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# JOBS FOR THE 21<sup>st</sup> CENTURY: SYNTHESIS PAPER



A young commercial artist  
completes a miniature  
painting, India.

All photography by Karl Grobl

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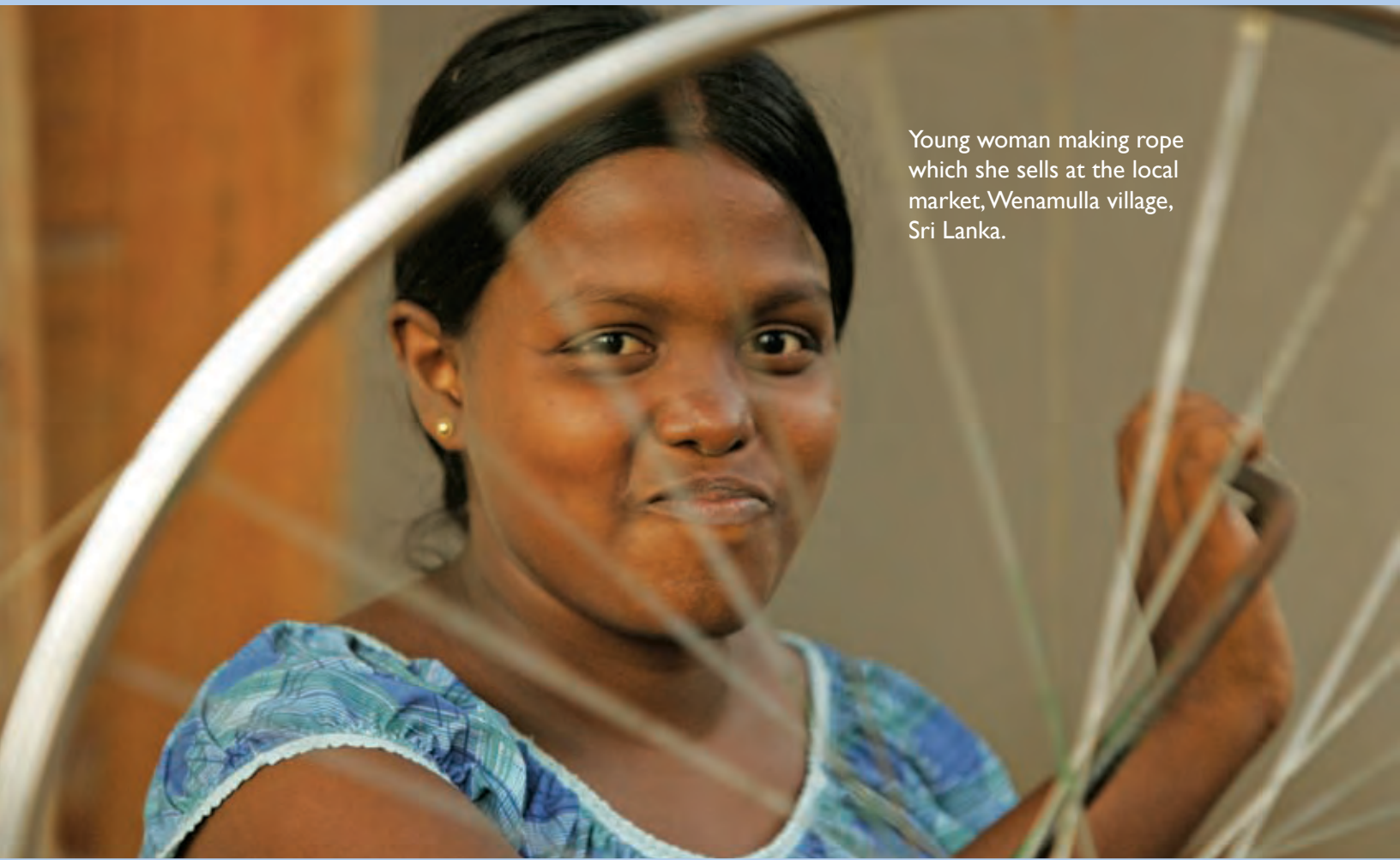
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# EXECUTIVE SUMMARY



Young woman making rope which she sells at the local market, Wenamulla village, Sri Lanka.

