagogic training component (such as Cambridge’s Certificate in Teaching English to Speakers of Other Languages, and it is possible to partner with British Council for this).
- Those emerging as top candidates can be given recognition (such as on YouLead.lk) as a top-tier English language teacher in Sri Lanka.

### 2. Provide new avenues for children to learn spoken English by deploying online learning materials.

- Partner with institutions such as British Council, Skills for Life or English Teaching Centre to develop new and/or deploy existing online learning materials to teach children of all ages spoken English.
- This can be done via YouLead.lk platform which already has a “learn at home” online learning component.
- Partner with institutions such as the American Corner and Sarvodaya Fusion with IT facilities. This will allow more children to access the materials online, especially in rural areas, which is the critical target group.

### 3. Overhaul existing curricula and assessment methodology and replace these with internationally competitive curricula and assessments.

In consultations with Mr Sunil Hettiarachchi, former Secretary of several top Ministries, he notes that the most important aspect to revolutionizing English language education in Sri Lanka is to change the method of assessment and to add a practical component to the assessment. The lack of such a component at present inhibits the language learning and teaching process.

Without wasting resources developing own curricula, Mr. Hettiarachchi recommends that it would be wise for Sri Lanka to localize and adapt internationally available English language curricula. He also notes that there are several structural barriers that inhibit the education system in Sri Lanka, with teacher deployment being a key issue. Although as a publicly appointed teacher one is duty bound to teach at any location assigned by the government, many use political influence to get assigned to places they prefer, hence leaving a dearth of teachers in the rural areas that need good teachers. There is also a mismatch between subject teacher vacancies and the teachers trained, so there is usually



a dearth of teachers in several schools. Solving these structural issues, he opined, will be key to revolutionizing English language proficiency in Sri Lanka.

## 2. NLET Youth in Sri Lanka: A constrained optimization problem

The category of persons Not in Employment, Education or Training (NEET) is a familiar topic in the research on youth unemployment. However, in this insight, we differentiate the NEET group from what we will call the NLET group – that is, youth who are Not in the Labour Force, Education or Training. The NLET term is used to define those who are not currently working or looking for work, nor engaged in educational or training activities, but can be drawn into the labour force by mitigating the factors that constrain their participation.<sup>31</sup>

There are over 870,000 NLET youth between the ages of 15 and 35 in Sri Lanka.<sup>32</sup> Most NLET youth are females, and are those who experience difficulties in looking for work, remaining in work as well as returning to work due to care responsibilities towards children and the elderly. Therefore, addressing such difficulties can increase not only youth employment but also female labour force participation in Sri Lanka. Furthermore, we believe these youth present the private industries facing a shortage of skilled workers with an ideal opportunity for increasing their workforce.

### Characteristics of NLET youth

When disaggregating NLET individuals in Sri Lanka, we observe that more than half of this group are married women who have children, while a further 27 percent are women without children.<sup>33</sup> This is because women's workforce participation is constrained not only by young dependents but also by the need to provide care for the elderly. Furthermore, the YouLead Youth Survey 2018 indicates that the probability of women being NLET is higher than men, irrespective of whether they are married or have children: for example, the probability of a woman who is married and has children being NLET is 38 percent, while the likelihood of a man with the same profile being NLET is 8 percent.<sup>34</sup>

We find that NLET youth are an educated population with some work experience. When asked about the highest qualification level completed, over half of the NLET youth respondents of the YouLead Youth Survey 2018 stated that they possess a GCE O level qualification and 35 percent possess a GCE A level qualification. We also find that 21 percent of the NLET youth population had held at least one job in the past. Over 80 percent of these jobs were at the non-management level but varied with skill level (i.e. individuals varied from working in close coordination with lower-level managers to following standard work routines under close supervision). Further disaggregating the mean years of work experience, we see that NLET individuals who previously worked in non-management positions did so for between 1-5 years. Consequently, the labour market is losing out on relatively experienced youth workers. Furthermore, having previously trained these youth,

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<sup>31</sup> Youth Labour Market Assessment Sri Lanka (2018), available at <https://www.veriteresearch.org/wp-content/uploads/2019/02/Youth-Labour-Market-Assessment-26.12.2018.pdf>

<sup>32</sup> Ibid.

<sup>33</sup> Ibid.

<sup>34</sup> Ibid.

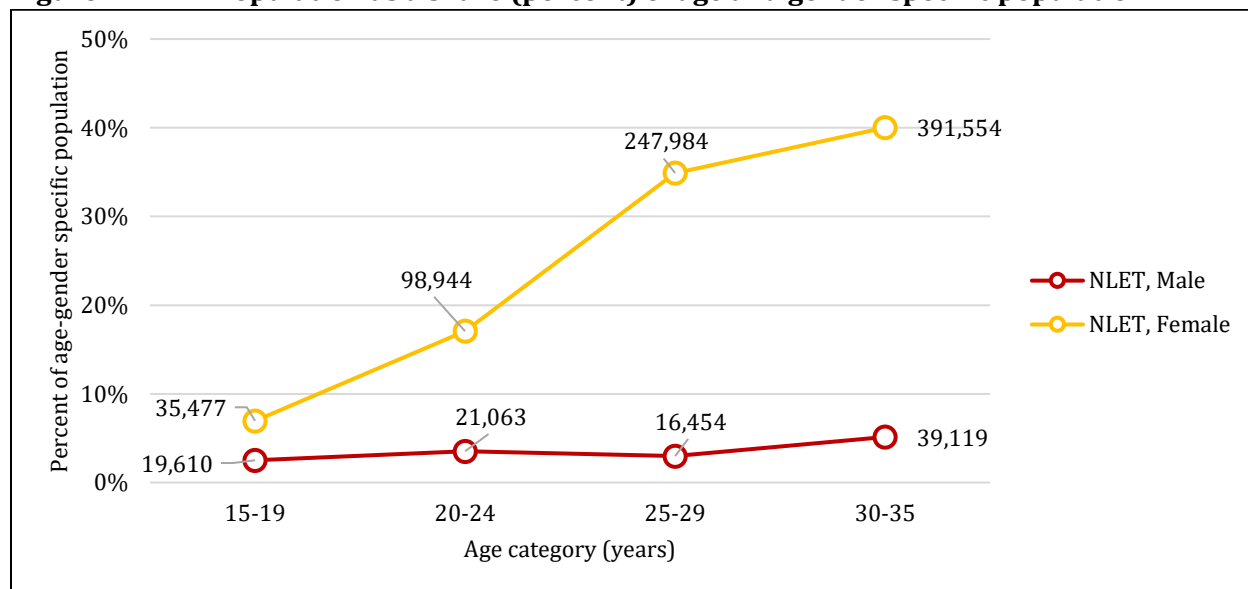
employers incur high training and replacement costs when these youth leave the labour force.

The Employer Survey conducted through the Youth Labour Market Assessment in Sri Lanka (2018) discovered that the degree of qualifications that NLET youth possess (GCE O Level or A level), along with any relevant work experience is sufficient to meet the employment requirements of employers.

### Gender disparity in NLET Youth

Of the 870,000 NLET youth in Sri Lanka, over 770,000 (88 percent) are women. A disaggregation of this data is shown in Figure 4, which indicates that the majority of these women are in the 25-29 and 30-35 age brackets. These are the typical childbearing years for a woman, and explains the sharp increase in NLET females between the ages of 25-35, as females direct their attention towards caring for children during these years instead of participating in the labour force.

**Figure 4: NLET Population as a share (percent) of age and gender specific population**



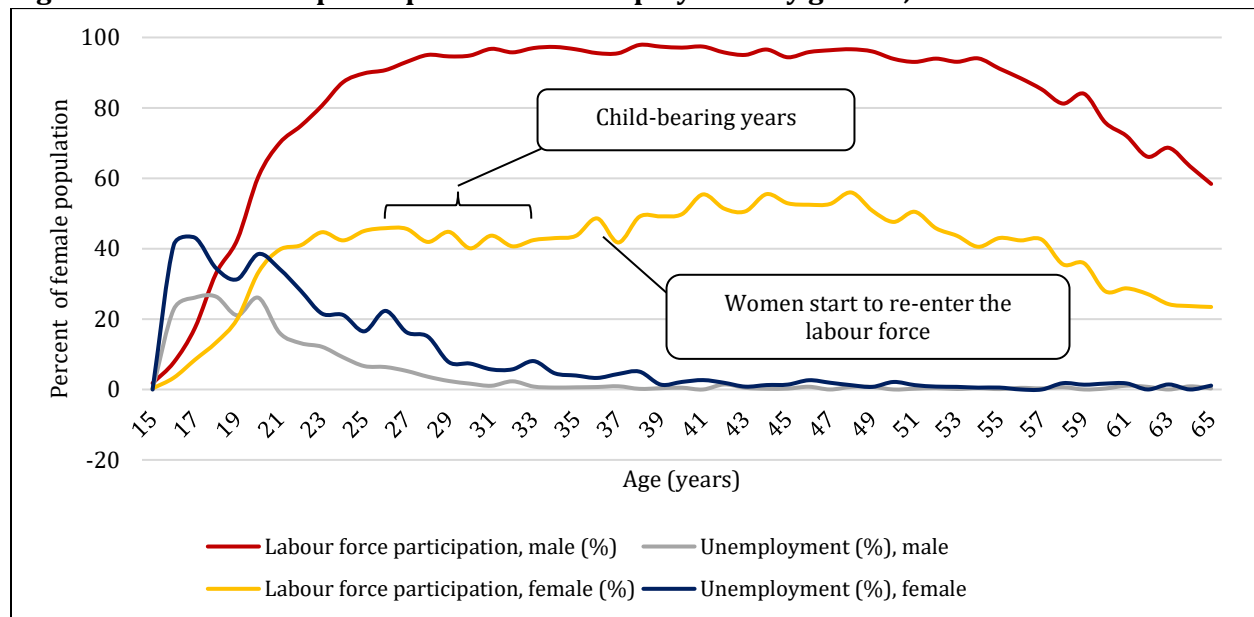
Source: YouLead Youth Survey 2018

Note: Total numbers were scaled to match the NLET population of the Labour Force Survey 2016

When looking at the 870,000 NLET youth in Sri Lanka, 29 percent (approximately 243,000 youth) were interested in looking for work if certain conditions constraining their entry were changed.<sup>35</sup> Of the interested NLET youth, 85 percent are women. In addition to this, we find that after exiting the child-bearing and child-rearing years, women show signs of re-entering the labour force, but at a very negligible level (refer Figure 4). Therefore, the data suggests that despite women displaying interest in re-joining the labour force, they are constrained from doing so.

<sup>35</sup> Ibid.

**Figure 5: Labour force participation and unemployment by gender, 2016**



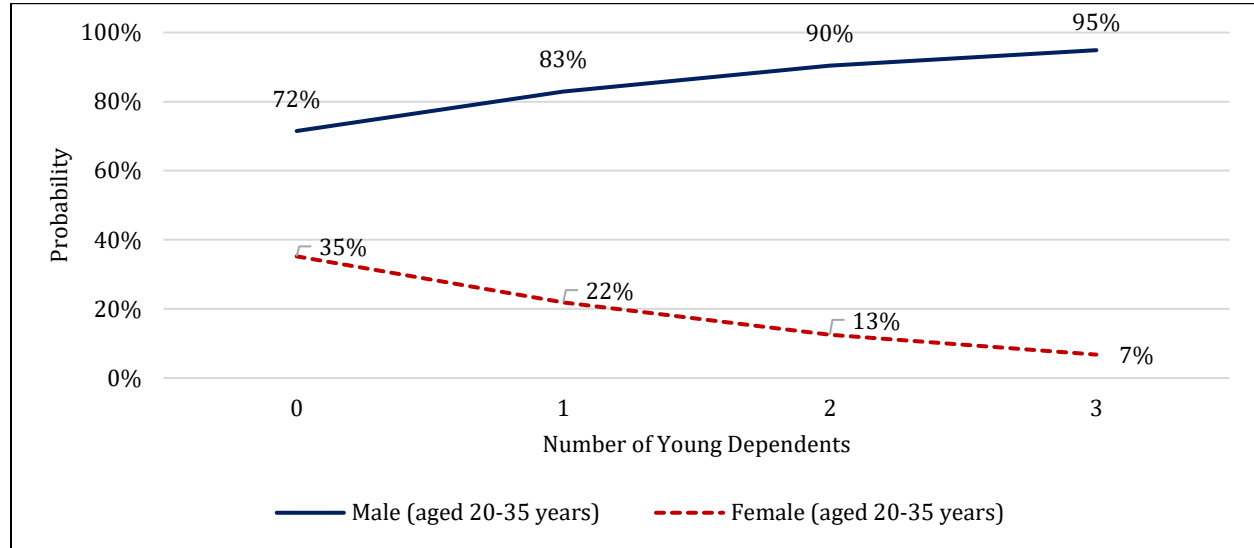
Source: Analysis of Labour Force Survey microdata 2016, Youth Labour Market Assessment Report Sri Lanka (2018)

**What are the constraints that are holding youth behind?**

A large proportion of individuals (both males and females) in the 15-19 and 20-24 age brackets do not participate in the labour force due to their educational commitments. However, 74 percent of constrained women in the 25-29 age bracket and 84 percent in the 30-35 age bracket cited “personal family responsibilities” as the reason for not participating in the labour force.

Childcare and care for the elderly are major barriers to women’s employment. The dependency ratio for both children and old-age individuals is 55 percent, meaning that for every 100 individuals who are of working age (15-64 years), there were 55 young and old dependents. Disaggregating this figure indicates that child-dependency accounts for 39 percent and thus, forms the larger share of dependents. Concerningly, the probability of women being employed drops sharply with every additional young dependent. However, just as women are pushed out of the labour force due to childcare responsibilities, men are conversely pushed into the labour force for every additional young dependent (Refer Figure 5).

**Figure 6: Probability of being employed given the presence of young dependents by gender and age**



Source: YouLead Youth Survey 2018

The commitments that women face, with regard to providing care for their dependents, calls for more flexible working hours or the ability to work from home. In the YouLead Youth Survey 2018, 89 percent of female NLET youth had mentioned that flexible hours could help overcome the structural impediments that constrain their participation.

However, 36 percent of employers stated that it was either unlikely or very unlikely that they would provide flexible hours for their employees and 64 percent of employers mentioned that it was either unlikely or very unlikely that they would provide employees with the ability to work from home. In addition to this, forty-two percent of employers stated that they are very unlikely to provide on-site creches and day care centres for staff with children. This is despite 83 percent of female NLET respondents requesting onsite creches.

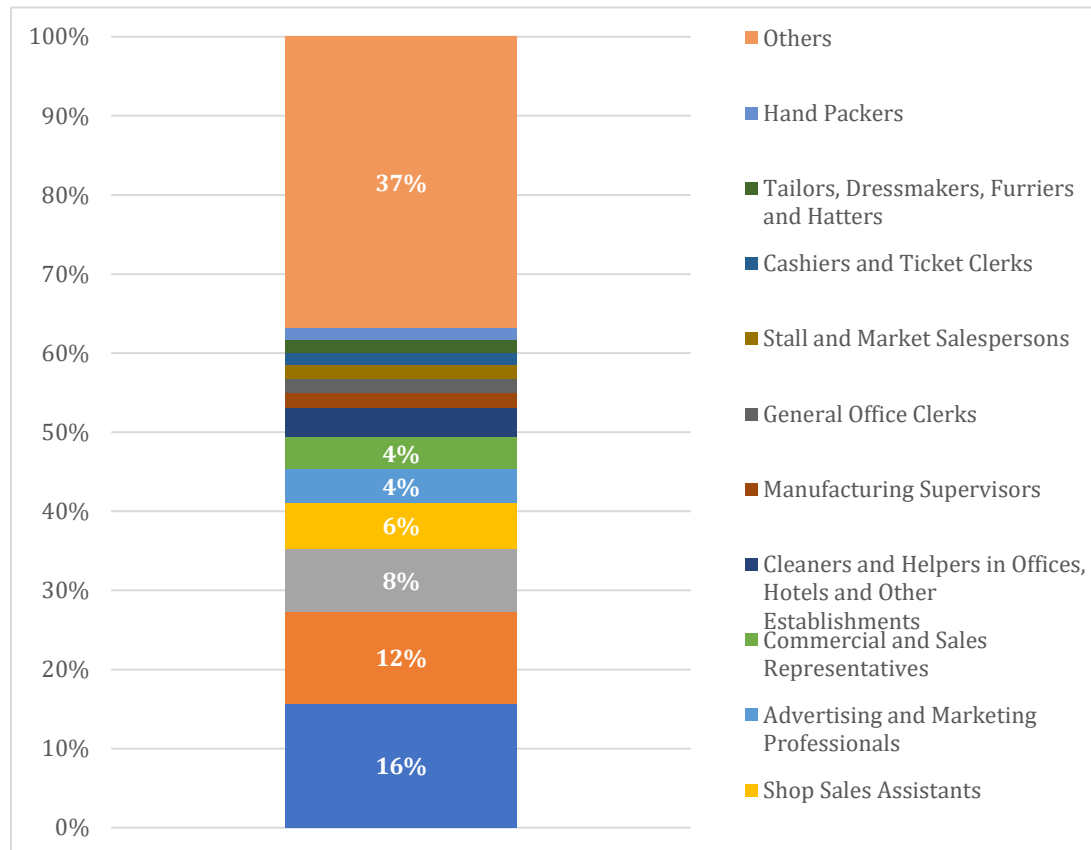
Of the NLET youth who had previously been in employment, a large proportion (81 percent of females and 73 percent of males), have been employed in the private sector. The Maternity Benefits Ordinance in 2018 provided women in the private sector with maternity leave benefits comparable (in terms of duration) to those in the public sector. However, the public sector also guarantees employment thereby giving women a greater sense of security as they can re-enter the workforce when they are ready to do so.

These conditions have led to substantially higher attrition rates of women in the private sector in comparison to those working in the public sector, self-employment, family businesses and the informal sector. Additionally, these conditions lead to wastage in terms of time and resources that have been devoted by the organisation to train employees who eventually go on to leave the organization.

### Supply side issues: the unavailability of labour to fill vacancies

Currently, there are approximately 500,000 job vacancies across the country,<sup>36</sup> predominantly in the occupations of sewing machine operators, security guards and other manufacturing labourers. Figure 7 shown below provides a breakdown of these vacancies.

**Figure 7: Job vacancies (by type) in Sri Lanka**



Source: Labour Demand Survey (2017)

Note: Others includes occupations which have below 6,000 available vacancies

As shown in Figure 7, there are vacancies that could be filled by providing opportunities for the 243,000 NLET youth who show an interest in returning to the workforce. By providing appropriate facilities and arrangements to staff, employers can benefit from improved retention rates, whilst ensuring that such vacancies do not keep increasing overtime.

<sup>36</sup> Sri Lanka Labour Demand Survey (2017), Department of Census and Statistics, Ministry of National Policies and Economic Affairs, available at [http://www.statistics.gov.lk/industry/Labour\\_Demand\\_Survey\\_2017\\_Report.pdf](http://www.statistics.gov.lk/industry/Labour_Demand_Survey_2017_Report.pdf)

## **Towards a brighter future: provision of return-to-work programmes, and work-from-home opportunities in Sri Lanka**

This insight has already highlighted that a large proportion of women, predominantly in the 25-29 and 30-35 age brackets, do not participate in the labour force or in any form of education or training activity, due to personal family responsibilities. As such, a solution for drawing these women back into the labour force needs to target two key areas: first, minimizing the number of women who exit the labour force due to child and elder-care responsibilities and second, establishing a mechanism by which women who show interest in returning to the labour force, can do so.

Studies<sup>37</sup> have shown that organizations that have opted to offer flexible working hours, have reported a general increase in productivity due to reduced sick leave, turnover, absenteeism, and overtime. From an employee's perspective, the ability to balance both the demands of the organization and their personal lives has substantially improved personal satisfaction. Further, there is considerable evidence to suggest the existence of a strong positive correlation between flexible working hours and effective on-the-job performance. Such flexibility would provide these employees with the freedom to work around the schedules of work and childcare and is essential in minimizing the number of women exiting the labour force during the childbearing years. Being able to retain these employees would result in substantial cost savings as employers no longer need to account for turnover costs (such as the loss of productivity, and the cost of training a new employee).

In addition to this, a recent study<sup>38</sup> has shown that the curfew imposed in response to the COVID-19 pandemic in Sri Lanka has resulted in a greater percentage of males engaging in household and childcare activities. For example, men were 9.50 percent more likely to involve themselves in cooking, 6 percent more likely to be involved in cleaning and 12.50 percent more likely to be involved in feeding their children. While much of these household and childcare activities are still dominated by women, this change presents an opportunity for more a more equal distribution of these responsibilities between men and women in the future. Such a change would be essential in allowing women to better balance their responsibilities for both work and household activities and would serve as a push towards encouraging better female labour force participation.

It was observed that, following typical childcaring years, women start to re-enter the labour force around the age of 37.<sup>39</sup> In this context, it would be worthwhile to provide a route for these women to be absorbed into the labour force, through return to work programmes.

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<sup>37</sup> Elbing, A. O., Gadon, H., Gordon, J. R. M. – Flexible Working Hours: The Missing Link (1975), California Management Review, Vol. 17, No. 3, pp. 50-57.

<sup>38</sup> Website of the Centre for Poverty Analysis, 'Life during COVID-19 curfew in Sri Lanka', at <http://www.cepa.lk/blog/details/life-during-covid-19-curfew-in-sri-lanka-9c16a7d36ee1baafca400305402a5e6.html>

<sup>39</sup> Analysis of the Labour Force Survey microdata (2016), Youth Labour Market Assessment Sri Lanka (2018)

An example of a return-to-work programme is the “Tata Group Second Careers, Inspiring Possibilities” (SCIP) Programme<sup>40</sup><sup>41</sup>. Targeted at women who aspire to transition back into a career, the programme offers jobs in a variety of sectors such as sales and marketing, quality assurance, analytics, procurement, etc. The programme is also offered in three formats – projects, consultancy roles and full-time roles – depending on the applicants’ time commitments. While full-time roles involve full working hours and remuneration for employees, as per the company policy, projects and consultancy roles provide a greater degree of flexibility. The duration of a project or consultancy role is anywhere between 3-6 months and 6-12 months respectively, with mutually agreed upon working hours. As such, this programme has been successful in providing women with flexible work opportunities in a variety of sectors depending on their interests and prior experience.

Such a platform will help to bridge crucial gaps that exist in the Sri Lankan labour market, where we have skilled women interested in returning to work but are discouraged given the current working arrangements in place, and where organizations fail to recruit skilled youth who are interested in returning to employment not due to a lack of vacancies but because they do not know how to tap into this group of individuals.

## Recommendations

### **1. Implementation of return-to-work programmes in Sri Lanka to serve as a means of nudging NLET youth, especially women who show interest in returning to work, to re-join the labour force.**

- Provide coaching for companies to create effective pathways which they could use to engage with individuals who show interest in returning to work.
- Provide appropriate mentoring to these youth to ease the transition back into the labour force.
- Increase publicity of these return-to-work programmes (for example, through testimonials of mothers returning to work) to serve as an empowerment tool to encourage more NLET youth to apply for such programmes.

### **2. Introduction of training programmes to address any skills gaps or shortages of youth who re-join the labour force.**

- Offer industry specific courses that focus on bridging skills mismatches that exist in the labour market for that industry (for example, Brandix College<sup>42</sup> offers courses in pattern making, merchandising, and clothing technology).
- While formal training through courses may not be a viable option for small and medium enterprise (SME) owners, apprenticeship programmes that focus on a more on-the-job training approach could be provided by smaller organisations.

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<sup>40</sup> Tata Group – Second Careers Inspiring Possibilities, available at <https://www.tata.com/careers/tata-scip-second-careers-inspiring-possibilities-women-jobs>

<sup>41</sup> Other examples of return to work programmes worldwide are available at <https://www.irelaunch.com/paidcorporateprograms>

<sup>42</sup> Brandix College Sri Lankan Website, available at <https://brandix.com/inspired-people/life-at-brandix/brandix-college>

- Performance evaluations at the end of the programme, after which these individuals could be absorbed into the workforce.

**3. Provide the option to work-from-home as part of the return-to-work programme for NLET youth who are interested in re-joining the labour force.**

- The effects of the COVID-19 pandemic have resulted in work-from-home becoming a new norm and has challenged previous perceptions of successful working arrangements.
- Such facilities could particularly be targeted at women who, as mentioned previously, are constrained from participating in the labour force by caring for dependents, both young and old. This option would thus present NLET youth with an improved sense of flexibility in their lives depending on the level of commitments they have outside work.
- Provide organizations with necessary guidance and access to trainers to effectively shift towards institutionalizing and normalizing such practices into their HR policies and company culture.

The arrangements outlined above may be considered as the foundation of successful return-to-work programmes. The provision of such flexible working opportunities would therefore act as a nudge to encourage NLET youth, and NLET women in particular, to re-join the labour force.

### 3. Own-Account Workers: A First Step in the Path towards Youth Entrepreneurship

Recent labour force statistics indicate that youth unemployment has risen from 6 percent in 2012 to 10 percent in 2016. This represents an addition of 115,000 youth to the pool of unemployed persons. Furthermore, the Labour Force statistics for 2016 indicate that over 70 percent of all unemployed youth seek paid employment, while only a fraction (5.8 percent) seek self-employment.<sup>43</sup>

However, the aspiration of youth to seek paid employment is problematic as paid employment opportunities that match the skill and experience levels of unemployed youth are limited in the labour market. This insight identifies that for youth, self-employment as an own-account worker is a promising alternative to being employed by an employer; it is also a solution to the growing youth unemployment problem as own-account workers transition to small and medium-sized enterprises over-time, creating more job opportunities as employers in the future.

Typically, **Own-Account Workers** are those who work on their own or with one or more partners, hold the type of jobs defined as self-employment jobs and have not engaged on a continuous basis any employees to work for them during the reference period. However, the path to self-employment as an own-account worker requires addressing two specific barriers: entrepreneurial readiness and inability to access the market. This insight explores how these barriers can be overcome, and aims to inspire a change in the ideology or outlook on self-employment as a solution to youth unemployment.

#### Entrepreneurial readiness to seek self-employment

Entrepreneurial readiness is defined as the willingness and the ability of an individual to run an enterprise. One study has shown that training focused on knowledge development plays an important role in improving entrepreneurial readiness for youth.<sup>44</sup> Using a sample of university students, the study proposed various methods for providing both theoretical and practical knowledge development. In terms of enhancing theoretical knowledge, it suggested exposing students to training in business development, organizational behaviour and international standard business practices. In terms of practical measures, it proposed introducing youth to successful entrepreneurs who were willing to share their experiences, or asking students to conduct a business feasibility study with the possibility of government sponsorship for the business. A mix of training and such measures helped improve youth entrepreneurial readiness, leading to higher chances of self-employment.

In the context of Sri Lanka, the provision of training alongside real world experience will help youth to develop the entrepreneurial readiness that is required to become an own-account worker. However, youth must be engaged and be encouraged to develop these prerequisite

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<sup>43</sup> These results are drawn from the 2012 and 2016 Labour Force Survey data sets acquired by the Department of Census and Statistics

<sup>44</sup> Olugbola, S.A. (2017) 'Exploring entrepreneurial readiness of youth and start-up success components: Entrepreneurship training as a moderator', *Journal of Innovation & Knowledge*, 2(3), pp. 155-171.

skillsets during their school or university education, to prepare their seamless transition into the workforce after their period of education ends.

### **Inability to access the market**

According to Labour Force Survey data, nearly 27 percent of all unemployed youth seeking self-employment required government assistance to find facilities to sell their products.<sup>45</sup> This indicates that self-employed youth have a limited access the marketplace to sell their product or lack the ability to effectively market their product in the market place even when they do have access.

However, access to markets is becoming easier through the creation of digital platforms. An example of such a platform is Uber, which links taxi drivers to passengers at a pre-determined rate. Such applications create a virtual market that helps link a populace of numerous sellers (own-account worker selling a service/product) and buyers (individuals that buy the service/product from the own-account worker). Table 1 lists a sample of such platforms from selected countries around the world.