**The assessment focused on Asia, specifically Cambodia, India, Indonesia, the Philippines, and Sri Lanka...**

The Jobs for the 21<sup>st</sup> Century Initiative, a project under the Asia and Near East (ANE) Bureau of the U.S. Agency for International Development (USAID), provides support in assessing and planning job creation and youth workforce programs and policies in select countries of the Asia Near East region. The assessments focused on Asia, specifically Cambodia, India, Indonesia (Aceh and nearby provinces), the Philippines (Autonomous Region of Muslim Mindanao), and Sri Lanka, as well as additional cross-country research. This report synthesizes the findings of these studies, analyzing the main reasons for unemployment in the above five countries and the implications for future development programs.

The methodology used for this analysis draws on two types of data: cross-country key indicators related to unemployment, job creation and workforce; and specific examples from the five country assessments. The analysis covers four main areas: 1) Job creation and labor demand; 2) Demographic and labor supply—the characteristics of youth, new labor market entrants and workers of the targeted areas; 3) Skills mismatch and shortages due to supply-side policies and institutions; and 4) Social networks and youth expectations.

## KEY FINDINGS AND LESSONS LEARNED

The main findings from each assessment are highlighted below.

- **Cambodia** has a crisis of job creation and labor supply. *Overall, there is a need to target large rural populations through both job creation and services to out-of-school youth.*
- **India** presents a more complex picture, one which requires extreme sensitivity to the large and substantial differences between the rural and urban populations. Rural non-farm employment is now leading job creation and changing the rural economy. *The assessment proposes a flexible program that is finely tuned to the distinct needs of the urban/rural areas and promotion of short-term, competency-based training in key employability skills.*
- **Indonesia's** challenges largely reflect limited jobs creation. Labor supply is relatively stable, and there is limited evidence of skills mismatch. The main obstacle is the need to move to higher technology manufacturing processes. *The assessment which focused on the post-conflict Aceh province and surrounding areas identifies various avenues into manufacturing and service sector employment in the northern Sumatra area that could link youth technical workforce to employment opportunities.*
- In **the Philippines** production and employment structures are similar to those in Indonesia, with one caveat: the industrial sector has a lower job creation potential. *The Philippines assessment, targeted to the Autonomous Region of Muslim Mindanao (ARMM), shows gaps in basic education and job opportunities. The assessment recommends targeting basic education and livelihood skills training to out-of-school youth.*
- **Sri Lanka** has a distinct profile from all of the other countries, one in which skills mismatch and the lack of job creation are large contributors to youth unemployment in the country. *To address this skills mismatch, the assessment recommends a job-matching approach, educating youth in core employability skills and providing work-based learning experiences.*

The following lessons learned from the five country assessments have implications for development programs.

- **LESSON ONE:** Wide country variation exists in terms of job creation. Each country has specific labor demand structures, dynamics and policies that significantly shape job creation potential. Programs to stimulate job creation must be based on an analysis of each country's unique situation.
- **LESSON TWO:** The “youth bulge” is predominantly a characteristic of rural isolated regions, and is often characteristic of post-conflict regions. There are large and increasing populations of youth in Cambodia and India.
- **LESSON THREE:** The new “jobs economy” in the five countries points to the service sector and non-farm rural economies for the future. Business development and youth training must be tied to these sectors, assuring relevant education and training programs for the local labor market.
- **LESSON FOUR:** Gender issues are distinct in the five countries. Indonesia, Cambodia and the Philippines have high rates of female labor market participation. India and Sri Lanka have extremely low participation rates of females. Rates of female youth unemployment are proportionately higher than those of males in most of the countries. Programs should specifically address gender inequities in education, training and workforce participation.
- **LESSON FIVE:** Indirect policies of job creation include macroeconomic reform, capacity building, infrastructure and technological development and quality basic education. Education reforms should widen participation and access to all levels of the education system and encourage flexible learning systems relevant to local livelihoods and local labor markets.
- **LESSON SIX:** Post-conflict areas, typically located in rural and isolated areas of the countries, experience the highest rates of youth unemployment and the lowest basic education completion rates. Conflict-affected, out-of-school youth are usually left behind by the social service sector, and require additional programming of services in order to gain fair access to jobs and economic opportunities.