**Table 1: Description of platforms used in the sharing economy**

<b>Platform</b>	<b>Country</b>	<b>Description</b>
Jolancer	Nigeria	Freelance work
1task1job	Cameroon	Freelance work
Sweepsouth	South Africa	Connects cleaners with clients
Traveling Spoon	International	Eat in someone's home

Source: The Sharing Economy in Developing Countries, 2017<sup>46</sup>

In Sri Lanka, locally developed platforms, such as Hodabass.lk or Govipola.lk, help to link own-account workers to the market. Hodabass.lk links independent masons, electricians, plumbers, carpenters and professionals to prospective buyers of their service. This application has the potential to link youth with existing TVET qualifications to the market, enabling own-account workers to access a broader market than they would be able to otherwise access on their own. Govipola.lk is an application that links farmers to prospective buyers of their produce. Govipola.lk may help revitalize the agriculture market, in which youth have been a declining presence.

However, local applications like Govipola.lk and Hodabass.lk have accumulated only 10,000 and 1,000 users, respectively. The low take-up of the platform from the side of an own-account worker (the seller) is low as potential buyers do not exist within the platform to buy their products/service. The lack of users within the platform indicates a lack of awareness, both amongst the public and youth own-account workers.

<sup>45</sup> 2012-2016 Labour Force Survey Data

<sup>46</sup> Retamal, M., Dominish, E. (2017) *The Sharing Economy in Developing Countries*, Institute for Sustainable Futures at the University of Technology Sydney: Tearfund UK.

Other international applications such as Airbnb Experiences and UberEats/PickMe Food have great potential, particularly for young females to work as own-account workers. Airbnb Experience is similar to the “Travelling Spoon” application; individuals could invite customers to their home and share a meal but also provides an experience such as cooking a traditional meal. This experience can work as a selling point for tourists interested in an authentic experience of Sri Lankan culture. UberEats/PickMe Foods can act as a platform for female youth constrained to household duties to sell home-cooked meals and become own-account workers in their own right.

Two international digital platforms that are already used by Sri Lankan youth are Upwork.com and Fiverr.com, where youth post and respond to job tasks ranging from language translation, proofreading, to computer coding. This implies that a proportion of Sri Lankan youth work on such platforms and are receptive to such a work mechanism. Comparisons between locally and internationally developed platforms (Hodabass.lk vs Upwork.com or Fiverr.com) show a lack of user-friendliness and the ability to distinguish own-account workers within local platforms. A lack of user-friendliness discourages potential customers from using the platform. Furthermore, when an own-account worker cannot distinguish himself, they are unable to market their services effectively, which once again poses a barrier to their participation in the virtual marketplace created by such a platform.

### **Youth own-account workers transition to small and medium-sized enterprises**

Youth own-account workers have a distinct possibility over the long run to become SMEs, leading to the creation of job opportunities in the future. Previous research has found that 9 percent of all own-account workers convert to SMEs over 3 years.<sup>47</sup> Using the 2016 Labour Force Survey results, a simple translation of this outcome shows that at a given populace of 2.4 million own-account workers, there is the potential for 216,000 new SMEs to be created in 2019 alone. If we consider own-account workers converting to a mixture of Micro and Small enterprises, there is the possibility that 396,000 new job opportunities will be created when own-account workers convert to SMEs.<sup>48</sup>

However, for youth to become engaged as own-account workers and sustain viable businesses, it is important to address their entrepreneurial readiness and inability to access the market. This insight concludes with several key recommendations for improving this process.

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<sup>47</sup> de Mel, S., McKenzie, D., Woodruff, C (2009) ‘Who are the microenterprise owners? Evidence from Sri Lanka on Tokman vs. de Soto’, Policy Research Working Paper No. 4635.

<sup>48</sup> This calculation was done using results given in the National Policy Framework for Small and Medium Enterprises (SMEs) Development Action Plan 2016 [Available at: <http://www.industry.gov.lk/web/images/pdf/gg.pdf>]. The result is calculated by drawing out the percentage distribution of Micro and Small enterprise represented by all enterprise in Sri Lanka against the potential new SME's joining in 2019 (216,000). This is then multiplied by the respective number of average workers within a micro and small enterprise to arrive at 396,000 new job opportunities.

## **Recommendations**

### **1. Develop entrepreneurial readiness in youth.**

- Awareness programs highlighting the success stories of own-account workers who have become successful entrepreneurs. Such programs can inspire a change in ideology that being self employed as an own-account worker is a suitable stepping stone to self-employment.
- School-based exposure programs that connect youth with the experience of being an own-account worker. This connection can occur through existing club networks such as Interact Clubs, Sri Lanka Unites, Scouts, Girl Guides to provide exposure for youth as own-account workers.

### **2. Address the challenges that youth face in accessing markets.**

- Assisting locally developed digital platforms (such as Govipola.lk and Hodabass.lk) to attain the standard of international platforms such as (Upwork, Fiverr or Airbnb) by addressing issues in terms of user-friendliness and the ability to distinguish between own-account workers within the platform. Upscaling such local platforms will increase usage of the platform and help local youth operating as own-account workers with accessing markets.
- Awareness building programs that help youth own-account workers connect to such platforms through,
  - a) promotional campaigns highlighting the success of individuals on digital platforms
  - b) providing short-term incentives to join and participate in such platforms

### **3. Create promotional campaigns and knowledge development programs on accessing and applying for government led schemes such as Thurunu Diriya and Enterprise Sri Lanka.**

- There is a lack of awareness about programmes such as Thurunu Diriya and Enterprise Sri Lanka among youth. Increased awareness about such programmes will further support youth with starting and maintaining a successful business as an own account worker.

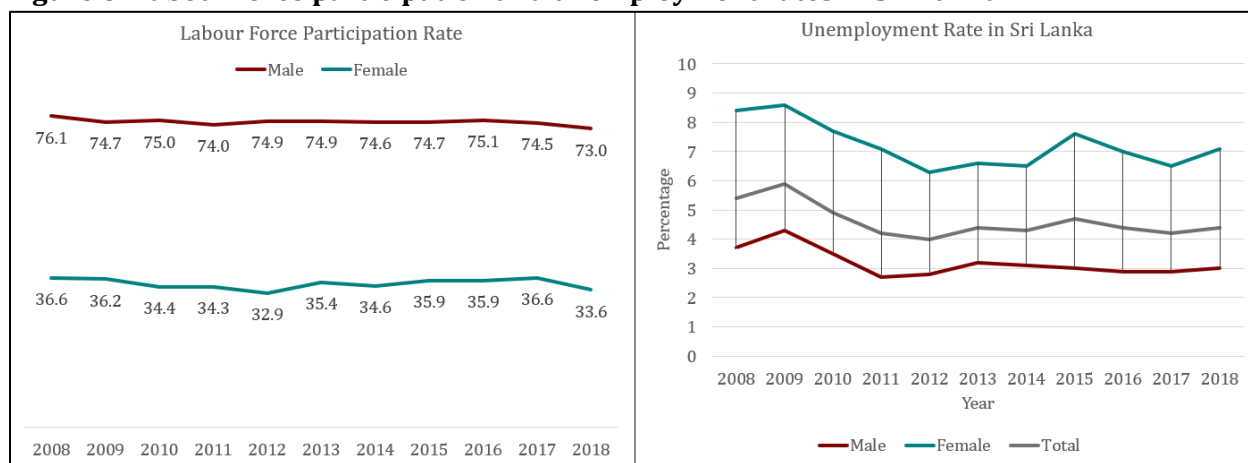
#### 4. Increasing Female Employment: Reducing the employer’s incentives to discriminate against women

Sri Lanka has made impressive advances in the health and educational outcomes of women, and has consistently ranked in first place among countries in the health and survival sub-index of the Global Gender Gaps Index.<sup>49</sup> Following the Free Education policies that were introduced in 1945, female attainment at school and participation in higher education has exceeded that of males.<sup>50</sup> However, women have faced numerous challenges in transforming these educational and health achievements into improved economic participation.

The Sri Lankan labour market is characterized by low female employment, which can be broken down into two defining problems: (1) supply constraints which discourage women from participating in the labour force, and (2) demand constraints which discriminate against women seeking to enter paid employment. The existence of these two problems is apparent in the low female labour force participation rate and in the relatively higher rate of female unemployment, in comparison with males (see Figure 8).

This insight identifies the funding of maternity leave benefits (MLBs) by the employer as a source of discrimination against women at the job recruitment stage. The insight sets out the case for transferring the funding of MLBs in Sri Lanka from the employer to the state. Such a change is likely to reduce the gender discrimination faced by women under the age of 35 at the recruitment stage.

**Figure 8: Labour force participation and unemployment rates in Sri Lanka**



Source: The Department of Census and Statistics, Annual Reports of Sri Lanka Labour Force Survey, various years.<sup>51</sup>

Women employed in the private sector in Sri Lanka are entitled to a statutory maternity leave provision of 84 days, apart from the normal leave entitlements. The employee is

<sup>49</sup> World Economic Forum’s Global Gender Gap Index 2006 – 2019/20.

<sup>50</sup> Himaz, R. and H. Aturupane (2019) ‘Why are boys falling behind? An Enquiry into Gender Gaps in Education in Sri Lanka’, *CSAE Working Paper Series*, Economics Department, University of Oxford, CSAE WP-2019-14

<sup>51</sup> The Department of Census and Statistics, Annual Reports of Sri Lanka Labour Force Survey. Available at: <http://www.statistics.gov.lk/page.asp?page=Labour%20Force>

entitled to receive their full salary during the period of leave, and the full cost of this provision is borne by the employer, without any assistance or subsidy from the state. In most countries in the world, the employer does not solely bear the cost of MLB. This means that in Sri Lanka there is a significantly higher expected cost associated with employing a woman than a man with the same qualifications. The higher cost then acts as an incentive to discriminate against young women in recruitment decisions. According to the Labour Demand Survey conducted by the Department of Census and Statistics in 2017, 41% of employers stated that maternity leave and fewer working hours were factors considered by employers at the point of recruiting women.<sup>52</sup>

Reducing the incentives for employers to discriminate against young women entering the labour force will not only improve the employment prospects of women at an early career stage, but also have knock on benefits for the full life-cycle of a woman's employment prospects. This analysis leads to recommendations towards achieving this policy transformation in Sri Lanka.

### **Supply side constraints faced by women**

According to the YouLead Market Assessment 2018, supply side constraints faced by women include the gender norms that restrict women's participation in certain industries and prescribe the types of jobs that are appropriate for women. Additionally, marriage and motherhood lower the probability of women's participation in the work force, indicating a high likelihood that women will undertake their traditional roles of childbearing and housekeeping. Other concerns faced by women are safety, both at the workplace and in their commute to work. The existence of such barriers discourages women from participating in the workforce.

In contrast, the female economically inactive population is more than double the size of the male economically inactive population. This is a persistent trend in Sri Lanka, where female labour force participation rates have not shown any significant improvement in the past two decades, despite the country's significant strides in socio-economic and human development indicators and its graduation to a lower middle-income country in 2010 (see Figure 8).

### **Demand side constraints faced by women**

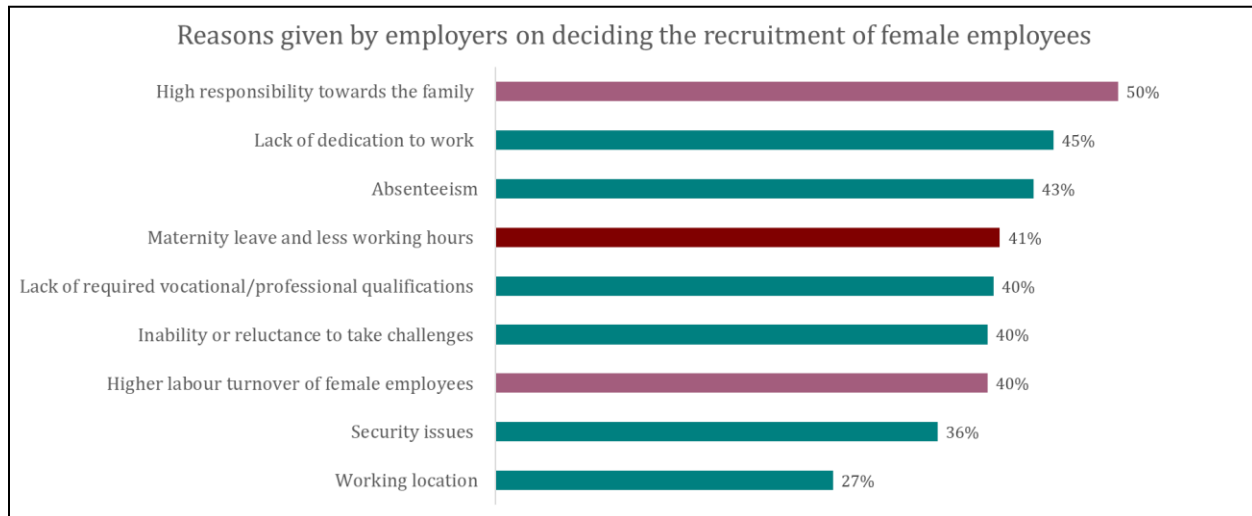
Women also face numerous demand side challenges in finding work. The YouLead Market Assessment reported that unemployed women spend more time looking for work than their male counterparts. On average, female youth reported spending 23 months looking for work, which is 5 months more than the average time spent by male youth. This indicates that women find it much harder than men to find jobs. This is also reflected in the female unemployment rate, which has been consistently higher than the male unemployment rate in Sri Lanka for women below the age of 35.

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<sup>52</sup> Other factors considered by employers include, high responsibility towards family (50%), lack of dedication towards work (45%), higher labour turnover of female employees (40%). It can be argued that these are related concerns connected to the perception or expectation that a woman's primary responsibility is her family and her home.

Survey data obtained from the Labour Demand Survey (2017) conducted by the Department of Census and Statistics suggests that one driving factor in the higher unemployment of young women is the discriminatory recruitment environment in response to the current financing structure of maternity leave benefits.

**Figure 9: Factors taken into consideration by employers when recruiting female employees**



Source: The Department of Census and Statistics. Labour Demand Survey 2017, Figure 3.2<sup>53</sup>

Figure 9 suggests that concerns based on the need to pay maternity leave are not the only reasons for women to be discriminated against during the recruitment process. Nevertheless, the extra cost created for the company due to maternity leave benefits remain a tangible and much cited disincentive to employers. This cost, and associated disincentives, could also be fuelling the other types of concerns that are expressed with regard to being less open to the recruitment of women (see Figure 9).

While cultural norms and stereotypes contribute to perpetuating gender gaps,<sup>54</sup> altering such attitudes is likely to take a long period of time – factors that contribute to a positive transformation and the formation of more gender-progressive attitudes include mother’s employment,<sup>55</sup> having daughters or sisters,<sup>56</sup> having teachers who hold weaker stereotypes,<sup>57</sup> and having female role models.<sup>58</sup> In contrast, the need to pay maternity leave to female youth employees is a concern that can be addressed in the short term. The recent

<sup>53</sup> The Department of Census and Statistics. Labour Demand Survey 2017, Figure 3.2. Available at: <http://203.94.94.89/mainsite/Industry/StatisticalInformation/OtherTablesReports>

<sup>54</sup> Dhar. D., T. Jain, and S. Jayachandran (2020), ‘Reshaping Adolescents’ Gender Attitudes: Evidence from a School-Based Experiment in India’. Available at: <http://bit.ly/2QGHIGu>

<sup>55</sup> Fernandez, R., A. Fogli, and C. Olivetti, (2004) cited in Dhar. D., Jain T., and Jayachandran. S. (2020), ‘Reshaping Adolescents’ Gender Attitudes: Evidence from a School-Based Experiment in India’. Available at: <http://bit.ly/2QGHIGu>

<sup>56</sup> Washington, E. (2008); Healy and Malhotra, (2013) cited in Dhar. D., Jain T., and Jayachandran. S. (2020), ‘Reshaping Adolescents’ Gender Attitudes: Evidence from a School-Based Experiment in India’. Available at: <http://bit.ly/2QGHIGu>

<sup>57</sup> Carlana, M. (2019), cited in Dhar. D., Jain T., and Jayachandran. S. (2020), ‘Reshaping Adolescents’ Gender Attitudes: Evidence from a School-Based Experiment in India’. Available at: <http://bit.ly/2QGHIGu>

<sup>58</sup> Porter, C. and D. Serra (2019) cited in Dhar. D., Jain T., and Jayachandran. S. (2020), ‘Reshaping Adolescents’ Gender Attitudes: Evidence from a School-Based Experiment in India’. Available at: <http://bit.ly/2QGHIGu>

changes that have taken place in the policy landscape of Sri Lanka enable such a change, and are discussed in the subsequent sections of this insight.

### **Statutory maternity leave provisions increase the cost of hiring women**

The statutory maternity leave provisions applicable to women working in the private sector in Sri Lanka are summarized in Table 2.

**Table 2: Rights to maternity leave under current statutory arrangements in Sri Lanka**

<b>Legislation/Regulation</b>	<b>Coverage</b>	<b>Provisions<sup>59</sup></b>
Shop and Office Employer's Remuneration Act	All females employed in or related to the business of shop or office	84 working days (which could be taken as a maximum 14 days prenatal and 70 days post-natal) for all children
Maternity Benefits Ordinance	All females employed on a wage in any trade, industry, business undertaking, occupation, profession, or calling except a) females covered by the Shop and Office Employers' Act; b) whose employment is of casual nature; c) home workers; and d) domestic workers in private households	84 calendar days (which could be taken as a maximum 14 days prenatal and 70 days post-natal) for all children.

While maternity pay and leave is mandated by law for private sector employees, employers are fully liable to bear the cost of providing MLBs. As a result, this may cause women to be discriminated against at the recruitment stage by private sector employers.

<sup>59</sup> <http://www.employers.lk/efc-news/686-amendments-to-the-law-governing-maternity-benefits>

### Young women are the most affected

The higher costs of employing women, due to the provision of MLBs, disproportionately affects young women of childbearing age. This is reflected in the higher unemployment rates of younger women in comparison to older women. Table 3 captures the unemployment rates of women and men in different age categories, according to the Labour Force Survey 2018.

**Table 3: Unemployment rates in Sri Lanka 2018**

Age Group	Unemployed Number	Unemployment Rate (%)		
	Sri Lanka	Sri Lanka	Male	Female
Total	372,593	4.4	3.0	7.1
15-19	52,624	26.4	23.8	32.7
20-24	144,824	20.1	14.7	29.4
25-29	84,000	10.4	5.4	19.8
30-39	55,853	3.0	1.4	5.9
Over 40	35,291	0.7	0.5	1.1

Source: The Department of Census and Statistics, Labour Force Survey Annual Report 2018<sup>60</sup>

According to the 2018 data, the unemployment rate for women aged 15-19, 20-24, 25-29 and 30-39 is 32.7%, 29.4%, 19.8% and 5.9% respectively. This is significantly higher than the unemployment rates of men in comparable age groups as well as the overall female unemployment rate. This translates to **190,568 women between the ages 15 to 39 who are unemployed**: that is, women who are willing and able to work, but unable to find employment. This amounts to **51% of the total unemployed population**.

As women between the age of 15-39 account for a majority of the unemployed pool, the provision of state-funded maternity leave benefits may help equalize the level of unemployment between men and women- ensuring a fair level of employment between men and women. This will require an overall increase in employment for women by 113,465 as shown in Table 4.

<sup>60</sup> The Department of Census and Statistics, Labour Force Survey Annual Report 2018. Available at: <http://www.statistics.gov.lk/LabourForce/StaticInformation/AnnualReports/2018>

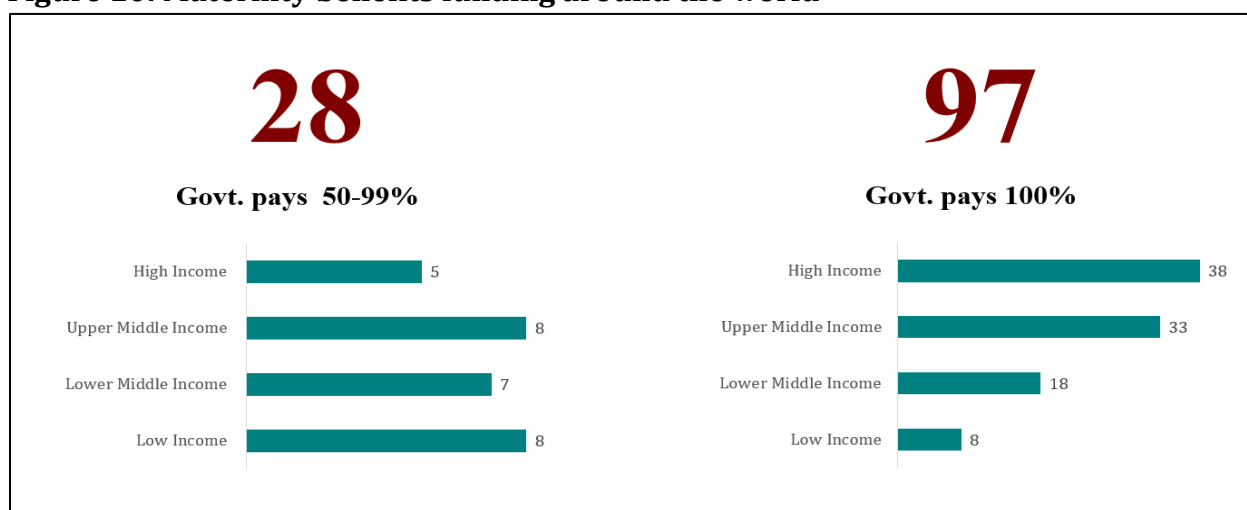
**Table 4: Addition of women into employment by equalizing the unemployment rate between men and women**

Age Groups	Male Unemployment Rate	Total Women in Labour Force	Total Women Employed	Addition of Women into Employment
15-19	23.8%	58,158	39,141	5,175
20-24	14.7%	265,076	187,239	38,871
25-29	5.4%	280,165	224,786	40,250
30-39	1.4%	654,702	616,367	29,169
Over 40	0.5%	1,665,422	1,647,322	9,773
All Ages	3.0%	2,923,523	2,714,855	120,962

### Maternity leave benefits across the world

Globally, most economies share the financing of MLBs between multiple stakeholders (see Figure 10). The government takes the full responsibility of providing MLBs for 97 economies and partially funds MLBs in 28 economies. A majority of the countries that provide zero government support for the financing of MLBs are in Africa, Asia and the Middle East.<sup>61</sup>

**Figure 10: Maternity benefits funding around the world**



Source: Women, Business and Law 2018 & 2019 report, World Bank Group

<sup>61</sup> International Labour Organisation (ILO) (2014) 'Maternity and paternity at work: Law and practices across the world'. Available at: [https://www.ilo.org/global/publications/ilo-bookstore/order-online/books/WCMS\\_242615/lang-en/index.htm](https://www.ilo.org/global/publications/ilo-bookstore/order-online/books/WCMS_242615/lang-en/index.htm)

## Benefits of shifting the cost of MLBs from the private sector to the state

There are several benefits that arise from the state financing MLBs, instead of the private sector. The literature indicates that a shift in the financing of MLBs from private sector to government in developing countries leads to an increase in women's participation in the labour force. This is attributed to the fact that the shift in funding of MLBs leads to decreased discrimination against women in the labour recruitment process as they no longer come at a higher cost than a male recruit. According to the research conducted by the International Labour Organization (ILO), "employer liability schemes work against the interests of women workers, as employers may be reluctant to hire, retain or promote pregnant workers or women with family responsibilities or may seek to find reasons to discharge pregnant employees in order to avoid paying the costs of wage replacement during maternity leave as well as other (potential or actual) direct and indirect costs linked to their replacement".<sup>62</sup>

A study conducted by Cerise et. al (2013),<sup>63</sup> finds that government funded maternity leave benefits have a positive effect on female labour market outcomes, especially in countries with high levels of discrimination. According to this study government funded maternity leave benefits would result in an increase in female employment by 20% for countries with a high level of discrimination.<sup>64</sup>

## Quantifying the cost of MLBs in Sri Lanka

The size of the annual MLBs currently provided to female private sector employees can be estimated given certain assumptions, which are as follows: (1) The fertility rates among the private sector employees is the same as the national fertility rates by age group,<sup>65</sup> and (2) Percentage of women working in the private sector is 38.5% of the total number of females employed in 2018.<sup>66</sup> Using the above data points, the number of women in the private sector who are likely to have been on maternity leave in 2018 is calculated to be approximately 43,906. (See Annex 1 for detailed methodology). Lastly, the average wages of women employed by the private sector is assumed to be Rs. 32,000 which is the average wage of females who earn a monthly income in 2018.<sup>67</sup> This results in an estimated value of annual MLBs of Rs. 4.2 Billion.

Assuming a 25% variance of monthly wage results in a maternity benefit value range of Rs. 3.1 Billion to Rs. 5.2 Billion. (See Table 4). This amounts to 0.18% to 0.31% of tax revenue in

<sup>62</sup> International Labour Organisation (ILO) (2014) 'Maternity and paternity at work: Law and practices across the world'. Available at: [https://www.ilo.org/global/publications/ilo-bookstore/order-online/books/WCMS\\_242615/lang--en/index.htm](https://www.ilo.org/global/publications/ilo-bookstore/order-online/books/WCMS_242615/lang-en/index.htm)

<sup>63</sup> Cerise. S., A. Eliseeva, and F Francavilla. (2013) 'How do maternity leave and discriminatory social norms relate to women employment in developing countries', OECD Development Centre

<sup>64</sup> In their study discrimination is measured using the OECD's Social Institution and Gender Index (SIGI). This index reflects a cross-country measure of discrimination against women in social institutions (formal/informal laws/social norms and practices), across 180 countries. In the 2019 SIGI index Sri Lanka was categorized as a country with a high level of discrimination against women in social institutions

<sup>65</sup> The 2015 national fertility rate as reported by the department of census and statistics is considered. This is the most updated data available.

<sup>66</sup> According to the Department of Census and Statistics 2018 Annual Labour Force Survey, the % of women working in the private sector was 38.5%.

<sup>67</sup> As per the Department of Census and Statistics, Annual Report 2018, the average wage of females who earn a monthly income in the private sector is Rs. 31,974.

2018.<sup>68</sup> In contrast, the Samurdhi and the fertilizer subsidy paid out by the government in 2018 amounted to 2.3% and 1.6% of tax revenue collected for that year, respectively.<sup>69</sup> The estimated value of MLB payments is only 11% and 20% of the cost of Samurdhi and fertilizer subsidies paid out by the government for the year 2018.<sup>70</sup>

**Table 5: Maternity Leave Benefits Utilized by Private Sector in 2018**

No. of female private sector employees on maternity leave	Average 3-month salary of female private sector employees	Value of maternity leave benefits realized in 2018
43,906	Rs. 72,000	Rs. 3,161 million
	Rs. 96,000	Rs. 4,215 million
	Rs. 120,000	Rs. 5,268 million

Source: Authors own calculation

### The 2019 Budget Speech

Recognizing the benefits of shifting the funding of MLB away from the private sector, the Sri Lankan government included a proposal to shift a component of MLB funding to the government in the 2019 budget speech. Accordingly, the government undertook to fund 50% of the salary costs of the mandatory 3 months maternity leave period, subject to a maximum of LKR. 20,000 through an additional deduction, in calculating corporate taxation. The tax deduction will be extended to 100% of salary cost for the 4<sup>th</sup> month of maternity leave, if granted (see Figure 11 for excerpt from the Budget Speech 2019). However, this proposal has not been implemented to date (see Annex 2).

<sup>68</sup> Central Bank of Sri Lanka Annual Report 2019, Chapter 6: Fiscal Policy and Government Finance, Table 6.1. Accordingly, tax revenue for the year 2018 was Rs. 1,712,318 Million.

<sup>69</sup> Central Bank of Sri Lanka Annual Report 2019, Chapter 6: Fiscal Policy and Government Finance, Table 6.3

<sup>70</sup> Estimated MLB as a percentage of Samurdhi in 2018 =  $4,215/39,239 = 11\%$ ; Estimated MLB as a percentage of Fertilizer subsidy in 2018 =  $4,215/26,948 = 20\%$

**Figure 11:** Excerpt from the Budget Speech 2019<sup>71</sup>

48. The limited participation of women in the workforce is a clearly identified growth constraint. We will encourage the private sector to support our working mothers, by allowing 50% of the salary cost of the mandatory 3 months maternity leave granted, as an additional deduction, in calculating their corporate taxation, subject to a maximum of Rs.20,000/= per employee per month. We will extend this to an additional deduction of 100%, for the 4<sup>th</sup> month of maternity leave, if so granted. The concession would apply for a 5 year period.