# INTRODUCTION



Students in skills training program work in masonry and tile setting, Mindanao, the Philippines.

**The main objective of this paper is to summarize the key findings and lessons learned in each of the five countries for the 21<sup>st</sup> Century assessments.**

The Jobs for the 21<sup>st</sup> Century Initiative supports the USAID Asia and Near East (ANE) Bureau and USAID ANE country missions in assessing and planning job creation and youth workforce programs and policies. As part of this initiative, an assessment was conducted in five countries—Cambodia, India, Indonesia, the Philippines, and Sri Lanka—to examine key economic, educational and institutional issues that shape workforce needs and job creation. In addition, the assessments identify coherent and synergistic programming of workforce activities for USAID. The assessments examine

“promising practices” while fostering the exchange of innovative ideas and synergies between government and non-governmental organizations (NGOs) working in the fields of youth, education and workforce development. They also offer strategies and programming options at the country and regional levels.

Each country assessment uses an analytical approach to examine four main categories of central concern to youth and work: 1) Labor demand, or the firms/industry demand for workers and the potential for job creation; 2) Labor



supply, or the characteristics of youth, new labor market entrants and workers; 3) Supply-side policies and programs, or institutional analysis of specific government policies, and public and private sector programs in workforce education and training; and 4) Youth expectations and social (family) networks. The assessments apply cutting-edge methods of analysis such as youth mapping; job-content-analysis within targeted employment sectors; and firm and industry surveys of human resource development practices.

Based on their priorities, the local USAID missions worked with each assessment team to design and develop the assessments. Most importantly, the missions were involved in the identification of: 1) specific geographical provinces and populations to target, and 2) current USAID partners and programs. The assessments cover a variety of settings that reflect the priorities and programming realities of the respective USAID missions. The Philippines and Indonesia assessments target the rural, isolated, post-conflict zones of Mindanao and Aceh and surrounding provinces, respectively. In Cambodia, four poor, rural provinces are targeted: Kampong Cham, Kracheh, Prey Veng, and Svay Rieng. The Sri Lanka assessment targets the South and Eastern regions, and the India assessment examines the National Capital Region, Maharashtra and Jharkhand. Both assessments examine urban, semi-urban and rural areas. Although each assessment relates to a specific country's setting and

needs, many generalized lessons can be drawn from the assessments.

The main objective of this paper is to summarize the key findings and lessons learned in each of the five Jobs for the 21<sup>st</sup> Century assessments. To do so, this synthesis paper uses a comparative country framework to examine the key issues of job creation and workforce development in the selected countries.<sup>1</sup> It begins by highlighting the main development issues that shape the Jobs for the 21<sup>st</sup> Century Initiative. It then uses comparative data as well as specific examples from the assessments to examine key indicators and findings on labor demand, labor supply, supply-side policies and social networks and youth expectations. Finally, the paper discusses the main lessons learned from the experience. It is not, therefore, a simple summary of each assessment. Instead, it is a comparative country-level analysis on job creation and workforce development, as well as a presentation of key findings of the five country assessments. For the non-economist, each section opens with a summary of the main findings of the analysis. In addition, a glossary of terms and summaries of the five assessments are presented at the end of this report.

<sup>1</sup>As part of the analysis for this paper, EDC consultants, Roeslano Briones and Aiken Tafgar prepared a background paper "Jobs for the 21<sup>st</sup> Century: Job Creation in Five Countries". This paper examined the issue of job creation, and the role of policies and programs in the five assessment countries.



Rural scene near Cotabato City,  
Mindanao, the Philippines.

# MAIN DEVELOPMENT CHALLENGE: UNEMPLOYMENT IN FIVE ASIAN COUNTRIES

Young woman sitting on a boat on the Mekong River, border of Laos and Cambodia.



**Youth unemployment and underemployment is widespread and pervasive, particularly in the rural areas.**

## SECTION SUMMARY

This section introduces the main trends of unemployment and underemployment in five Asian countries—Cambodia, India, Indonesia, the Philippines and Sri Lanka. The data show that youth bear the cost of unemployment in the select countries of the Asia region. Four principal factors contribute to unemployment and underemployment: 1) Job creation and labor demand; 2) Demographic and labor supply factors; 3) Skills mismatch due to supply-side policies; and 4) Social networks and youth expectations.



The Jobs for the 21st Century project addresses the development challenge of unemployment in five Asian countries—Cambodia, India, Indonesia, the Philippines and Sri Lanka. To begin our discussion, let us compare unemployment rates across countries, and for specific age groups. Figure 1 shows youth and adult unemployment rates for these five countries. This rate estimates the percent of the active labor population that is without work during a specific reporting period, usually of one week. (See Glossary). All of these estimates are from the International Labor Organization (ILO) to allow for cross-country comparisons.

Unemployment is a condition of being unemployed; the unemployment rate is the ratio of the unemployed to the total active labor force. The unemployment rate statistic is usually estimated from household surveys. No youth unemployment rate is presented for Cambodia as it is extremely negligible (less than 1.0 percent). Youth is defined as ages 15–24 years of age; adults are defined as over 24 years of age.<sup>2</sup>

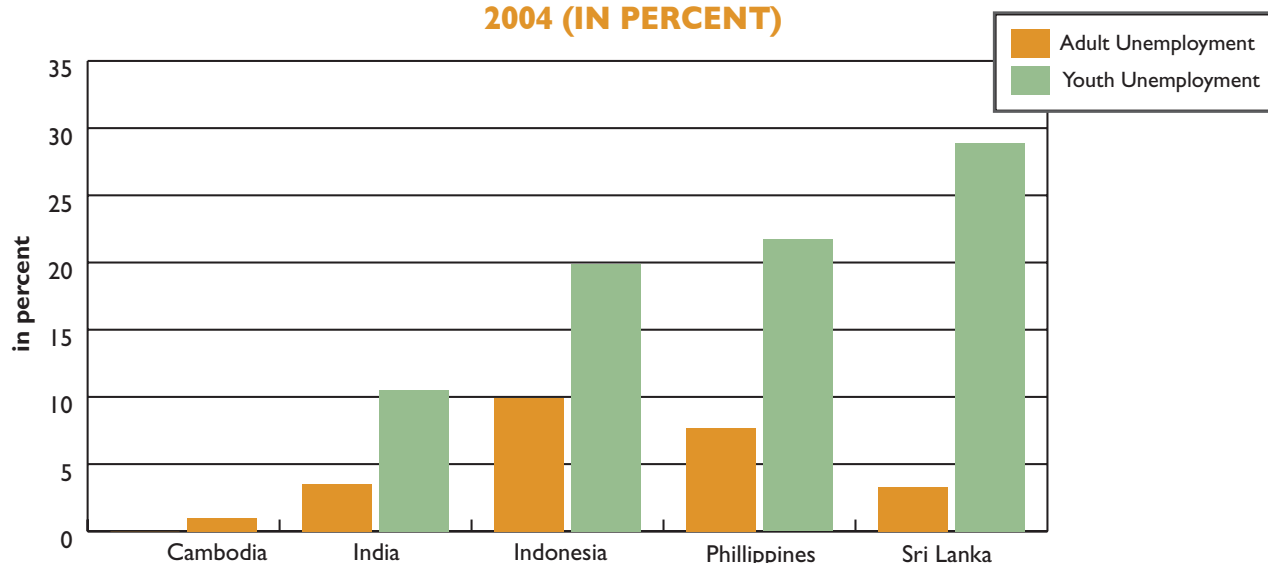
Cambodia has the lowest adult unemployment rate, estimated at 1.8 percent. Youth unemployment in Cambodia is not reported because it is less than 1 percent. Sri Lanka is in sharp contrast, with high rates of youth unemployment, on average at 28 percent. Adult unemployment in Sri Lanka averages 3 percent. India presents a similar profile, with adult unemployment at 3.5 percent. However, youth unemployment in India is considerably lower than Sri Lanka, in the 10 percent range. Indonesia estimates are 9 percent for adults, and 18 percent for youth. The Philippines has the highest rates of adult unemployment, at around 7.8 percent. Youth unemployment in the Philippines is estimated at 22 percent.