### Recommendations

The private sector is the key stakeholder that will benefit from shifting the cost of bearing MLBs to the state. Therefore, YouLead can leverage its extensive networks and partners, in particular the Chambers of Commerce, to mobilise the private sector to advocate for policy reforms with regard to shifting MLB funding to the state. In particular, YouLead can focus on the following strategies:

#### **1. First steps first – request the government to have the 2019 MLB budget proposal gazetted and enacted as law.**

The 2019 budget proposal on MLB was a huge step forward towards promoting gender equality in the labour market. This is also hugely beneficial to the private sector. YouLead can champion this cause by bringing publicity to this proposal and leveraging the private sector to push the government to implement this budget proposal.

#### **2. Work together with the private sector to expand the coverage of MLBs.**

The 2019 budget proposal on MLBs is limited in coverage. According to the proposal, a tax deduction is provided only for 50% of the salary cost for the mandatory 3 months maternity leave period, up to a maximum of LKR 20,000. However, a complete shift of MLB funding to

<sup>71</sup> Parliament of Sri Lanka, Budget Speech 2019: Available at: <http://www.treasury.gov.lk/budget-speeches>

the state is required to further reduce the employer's incentive to discriminate against women at the job recruitment stage.

Youlead can work as a catalyst, and bring all interested stakeholders together including the private sector to lobby for shifting the full burden of MLB funding to the state. This can be achieved by disseminating research findings among stakeholders, bringing visibility to the problem and creating public discourse around MLB funding.

## Key Recommendations

We summarize the key recommendations made by each of the insights as follows:

**1. Introduce a mechanism to improve English language skills amongst teachers based on a reward and award system.**

Given the poor quality in English language and teaching skills amongst teachers, a program that helps to assess and uplift the skill of teachers, and then certify their abilities, may help improve the overall quality of English language teaching received by youth in Sri Lanka.

**2. Provide a mechanism for youth to improve their spoken English through the use of online learning material.**

Institutes like the British Council, Skills for Life or the English Training Center may provide the material needed to improve spoken English amongst youth. YouLead can provide the platform to deliver such programs for youth as a “learn at home program”. A mechanism to improve the outreach of such a program in a rural area, a key target group, will be to use the IT facilities provided by the American Corner and Sarvodaya Fusion.

**3. Overhaul the current English examination curricula to follow an international curriculum of assessment.**

The deployment of such English learning curricula will lead to an immediate improvement in teaching quality and an improvement in the English language skills of youth. Such a system will also remove the need to develop costly education material.

**4. Implementation of return to work programs so that NLET youth, specifically women are nudged into re-entering the workforce.**

YouLead can provide the necessary coaching for companies to develop pathways to engage individuals with an interest in re-entering the workforce. This can include developing mentoring programs to ease the transition to work or improving publicity of such programs to capture the interest of youth interested in reintegrating with the workforce.

**5. Provide industry-specific courses that enable youth to reintegrate into the workforce by bridging their skills gap.**

Companies can develop programs relevant to bridging the skills gap of youth interested in reintegrating with the workforce. For example, Brandix College offers courses in areas relevant to the apparel industry, such as pattern making, merchandising and clothing technology. Smaller SME owners may develop on the job training programs which after a period of evaluation, can help reintegrate youth into the workforce.

**6. Provide the option of work-from-home programs**

Since the COVID pandemic, work-from-home has become the new norm. Implementation of such programs may help incorporate a large segment of female youth constrained by dependents, young or old, and provide the needed flexibility to rejoin the workforce. YouLead can act as a guide by providing assistance to companies for institutionalizing a work-from-home program.

**7. Developing awareness programs highlighting the success of own-account workers or school-based exposure programs to connect youth with own-account workers as a means of improving entrepreneurial readiness among youth.**

Building awareness and highlighting the success of own-account workers may provide the much-needed encouragement for youth to pursue self-employment as an own-account worker. School based exposure programs will link youth to successful own-account workers giving the necessary experience to begin as own-account workers themselves.

**8. Enhancing locally developed digital platforms and building programs to enhance awareness of such platform with short-term incentives may help develop access to the market for own-account workers.**

Access to the market is a key issue for youth own-account workers, which can be improved through digital platforms that connect youth own-account workers to the market. Enhancing the experience of the platform to international standards will help attract youth own-account workers to the platform and create an environment for youth entrepreneurship to thrive. Awareness building programs with short-term incentives will further attract youth to these platforms.

**9. Promoting programs such as “Thurunu diriya” will enable youth to engage with such services and access the capital required to set up as own-account workers.**

Youth lack awareness of such programs and hence do not have the necessary capital to start-up as an own-account worker. Building awareness of such programs may help encourage youth to utilize such programs and help to nudge youth in the direction of own-account workers.

**10. Getting the 2019 Maternity Leave Benefit budget proposal gazetted and enacted as law**

The 2019 budget proposal on MLB was a massive step forward towards promoting gender equality in the labour market. This is also hugely beneficial to the private sector. YouLead can champion this cause by bringing publicity to this proposal and leveraging the private sector to push the government to implement this budget proposal.

### **11. Expanding the coverage of Maternity Leave Benefits**

Youlead could build partnerships with stakeholders such as the private sector by promoting visibility about the benefits of maternity leave. These partnerships can be used to leverage shifting the full burden of maternity leave benefits to the state. This would help mitigate the discrimination faced by women at the recruitment stage and help improve female labour market outcomes.

## Chapter 2: A Constructive Analysis of Thurunu Diriya: A Government Initiative to Boost Youth Entrepreneurship in Sri Lanka

### Background

Entrepreneurship among the youth of Sri Lanka is considerably low, due in part to the societal norms which do not encourage youth to pursue entrepreneurship as a viable employment option, as well as the structural roadblocks within the entrepreneurial ecosystem. Of these structural barriers, access to finance is a major impediment which holds back youth entrepreneurs in the country.

The existing financial system in Sri Lanka, which is characterised by rigid lending practices, contributes to keeping potential youth entrepreneurs away from seeking financial assistance from the traditional credit market. In hyper competitive markets, approximately 80% of all start-up ventures fail within three to four years due to a lack of capital to “cushion” the business during periods of economic downturn or to “push” the business forward during stagnant periods.<sup>72</sup>

While a start-up in Sri Lanka can access capital funding through the traditional credit market, a majority are limited in their ability to do so due to collateral requirements, which are sought by banks to mitigate a perceived high default risk. This is despite the non-performing loan rate being just 5% in the entire country. The inability to furnish collateral to meet the bank’s lending requirements (which is usually in the form of a physical asset like a house, vehicle or land) restricts overall access of young people to this particular source of capital.

Successive Sri Lankan governments have sought to address this structural roadblock by introducing lending schemes via government-initiated lending programmes. Under the banner of ‘Enterprise Sri Lanka’, an initiative of the former UNP-led government, 15 tailor-made funding programmes were initiated to support micro, small and medium enterprises (SME), self-employment and youth entrepreneurs. With the combined objectives of providing access to finance at affordable rates, mitigating the constraints of collateral-based lending and addressing youth employment and entrepreneurship<sup>73</sup> (among several other objectives), Thurunu Diriya was launched as one of the 15 targeted programmes tasked with improving youth entrepreneurship in the country.

The YouLead project, a USAID-funded youth employment and entrepreneurship development programme commissioned Verité Research to conduct a constructive analysis of the Thurunu Diriya loan programme. The objectives of the analysis are two-fold: to understand the impact achieved by Thurunu Diriya, and to identify what barriers maybe mitigating the success of such government initiated lending programmes.

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<sup>72</sup> Ratwatte, C (2019) ‘1,000 young entrepreneurs: BoC Thurunu Diriya achieves historic landmark’, *Daily FT*, 10th October, p

<sup>73</sup> ‘Enterprise Sri Lanka programme concept paper’ by the Department of Development Finance Sri Lanka.



In the section that follows, we outline the methodology undertaken in the study. The subsequent section presents details of the Thurunu Diriya programme, followed by the findings of our research. The concluding section highlights the impact of the Thurunu Diriya programme and reflects on how these results may be improved.

## **Introduction to the study**

### **Methodology and background**

This study adopts a qualitative approach to exploring a series of the research questions (outlined below). The findings are based on a qualitative discussion with the Senior Advisor to the Prime Minister and his staff, conducted on the 18<sup>th</sup> of October 2019, and weekly progress reports shared by the Prime Minister's office. The analysis is complemented by a review of the literature pertaining to entrepreneurship in Sri Lanka and supported by secondary data where possible.

The questions guiding the research were as follows:

- i. Has Thurunu Diriya successfully managed to meet its programme objectives?
- ii. What were the challenges encountered by Thurunu Diriya during its implementation?
- iii. What lessons can be learnt from Thurunu Diriya?

### **Limitations of the study**

At the onset of this analysis, the team hoped to reach a substantive data-backed conclusion about the implementation of the Thurunu Diriya programme. However, the team encountered a reluctance to the sharing of in-depth data on applications and disbursements made by the programme, and as a result, only received aggregated data which did not allow for a robust quantitative analytical approach.

In terms of literature, there is limited research available on the impact or the efficiency of government-initiated lending and entrepreneurship programmes. Therefore, the team was compelled to use broader entrepreneurship literature to support the findings of the study.

## **Introduction to the Thurunu Diriya loan programme**

The Thurunu Diriya loan programme (referred to as TD henceforth), is one of 15 special funding programmes implemented under the 'Enterprise Sri Lanka' umbrella. The TD programme is presided over by the Central Programme Management Unit (CPMU) of the Ministry of National Policy and Economic Affairs, Resettlement and Rehabilitation and Northern Province Development and Youth Affairs, which reported directly to the then-Prime Minister's Policy Development Office.

The CPMU operates at a Divisional Secretariat (DS) level with one officer leased by the DS office to work on the implementation of the TD programme. The Bank of Ceylon (BOC) serves as the financial intermediary partner for the implementation of the programme.

### **2.1 What are the objectives of the Thurunu Diriya loan programme?**

The leading objective of the TD loan programme is to serve as a source of funding for young people to grow their businesses and to eventually help youth connect directly with the credit market in the future. The TD loan programme is especially targeted at youth under the age of 40 who possess a professional or technical qualification, and have been in business for a period of 3 years, and are able to prepare and present a credit-worthy business plan.

### **2.2 What differentiates Thurunu Diriya from the traditional financial market?**

The lending mechanism imbibed in the TD overcomes certain constraints that arise in the traditional financial market, particularly by not necessitating the need for collateral to become eligible for the loan. For an individual to be eligible for TD loans it was originally intended for the applicant to be below the age of 30, not be listed as defaulted on the Credit Information Bureau of Sri Lanka (CRIB) database and have a registered business operating for 3 years with one year of audited financial accounts.

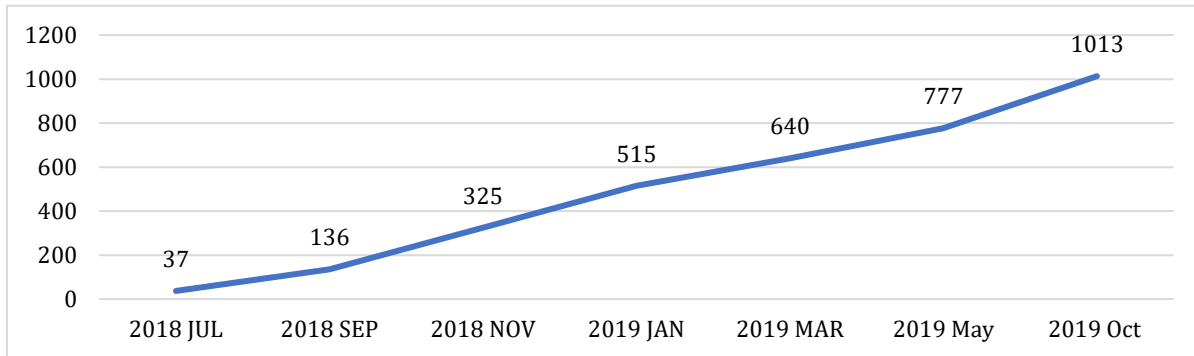
However, at the inception of the TD programme the officials realised that these conditions were restrictive in its nature and the requirements were revised as follows; the age limit was raised to 40 years, as many entrepreneurs were over the age of 30, the need to acquire a business registration, which is cumbersome, was replaced with an alternative where the applicant could furnish a certificate from the Grama Niladhari stating that the business has been in operation for 3 years with endorsement from the Divisional Secretary. Additionally, when an applicant did not possess audited financial accounts, they were allowed to present certified annual financial accounts instead. Finally, to meet the eligibility requirements, the applicant was required to have a business development plan which could be drawn up with the assistance of the Divisional Secretary before approaching the BOC Manager.

### **2.3 How did Thurunu Diriya perform?**

Having launched in March 2018, the TD loan programme had disbursed over 1,000 loans by October 2019 (Figure 12). The overall percentage of non-performing loan rate was 1.4%, with 41% of the non-performing loans (NPL) having being taken by men and the remaining

59% being taken by women. A sample study of Thurunu Diriya shows us that 61% of all borrowers are female (Figure 13).

**Figure 12: Total loan disbursement since July 2018**

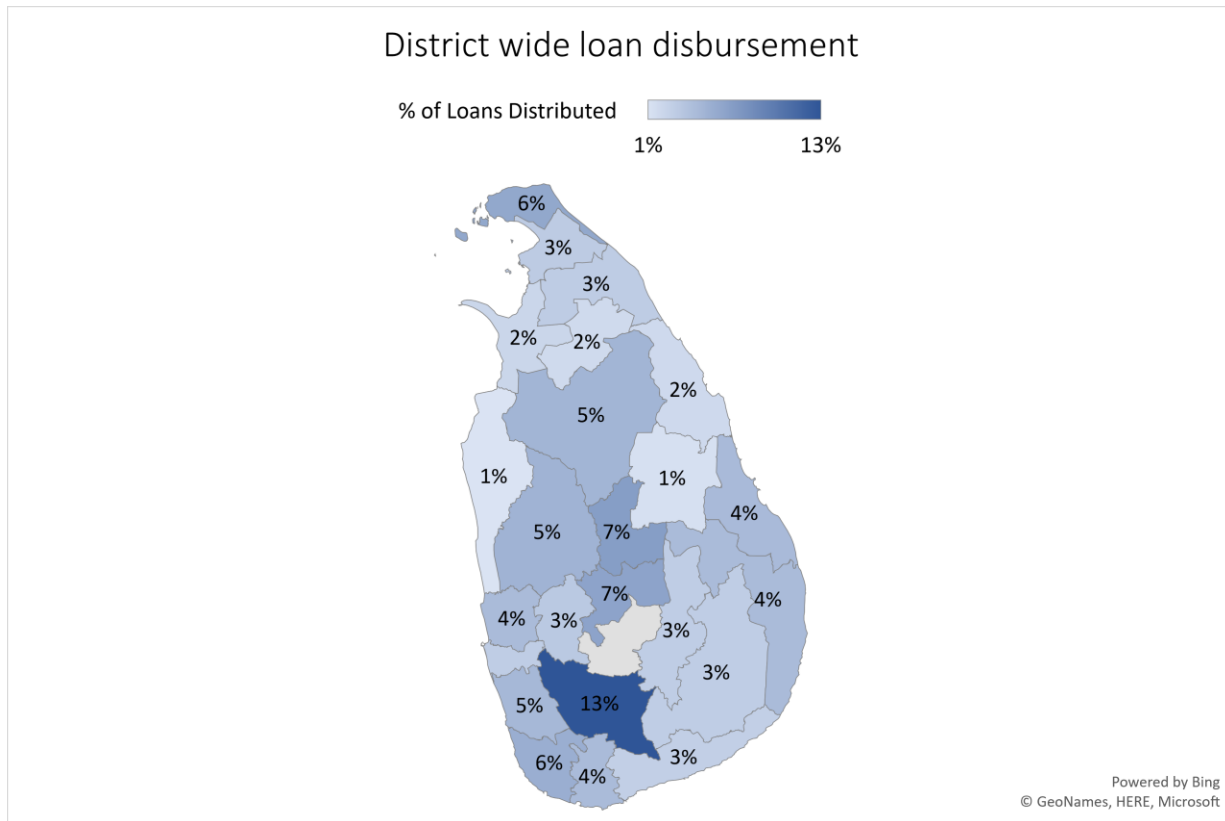


**Figure 13: Ratio of loans disbursed by gender**



A district-wide breakdown of loan disbursement (Figure 14) shows that Rathnapura had the highest number of loan disbursements, having originated 13% of all loans.

**Figure 14: District wide loan disbursement**



## 2.4 What challenges did Thurunu Diriya face?

Based on the analysis of data available to the team and consultations with government officials, the following were identified as the key barriers preventing growth in loan disbursements.

### 2.4.1 Lack of information among entrepreneurs

There is notable variation in loan disbursement across districts and we find that at a district level, a large proportion of loans disbursements were concentrated within a few districts. This may have been driven by a lack of information about the loan scheme among entrepreneurs at the district level, thereby limiting access to the loan scheme.

Literature shows that improving information sharing on loan schemes can be an effective mechanism to improve loan usage (de Mel et al., 2013). Therefore, an effective awareness campaign communicating the availability of the loan programme and the requirements needed to access the loans may improve the number of loan applications received, thus increasing disbursement. One possible mechanism is to share such information via local

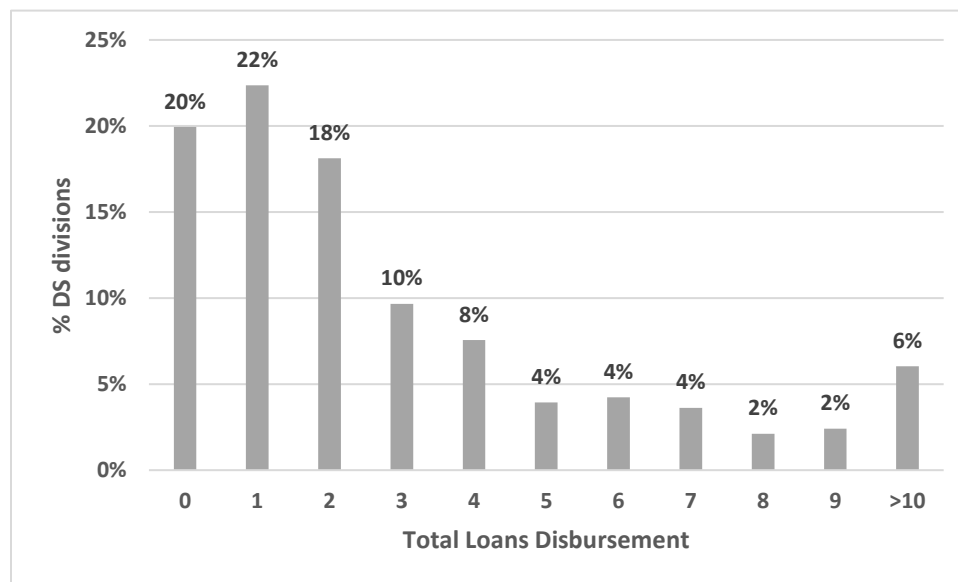
business groups which would attract current and potential entrepreneurs to the loan programme.

Another means of improving information sharing and awareness at the DS level is to use a mobile unit. During discussions relating to Enterprise Sri Lanka, officials pointed out that the use of a mobile unit may improve awareness in rural areas. A mobile unit was set up as a service to facilitate bank access for potential loan applicants. TD can also adopt the mobile unit as a mechanism for improving outreach to a higher number of loan applicants within a DS division, increasing the loan pipeline and thereby improving overall loan disbursement.

### 2.4.2 Poor administration at a local level

The TD loan programme is poorly administered at the DS division level, evidenced by the variation in loan disbursement data (Figure 15). The total loan disbursement within the 331 DS divisions is summarized in the graph below. Nearly 20% of all DS divisions did not disburse any loans, while 40% of all DS divisions have each disbursed fewer than two loans. Only 6% of all DS divisions have disbursed over 10 loans. This implies that a large part of the poor performance of the TD loan programme could be driven by the weak outreach and the poor administration at a local level.

**Figure 15: Total loan disbursement as a % total DS divisions**



### 2.4.3 Lack of training amongst bank officials

Unwitting roadblocks on the part of bank managers surfaced as a key barrier to loan disbursement. During qualitative interviews conducted with Thurunu Diriya key personnel, the Prime Minister's office stated that loan disbursement is subject to the bank managers'

discretion. Some bank managers apply arbitrary and overly stringent requirements to evaluate a loan applicant, which severely stunted overall loan disbursement.

To illustrate: one bank manager had stated that an applicant lacked formal training qualifications to receive a loan. However, the business is involved in the distillation of citronella oil – an area with no formal training process. As a result of this arbitrary decision of the bank manager, the application was denied. The applicant challenged this to no avail later on.

The Prime Minister's office believes that bank managers should be trained to appraise loan applicants according to the specific guidelines of Thurunu Diriya, and not judge applicants based on the bank's traditional credit quality guidelines. It is expected that training bank managers on the exact criteria and purpose of the loan scheme can improve loan disbursement.

Alternatively, a potential solution to addressing this challenge could be to create an appeal process for unsuccessful loan applicants who believe they have been unfairly assessed to re-appeal the decision before a different credit committee.

## **2.5 How to improve women's participation?**

Approximately 61% of all TD loan disbursements were made to female loan applicants, a remarkable feat for an entrepreneurship development initiative. Female labour force participation in Sri Lanka has been stagnant at a low rate of 35% for several years now, inching up slowly over the decades – in comparison to several other economic peers, this is relatively low. While one method of improving female labour force participation is to improve opportunities in paid employment, an alternative is to improve female entrepreneurship in the country.

Training plays a pivotal role in starting and growing a business, as identified by de Mel et al. (2014). In the case of TD, there were no targeted training programmes aimed at upskilling entrepreneurs. Furthermore, in the case of small firms led by women, mentoring and consulting at an individual level is likely to be a better mechanism of growing the business.

Another mechanism for Thurunu Diriya to improve the growth of existing firms, specifically those led by women, is to encourage innovation. Small firms that engaged in innovation are more profitable on average by 15.6% (de Mel et al. 2009). Therefore, using the loan given by TD to drive innovation can help improve the profitability of the firm and its survival over the long run.

## **2.6 What impact has Thurunu Diriya had?**

The TD loan programme has disbursed over 1,000 loans to microenterprises to date. While the short-term success of the programme is assured, its long-term viability is still in question. TD uses short-term loan schemes as the bank can recover the loan quickly and minimise any losses, given the possibility of defaulting. However, shorter-loan schemes have a higher

monthly instalment cost on the entrepreneur, restricting a portion of entrepreneurs from accessing TD. In contrast, the literature provides evidence that microenterprises are good quality credit customers even over the long run (de Mel et al., 2012). Engaging microenterprises using long-term loans may enable TD to increase its loan disbursement and help ensure the success of the program over the long run.

Applications for TD require firms to register their business, which further helps formalise the SME industry, in turn improving the tax collection base (de Mel et al., 2013). Engaging small firms in a formal credit scheme helps prove creditworthiness, granting them access to the financial market and supporting the firms' ability to engage and manage future loans (de Mel et al., 2011). Therefore, TD is a successful business model which traditional banks can replicate, as it drives formalisation, improves tax collection, and develops the necessary skills for an entrepreneur to engage with and operate within the formal credit market.

Evidence from the TD loan programme also contests some of the existing notions within the financial ecosystem. A significant share (61%) of Thurunu Diriya's loans are taken up by women. This is remarkable as women are thought to be generally more credit constrained than their male counterparts. The literature shows that the return on capital investment for such credit schemes is lower amongst women in Sri Lanka (de Mel et al., 2008), implying that women lead to a higher share of non-performing loans and lower profitability. In contrast, evidence from TD indicates that the average default rate of non-performing loans for women is 1.6%, significantly below the national non-performing loan rate of 5%. This challenges the general understanding that women are unprofitable, non-credit worthy loan applicants.

### **Improving the results of the Thurunu Diriya program**

As far as government initiatives to increase youth entrepreneurship go, the TD programme appears to be a relatively successful programme. Over the course of 1.5 years, it has managed to support approximately 1,000 microenterprises to start or grow their business. One of its more remarkable achievements has been to dispense a majority of loans to female entrepreneurs while maintaining a low non-performance rate – showcasing the credit worthiness of female business owners and challenging the misconception generally held within the traditional credit market.

The programme has also proven to be a successful alternative to the typical credit system, which has thus far made a limited contribution to the development of youth and female entrepreneurship in the country. It also showcases that merit-based lending, if adopted on a larger scale by the traditional credit market, can contribute vastly to improve the development of micro-entrepreneurship in the country.

One of the issues faced at the onset of the TD programme was the age cap of 30 years, which was deemed low because a majority of entrepreneurs seeking loans were between 30-40 years, forcing the age cap to be increased to 40 years. This is a problem which has plagued youth entrepreneurship in Sri Lanka, as youth do not or are not able to choose entrepreneurship as a viable source of employment at a young age, and only shift to entrepreneurship at a later stage in life, if at all. Unfortunately, the TD loan programme has not addressed this issue, but future programmes would need to proactively address this matter if there is to be a meaningful drive in improving youth entrepreneurship in the country.

The TD programme is proof that a targeted lending programme, which addresses the specific gaps that restrict the target group from accessing traditional mechanisms can lead to positive outcomes, at least in the short term. Given the limitation in terms of access to data on TD, an in-depth analysis is restricted. Access to detailed data about the TD loan programme will enable a better overview of its performance and facilitate better ideation of long-term strategies to improve the efficacy of programmes like TD.

### **Chapter 3: Top Line Findings and Annotated Bibliography**

This chapter provides top-line findings and an annotated bibliography of the literature focused on youth employment and entrepreneurship, in fulfilment of one of the deliverables of the research component mandated by Youlead for the 2020 Youth Labour Market Assessment. The selected research focuses on the dynamics within the labour market: specifically, entrepreneurship, the openness of the credit market, the formalization of informal sectors, and the impact of education and training on entrepreneurship. The discussion provides a brief introduction, findings, and possible policy intervention of each of the selected articles or reports. The content list provides a summary of the literature.

## Content List

1. Returns to capital: Evidence from a field experiment
2. One-time transfers of cash or capital have long lasting effects on microenterprises in Sri Lanka
3. Getting credit to high return microentrepreneurs: The results of an information intervention
4. Innovative firms or innovative owners? Determinants of innovation in micro, small and medium enterprises
5. The demand for, and consequences of, formalization among informal firms in Sri Lanka
6. Labour drops: Experimental evidence on the return to additional labour in microenterprises
7. Business training and female enterprise start-up, growth, and dynamics: Experimental evidence from Sri Lanka
8. Who are the microenterprise owners? Evidence from Sri Lanka on Tokman vs. de Soto
9. Exploring entrepreneurial readiness of youth and start-up success components: Entrepreneurship training as a moderator
10. Does school choice increase the rate of youth entrepreneurship?
11. Do youth employment programs improve labour market outcomes? A quantitative review
12. Financing Technical and Vocational Education and Training in Sri Lanka
13. English for Employability – the need of the hour for Sri Lankan graduates
14. Attitudes towards Entrepreneurship in Singapore: The Role of the State in Cultural Transition
15. The Role of Innovation Education in Student Learning, Economic Development, and University Engagement
16. Entrepreneurship Selection and Performance: A Meta-Analysis of the Impact of Education in Developing Economies
17. Can arts-based interventions enhance labour market outcomes among youth? Evidence from a randomized trial in Rio de Janeiro



18. Employment/ unemployment, education and poverty in the Greek Youth, within the EU context

1. **de Mel, S., McKenzie, D., Woodruff, C. (2008) 'Returns to capital: Evidence from a field experiment', *Quarterly Journal of Economics*, 123(4), pp. 1329-1372.**

This study estimates returns from capital investment by small firms. The sample consists of 408 firms with a ceiling of 100,000 LKR in capital (excluding land). A random sample of the selected firms was given a grant, intended as a form of capital investment, and monitored every quarter from April 2005 to April 2007. The first grant was given at the end of the first quarter of April 2005 in 4 variations- LKR 10,000 or LKR 20,000 in either cash or in-kind.

**Findings:** The experiment identified that small firms had a return on capital investment ranging from 4.6%-5.3%, which as an annual rate is over 60%. This is well above the standard annual market interest rate. However, for firms led by women, there was no significant return in capital investment. Nearly 60% of all female owners had returns below the market interest rate. In comparison, only 20% of all male owners had returns below the market interest rate. The paper shows that return to capital is dependent on specific characteristics of the owner (the entrepreneur) and the firm (enterprise). Firms with a lower return to capital typically had higher liquidity and many household members participating in the business. Owners with higher returns to capital had higher entrepreneurial ability.

**Policy:** Interventions to open credit markets enabling access to small firms is a strategy that has a high likelihood of success. Candidate firms can be identified based on male ownership, low household capital, fewer household members tied to the firm, and high entrepreneurial ability score.

2. **de Mel, S., McKenzie, D., Woodruff, C. (2012) 'One-time transfers of cash or capital have long lasting effects on microenterprises in Sri Lanka', *Science*, 335(6071), pp. 962-966.**

Most studies on returns to capital investment fail to consider returns in the long run for small firms. The theory based on the Ramsey model indicates that although capital investments improve returns to capital in the short run, returns to capital revert to their original levels in the long run. This paper makes an assessment on returns to capital in the long run in firms five years after the previous study (de Mel et al., 2008) conducted by the authors.

**Findings:** The study finds that five years after the grant was given, monthly returns persisted at 6%-12% for small firms led by men, refuting the theory predicted by the Ramsey model. The study also shows that a one-time grant improves the chances of survival for small firms by 10% over a 5.75-year time period. The paper provides reasons for why the grant improves the chances of survival and profitability of small firms and outlines why outcomes differ by firms led by men and women.

The grant acted as a "cushion" from economic shocks helping small firms avoid closure. It facilitated substantial investment in the business despite restricted access to credit markets, leading to a higher return. It was an increase in production, not an improvement in the production process, that led to this higher return.

The grant also helped overcome time-inconsistent preferences, where individuals make choices inconsistent with their previous decisions over time. Time-inconsistent preferences affect short-run investment choices, which in turn affect long-run profitability. They also affected female-led firms. Sri Lankan society considers women as the custodians of the household and its day-to-day management. A female entrepreneur will forego investment in the business in the short run to avoid mismanagement of the household. For example, cash meant for business activities was used for managing household activities. This inconsistent behavior affected the return on capital investment and the survival of the firm in the long run.

Women also typically choose to work in industries that have a lower return to investment ratio than the industries chosen by men. As a result, female-led firms have lower returns.

A combination of time-inconsistent preferences and industry choice results in a drop-in survival and profitability for female-led firms.

**Policy:** Intervention focused on opening credit markets to small firms will show greater success given such firms show a long-term investment plan leading to steady growth and survival over the long run.

3. **de Mel, S., McKenzie, D., Woodruff, C. (2011) 'Getting credit to high return microentrepreneurs: The results of an information intervention', *The World Bank Economic Review*, 25(3), pp. 456-485.**

Although loan schemes provided by credit markets are a sustainable investment for micro-enterprises, most micro-enterprises are unaware of such loan schemes. This paper presents evidence which demonstrate that providing information about loan schemes and reducing the number of guarantors necessary for the application, improves the utilization of loan schemes. The study conducted an experiment providing information to micro-entrepreneurs on the existence of loan schemes offered by Ruhuna Development Bank (RDB) in two districts, Galle and Matara. Owners of the microenterprises were invited to attend the meetings describing loan schemes with a reduced number of guarantors. The owners were then asked if they had applied and received a loan from RDB after attending the meeting.

**Findings:** The results from the experiment indicate that loan utilization doubled after the intervention. The study identifies a lack of knowledge on loan schemes as the main barrier to utilizing loan schemes, as opposed to a lack of financial literacy. The study also finds that firms with a loan have a monthly return of 5.8% above the market interest rate. A large proportion of the loan (67%) was invested in business assets and savings, thereby building the collateral level of the firm. The increase in collateral makes it easier for firms to access credit markets and loans in the future. The intervention also led to 13% of firms taking another loan from RDB. Additionally, 32% of firms went on to access other formal loan schemes.

**Policy:** Improving access to information on loan schemes alone, with no added incentive of reducing interest rates or collateral, can lead to an increase in loan usage by microentrepreneurs and small firms.

4. **de Mel, S., McKenzie, D., Woodruff, C. (2009) 'Innovative firms or innovative owners? Determinants of innovation in micro, small and medium enterprises', *Policy Research Working Paper No. 4934*.**

This paper looks at how innovation in the market, irrespective of the form of innovation (product, process, marketing or organizational), leads to an increase in profits.

**Findings:** The results show that small firms that are engaged in innovation improve their profitability by 15.6% - the highest increase compared to all other forms of innovation (product, process, marketing or organizational). Firms led by owners with a higher entrepreneurial ability (identified using a digit recall test and raven score test) and who have three or more years of work experience in another job are more likely to engage in innovation.

**Policy:** Policy interventions to encourage innovation in small firms will increase profitability of the firm, thereby granting firms better access to credit markets. Credit markets can engage small firms interested in innovation and screen credible loan opportunities for innovation based on entrepreneurial ability and prior work experience of the owner.

5. **de Mel, S., McKenzie, D., Woodruff, C. (2013) 'The demand for, and consequences of, formalization among informal firms in Sri Lanka', *American Economic Journal: Applied Economics*, 5(3), pp. 122-150.**

This paper looks at how small firms can be moved from the informal sector to the formal sector. The study looked at a sample of 520 firms in Colombo and Kandy and had four treatment groups. The first treatment acted as a control – firms received information on the process of formalizing and were reimbursed for the cost (LKR 500) of formalizing the firm. The remaining treatment groups received information on the process of formalizing and were paid LKR 10,000, LKR 20,000 or LKR 40,000 as incentives for formalization.

**Findings:** The treatment groups receiving cash incentives had a higher probability of formalization than the control group. However, follow up surveys showed that the benefits in terms of survival probability and profitability from formalization were marginal. However, some notable positive changes were visible in the newly formalized firms. Formalization led to better public perception of the business. Phrases such as "customers trust the business" or "it is good publicity" were taken as qualitative indicators of this improved public perception. Formalization also made it easier for firms to get loans, and formalized firms were more likely to have positive attitudes towards paying taxes.

**Policy:** Intervention based on financial incentives, such as tax breaks, will be effective in shifting small firms from the informal sector and into the formal sector. While total tax revenue from such firms will be marginal at the beginning, higher tax revenue can be

collected later, given the potential growth in businesses after formalization. As a result, providing tax breaks at the beginning to incentivize formalization will be an effective strategy.

6. **de Mel, S., McKenzie, D., Woodruff, C. (2013) 'Labour drops: Experimental evidence on the return to additional labour in microenterprises', *American Economic Journal: Applied Economics*, 11(1), pp. 202-235.**

This study uses an experimental design to identify whether wage subsidies can increase labour recruitment and returns in micro-enterprises. The study looked at a sample of 1,533 firms. The first month of surveying was used as a control period. Thereafter, a randomly chosen sub-sample was treated with a wage subsidy. For the first six months, a subsidy of LKR 4,000 was given as a grant to hire an additional worker. For the next two months, a subsidy of LKR 2,000 was provided to facilitate a smooth transition out of the subsidy.

**Findings:** The results show that during the treatment period there was a notable increase in profits, sales, and chance of survival when an additional worker was hired. However, after the subsidy was withdrawn additional workers were released, except in the manufacturing sector, and profitability reduced. This experiment indicates that hiring additional workers for small enterprises is an unprofitable investment.

**Policy:** Wage subsidies targeted at micro-enterprises focused on expansion may be unsuccessful in the long run. However, for microenterprises in the process of expansion, labour becomes a necessary input for production. Wage subsidies can be useful for such firms that are focused on expansion. Loan schemes developed by Thurunu Diriya and Enterprise Sri Lanka can target small firms in the market interested in expansion through wage subsidies over the short run.

7. **de Mel, S., McKenzie, D., Woodruff, C. (2014). 'Business training and female enterprise start-up, growth, and dynamics: Experimental evidence from Sri Lanka'. *Journal of Development Economics*, 106(), pp.199-210.**

The goal of this study was to identify if business training had any impact on female-headed firms. The study considered two samples: 628 potential female business owners and 628 current female business owners. A sub-sample of 400 from each group were selected to receive training. Half of this group received a grant of LKR 15,000, which was conditional on completing their training. The training program offered courses from the Start Your Business (SYB) and Grow Your Business (GYB) program designed by the International Labor Organization (ILO) and an additional technical training program.

**Findings:** Results indicate that training alone is not enough to grow a business. Although receiving the grant resulted in a temporary boost in profitability, profitability reverted to the control group level after two years. While training was found to be ineffective for facilitating existing female headed firms to grow their business, it was effective in encouraging women to start businesses. The study suggests that existing female-headed businesses receive no benefit from training programs as existing business practices cannot be overcome through

training. These results suggest that personalized mentoring or consulting may benefit existing female-headed business.

**Policy:** Interventions using programs such as SYB and GYB will be useful for female-led startups to grow and remain profitable. However, the growth of existing female-led businesses depends on providing owners with mentoring and consulting services.

**8. de Mel, S., McKenzie, D., Woodruff, C. (2009) 'Who are the microenterprise owners? Evidence from Sri Lanka on Tokman vs. de Soto', *Policy Research Working Paper No. 4635*.**

This paper analyses the difference in characteristics between own-account workers (non-employers), wage workers (employees) and large firm owners (employers). The paper aims to distinguish characteristics between the three and identify if own-account workers are more likely to become employees (Tokman's perspective) or employers (de Soto's perspective). The paper uses a discriminant analysis technique, commonly used in biology for the classification of species, to classify own account workers as either employees or employers.

**Findings:** Results indicate that 70% of all own-account workers were classified as employees and 30% as employers. Due to the large proportion of own-account workers in Sri Lanka and the fact that 30% of own-account workers are likened to employers, the potential for job creation by own-account workers is notable. The study analyses own-account workers from April 2005 to October 2007. Initially, none of the own-account workers had employees but by October 2007, 9% of the sample had hired a worker. The study finds that individuals who were older, had higher abilities, were motivated by personal achievement, and were willing to give up control were more likely to employ workers. Evidence also shows the transition from being an own-account worker to employer takes less than three years and is therefore significant for policymakers.

**Policy:** Intervention focused on job creation targeting own-account workers will be effective, particularly for individuals who are older, motivated by personal achievement, willing to give up control and of high ability. In the interim period, these policies could improve income for own-account workers and encourage them to add workers to their businesses.

**9. Olugbola, S.A. (2017) 'Exploring entrepreneurial readiness of youth and start-up success components: Entrepreneurship training as a moderator', *Journal of Innovation & Knowledge*, 2(3), pp. 155-171.**

This paper examines the impact of factors such as motivation, opportunity identification, resources, and entrepreneurial ability on the entrepreneurial readiness of youth. The paper also examines the moderating effect of training on such factors and the corresponding implications for the entrepreneurial readiness of youth. The sample considered in this paper included 490 students from the Universiti Sains Islam Malaysia.

Each student completed a questionnaire indicating their entrepreneurial readiness, motivation, opportunity identification, resources, and entrepreneurial ability using a 5-point Likert scale. The sample is divided into two groups, where a treated group received entrepreneurial training (418 students), and a control group (72 students) did not. Entrepreneurial training focused on three areas: (i) knowledge development by exposing students to business development, organizational behaviour, and international standard business practices; (ii) experience provided through active engagement with successful entrepreneurs willing to share their previous experience; and (iii) practical exposure by asking students to develop a business feasibility plan to enable government sponsorship. The effect of each factor on entrepreneurial readiness was measured using a structural equation model. Then a comparison was made between the treatment group and the control group to identify the moderating effect of training on factors that influence entrepreneurial readiness.

**Findings:** Results indicated that motivation, opportunity identification, and resources act as strong positive determinants of entrepreneurial readiness and are statistically significant. Entrepreneurial ability influenced entrepreneurial readiness negatively but was statistically insignificant. Comparisons between the treatment and control groups showed that training reinforced motivation, opportunity identification, and resources, thereby having a positive effect on factors that improve entrepreneurial readiness. Entrepreneurial ability, previously considered harmful, was moderate, implying that training improved entrepreneurial ability and its effect on entrepreneurial readiness.

**Policy:** This paper proposed policy interventions that focused on key recommendations for universities to provide resources for entrepreneurial training and learning. One recommendation was through field visits to successful companies, which would expose youth to successful entrepreneurs thereby enabling a better understanding of real-world business problems. Another suggested recommendation was to help university students turn existing projects into a practical business through the aid of the government. Additionally, training was recommended to provide business acumen for engagement in a niche rather than existing area to prompt diversification. Such policy recommendations may help improve graduate engagement in entrepreneurship by improving entrepreneurial readiness.

**10. Sobel, R.S., King, K.A. (2007) 'Does school choice increase the rate of youth entrepreneurship?', *Economics of Education Review*, 27(4), pp. 429-438.**

This paper reviews the impact of school choice – public vs charter schools in the United States – on youth entrepreneurship. Charter schools are funded on a per-student basis whereas public schools are funded by taxpayers. Charter schools need to be competitive in their attempts to attract students. State issued voucher programs enable students to enter

charter schools. To attract students with vouchers, charter schools attempt to foster innovation and competition among administrators, which becomes infectious among school students, translating to a higher level of youth entrepreneurship. A higher level of youth entrepreneurship is not due to students learning entrepreneurship but due to the business-like environment at the charter schools.

**Findings:** The empirical analysis used in this paper looked at US county-level data from the 2000 US census on self-employed youth. A comparison of the rate of youth self-employment across counties with and without the voucher program helped identify if a voucher program increased youth self-employment within a county. The results indicated that a voucher program increased self-employment by one-percentage point, translating to a significant increase in the rate of self-employment from 25%-30% based on the sample.

**Policy:** This paper shows that improvements in the school environment can encourage youth entrepreneurship. One option is to prompt higher state funding based on the mechanics of administration within a school. Other options include adopting a per-student funding model or a voucher program, which will foster competition and innovation within the administration, which will in turn help to foster these skills among the students.

**11. Kluge, J., Puerto, S., Robalino, D., Romero, J.M., Rother, F., Stöterau, F., Weidenkaff, F., Witte, M. (2019) 'Do youth employment programs improve labour market outcomes? A quantitative review', *World Development*, 114, pp. 237-253.**

This paper conducts a meta-analysis of 113 youth employment programs worldwide. The paper looks at 3,105 outcomes from the 113 programs and identifies 1/3 of all programs to improve youth employment positively. The paper also aims to identify factors that promoted the success of these programs.

**Findings:** The paper identifies several factors that promote the success of youth employment programs.

First, youth employment programs are found to be most successful in middle-income and low-income countries. The authors provides reasoning for this success. The country may be new to such youth employment programs and benefit from their design and innovation alone or factors that restrict youth employment maybe readily released, enabling better youth employment outcomes. Second, the success of youth employment programs rests with the ability to deal with the complex needs of individual constraints in the labour market and requires multiple integrated interventions. Third, intervention programs must be able to target the most vulnerable youth and therefore have a better mechanism of profiling to have the highest success; this should be followed up by monitoring and evaluation that provides feedback to improve the program's performance. Fourth, in a low-income setting, a pure non-public actor's implementation of youth programs may be more successful than a pure public actor due to the misalignment of government, private sector, and civil society implementors. However, in high-income countries, youth programs are most successful when jointly implemented by the public and private sectors.

**Policy:** This paper suggests that youth employment programs have a high probability of success in a country such as Sri Lanka, given its middle-income status. However, such programs must have characteristics and contingencies for their success. Suggestions provided in this paper point towards youth employment programs that have integrated interventions targetting multiple outcomes that enable youth to overcome barriers to employment. These programs must target the most vulnerable youth through effective profiling mechanisms, and must also receive feedback to stabilize the performance of the program in the future.

12. Lee, K., Ogawa, K (2016) 'Financing Technical and Vocational Education and Training in Sri Lanka', *ASR: CMU Journal of Social Sciences and Humanities*, 3 (1), pp. 27-34.

This paper outlines how TVET programmes are underfunded by the Government of Sri Lanka (GoSL) coupled with the lack of policy direction and leadership. It also investigates ways of introducing innovative financing schemes to increase the take-up and quality of these programmes. Government-funded TVET institutes cannot accommodate the 152,000 youth that require TVET education because of budgetary constraints mainly due to the free education policy in Sri Lanka. This is evident where half of TVET institutes in Sri Lanka are either private or from NGOs. Despite donor contributions from the agencies such as the ADB and World Bank, there still exists a funding gap of USD 200 million.

**Findings:** Every year, around 90% of students are unable to enter local or foreign universities and thus require skills training to improve their chances of employment. Despite this, GoSL's expenditure on education has consistently remained at around 2% of GDP. This has resulted in poor quality of the curricula developed and fewer qualified teachers to undertake these programmes. As a result, many of the graduates from these programmes fail to meet the industry expectations when seeking employment. On the other hand, institutions such as Ceylon German Technical Training Institution conducts weekend and special classes over the vacations which serves as a source of additional revenue. This is used to provide incentives for staff or scholarships for students which require them.

**Policy:** Strengthen the partnerships between TVET institutes and industries such that the curricula reflect on industry employment demands. Furthermore, GoSL should consider restructuring national policies to mobilize TVET financing, for example by raising tax revenue to better fund TVET programmes in Sri Lanka. Financial support from donor agencies (via the Skills Sector Development Plan) should be expanded to either obtain more funding or seek out more lenders to fill the funding gap.

13. Wijewardene, L., Yong, D., Chinna, K (2014) 'English for Employability - the need of the hour for Sri Lankan graduates', *British Journal of Arts and Social Sciences* 17 (1), pp. 137-145.

This paper outlines the struggle faced by local university graduates to find employment, especially in the service sector due to the lack of knowledge in English. Despite local

university graduates possessing sufficient subject and industry knowledge as well as a multitude of other skills such as computer literacy and leadership. Measures such as introducing English medium programmes at local institutions have failed to address this issue and has resulted in employers wasting time and resources in teaching new employees English first.

**Findings:** Some local institutions have adopted English medium programmes, but this has proven to be ineffective since no measures were taken to teach the language to students in the first place. As a result of this, there has been issues where local graduates have a feeling of segregation and unequal opportunity compared to their private university counterparts who secure employment since they have mainly engaged in English medium programmes. In addition to this, it fails to address the issue of employer expectations where they require graduates who possess suitable communication skills in order to compete with and liaise with international business associates.

**Policy:** Train instructors to teach English to meet the demand for English medium education in primary, secondary, and tertiary education in Sri Lanka. Continue to implement and maintain initiatives such as the "The Presidential Initiative on English as a Life skill" helping foster spoken English amongst teachers and children from rural schools while incorporating the needs of the industry in order to allow students to apply these skills in practice.

**14. Pereira, A (2007) 'Attitudes towards Entrepreneurship in Singapore: The Role of the State in Cultural Transition', *Asian Journal of Social Science*, 35(3), pp.321-339.**

This study examines the attitudes of undergraduates towards entrepreneurship as a means of understanding the Singaporean states ability to change mindsets. The context of the study is the Singapore government's 2001 economy policy "Technopreneurship 21", meant to stimulate Singapore's low level of entrepreneurship by encouraging Singaporeans to set up their own enterprises or become self-employed in the future.

The study looks at youth aged 19-24 years in 2005, and those who have a higher educational attainment. Three hundred undergraduates enrolled in a module titled "Singapore Society" at the National University of Singapore were surveyed.

**Findings:** A lack of entrepreneurial training was seen as the main factor contributing to the low level of youth entrepreneurship, followed by the assessment that "Singaporeans prefer to be employees rather than self-employed". The perception that the state did not encourage creativity was also identified as an impediment to entrepreneurship. About 90% of respondents were aware of the state's entrepreneurship policies, but very few were aware of these policies in detail. Only a few respondents said they knew an entrepreneur personally and had attended a course or a talk on entrepreneurship. The study finds that respondents were optimistic about the future, with about 48% saying Singapore will be a pro-entrepreneurship society in the future. Encouragingly, the responses suggest that Singaporeans were not of the view that entrepreneurs are born, but rather that they could be groomed. Importantly, the study finds that cultural change, driven by government

interventions have already started to bear fruit, with youth displaying a mindset that is fairly aligned with the state's position on entrepreneurship.

**Policy:** Like Singapore, Sri Lanka too is an interventionist state. The study suggests that the state can play a strong and positive role in changing mindsets towards entrepreneurship. Along with structural changes, systematically encouraging society towards being pro-entrepreneurship can bear fruit, slowly but surely. Changes to educational systems, laws and infrastructure are paramount to creating this desired social change.

**15. Bozic, C. & Dunlap, D. (2013) 'The Role of Innovation Education in Student Learning, Economic Development, and University Engagement', *Journal of Technology Studies*,39(2). pp.102-111.**

The study looks at including innovation education in engineering technology academic programming to improve student learning, drive business growth and advance university engagement. While the topic of integrating innovation curricula into colleges and universities is an ongoing need, universities play a significant role in cultivating talent, and students represent a key transfer mechanism to channel new and innovative research ideas and methodologies from universities into industries.

**Findings:** Collaborative partnerships between universities and industry can be meaningful for students if implemented correctly. The key elements that ensure success are (i) the industrial partner must see the benefit of partnering with the learning institution; (ii) a single point of contact is paramount to ensuring that there is a focal point from each end of the partnership to drive measurable results; and (iii) industrial partners usually partner with learning institutions for the purpose of cooperative research and knowledge transfer, so when learning institutions have a primary focused area, companies which work in a similar area can invest as a consortium to strengthen research and development of the entire industry.

**Policy:** Industry-learning institution partnerships are important to ensure that there is efficient and up-to-date knowledge and innovation transfers in the economy. Students benefit from these partnerships by learning and adopting new knowledge and skills that help them in the job market. This also benefits companies as it allows them to identify and recruit talented individuals through an unorthodox method rather than a traditional recruitment route. These findings have strong implications for Sri Lanka – most importantly, they highlight the necessity of a designated focal point who will champion the outcomes of partnerships between universities and industry.

**16. van der Sluis, J., van Praag, M. & Vijverberg, W. (2005) 'Entrepreneurship Selection and Performance: A Meta-Analysis of the Impact of Education in Developing Economies', *The World Bank Economic Review* ,18(3), pp.225-261.**

This study explores whether and to what extent schooling affects entrepreneurship entry and performance in developing countries, and takes a meta-analytical approach to study this phenomenon as discussed in the existing literature. A meta-analytical approach goes beyond a simple study of the existing literature, and forces a precise comparison of research practices and methodologies that have been applied in the previous studies.

**Findings:** The study finds disappointing research on the relationship between education and entrepreneurship, largely due to the lack of dynamic research in the area. It is quite plausible that the "effect" of schooling is biased – ability and other factors might increase performance and lead to more schooling, this potentially leading to spurious positive effects of schooling on performance. A deeper concern, as the study notes, is that schooling may itself be endogenous to performance in the labour market. While existing returns-to-school literature identifies the issue of inter-relationship between future earnings and schooling, none of the entrepreneurship studies used in this meta-analytical study finds such identification.

**17. Calero, C., Gonzalez Diez, V., Soares, Y.S.D., Kluge, J. & Corseuil, C.H. (2016) 'Can arts-based interventions enhance labour market outcomes among youth? Evidence from a randomized trial in Rio de Janeiro', *Labour Economics* ,45(), pp.131-142.**

This study uses a randomized control trial to look at employment and earnings of a youth-training program that uses the arts and theatre as pedagogic tools. The innovative programme was pioneered by a small NGO, Galpao Aplausa, and aimed at disadvantaged youth in Rio de Janeiro. The pedagogic approach of using art and theatre was different to traditional programmes, as the arts and theatre allow for the communication of content and knowledge transfer through playful and dynamic activities. The programme consisted of approximately 6 months of training, 5 hours a day, 5 days of the week. In total, each participant received 300 hours of vocational training, 180 hours of basic skills training and 120 hours of work-readiness skills training.

**Findings:** The study finds statistically significant and economically large employment and earnings effects in both the short and medium term. Medium term effects were much higher (and statistically significant) than short term effects – in the short term the programme contributed to increase employment probability by 3.8 percentage points and BRL 90.60 in unconditional monthly earnings, whereas the medium-term impact was 12.9 percentage points and BRL 175.70 in unconditional monthly earnings. The programme also sees significant impacts on the levels of socio-emotional development of participants. The study concludes that the arts and theatre training model is an effective alternative to traditional training methods, leading to positive and significant effects on labour market outcomes in the medium term.

**Policy:** While the scalability of the Galpao programme is not certain, the study provides evidence that active labour market policies (ALMP) need to be more discriminating in their approach to lead to actual impact on youth labour market outcomes. As such within Sri Lanka, multi-component programmes such as the Galpao programme which used an arts/theatre based approach may be more effective than traditional approaches in achieving desired labour market outcomes.

18. Papadakis, N., Amanaki, E., Draraki, M. & Saridaki, S. (2019) 'Employment/unemployment, education and poverty in the Greek Youth, within the EU context', *International Journal of Educational Research*, 99(), pp.

This paper looks at youth in Greece and their characteristics concerning their employment status.

**Findings:** This study finds that more than 25% of NEETs are highly skilled and come from low or very low-income families. The study concludes the presence of "inter-generational transmission of poverty" through evidence which supports that employment status is significantly affected by educational capital and family background. One of the main consequences of the economic crisis in Greece is that it has greatly limited the ability of less-privileged young people to gain employment and life opportunities – social vulnerability is correlated to the family economic background. While low and medium-skilled individuals have fewer employment opportunities, in the context of economic downturn, highly skilled young people look towards migration as a survival strategy, providing support to the theory of "brain drain".

**Policy:** This study lends credence for designing policy to address the plight of socio-economically disadvantaged youth. Targeted policies and programmes can help prevent the inter-generational transmission of poverty and be a vital leg-up for youth from poorer backgrounds to achieve better labour market outcomes. The study also highlights the tendency of better educated persons to opt for migration resulting in a brain drain, which has been a significant problem for Sri Lanka in the past.

## Annexures

### Annex 1

Age (i)	Total female household population (a)	Total no. of females employed in the labour force (b)	Total no. of females employed in the private sector (c)	Females employed in the private sector as a % of household population [c/a] (d)	No. of live births (e)	No. of live births of employed women in the private sector [d*e] (f)
1. 15-19	854,794	39,141	15,069	1.76%	13,568	239
2. 20-24	706,320	187,239	72,087	10.21%	64,173	6,549
3. 25-29	641,476	224,786	86,543	13.49%	101,615	13,709
4. 30-39	1,571,320	616,367	237,301	15.10%	145,283	21,941
5. 40+	4,934,003	1,647,322	634,219	12.85%	11,420	1,468
<b>Total</b>						<b>43,906</b>

The following steps were taken in calculating the number of live births by females employed in the private sector:

1. According to the Department of Census and Statistics 2018 Annual Labour Force Survey, the % of women working in the private sector was 38.5%. To estimate this number column (b) is multiplied 38.5% to arrive at the values in column (c).
2. The number of live births of employed women in the private sector is estimated by multiplying the proportion of females employed in the private sector as a % of household population by the number of live births, for each age category. The summation of these values is the total estimate of live births of employed women in the private sector.

$$Total = \sum_{i=1}^5 d_i \times e_i$$

Sources:

(a) & (b) : Department of Census and Statistics, Sri Lanka Annual Labour Force Survey 2018, Table 2B.

Available at  
<http://www.statistics.gov.lk/LabourForce/StaticInformation/AnnualReports/2018>

(c): Department of Census and Statistics, Sri Lanka Annual Labour Force Survey 2018, Table 5B.


Available at:  
<http://www.statistics.gov.lk/LabourForce/StaticInformation/AnnualReports/2018>

(e): Department of Census and Statistics, Vital statistics 2015, Table 2.5 Live births registered by the age of mother and ethnicity of mother.

Available at: <http://www.statistics.gov.lk/Population/VitalStatistics/Births/2015/table2.5>

## **Annex 2**

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**அரசிறைக் கொள்கைத் திணைக்களம்**  
**Department of Fiscal Policy**

මුදල්, ආර්ථික සහ ප්‍රතිපත්ති සංවර්ධන අමාත්‍යාංශය  
**நிதி, பொருளாதாரம் மற்றும் கொள்கை அபிவிருத்தி அமைச்சு**  
**Ministry of Finance, Economic and Policy Development**

මහලේකම් කාර්යාලය, කොළඹ 01  
 செயலகம், கொழும்பு 01  
 The Secretariat, Colombo 01

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 என் எண். } }  
 My No. } Your No. } Date }

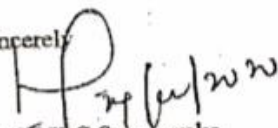
Team Leader, Economics  
 Verite Research  
 Colombo 05

Dear Madam/Sir

**Request to Obtain Information on Current Tax Laws**

This refers to your letter dated February 17, 2020 on the above.

You are kindly informed that the proposals announced in Budget 2019, which are mentioned in your letter have not been implemented.

Sincerely  
  
 Dr. M.K.C. Senanayake  
 Director General

**FAXED**  
 24 FEB 2020  
 Fax No. 2020/387.....