The main benchmark of comparison is between the youth and adult rates of unemployment. Sri Lanka has an extremely high ratio of 28.9/3.3—whereby the youth unemployment rate is over eight times higher than the adult unemployment rate. This is one of the highest ratios in Asia, and alerts us to the unique nature of unemployment in this country. India and Philippines both have substantial differences between youth and adult unemployment; youth unemployment rates are three times greater than that of the adult unemployment rates. Indonesia has considerably less of a gap between the adult and youth unemployment rates, with youth unemployment rates double those of adult rates. As explained earlier, comparisons cannot be made in the case of Cambodia due to the data.

Yet the youth unemployment rate does not fully capture the employment experience of the five countries. Other considerations also affect measures of employment and unemployment. There can be large differences among countries in terms of labor force survey

<sup>2</sup>These patterns mirror the regional patterns of Asian developing countries, where youth unemployment rates on average are three to four times higher than adult unemployment rates. Based on worldwide employment trends, youth unemployment is usually 1.5 times greater than adult unemployment in developed countries.

**FIGURE 1. UNEMPLOYMENT RATES, YOUTH AND ADULT, SELECT ASIAN COUNTRIES, 2004 (IN PERCENT)**



Source: International Labour Organization [ILO], 2004.

data; scope and coverage of the survey; the definition of the reference population; the definition of the labor force and employment status; and the time periods of measurement. Two issues are largely tied to the problems in capturing unemployment in these countries: the definition of unemployment and the pervasiveness of underemployment. According to the International Labor Organization (ILO), whose definition is now the most widely used, the unemployed are defined as those people who have not worked more than one hour during the short reference period but who are available for, and actively seeking, work.

The international definitions, however, do not measure the large amount of underemployment in the economy. Underemployment is defined as a condition in which paid workers are not employed at the education/skill level they are trained for, or are not permitted to work as many hours as they would like. (See Glossary.) Particularly in rural agricultural areas, underemployment is widespread due to surplus labor, whereby a percentage of the labor force could be eliminated without reducing the total output. For example, Cambodia has large amounts of underemployment, estimated at around 38 percent; this compares to the low unemployment rate of 1 percent. India, another country with large amounts of rural employment, has developed a special labor force survey, the “daily status” survey that measures time utilization in rural areas. This survey captures the wide range of work patterns of rural India, including that of underemployment and surplus labor. Open unemployment, which complies with the ILO definition, remains low in both countries. Many other countries in Asia have similarly low unemployment rates that likewise do not reflect the productivity and income lost due to the considerable part of the workforce stuck in underemployment in rural areas (Asian Development Bank [ADB], 2005).

Four principal factors contribute to unemployment in the five countries: 1) job creation and labor demand (lack of job creation); 2) demographic and labor supply factors (high youth population rates); 3) skills mismatch and shortage due to supply-side policies; and 4) social networks and youth expectations. The following discussion introduces these key factors to give the reader a broader understanding of what they are and how they influence unemployment in the five countries.

**Job creation and labor demand** While economic growth has been robust in the five countries, job creation has been sluggish and uneven. There are large differences

in the job creation potential of various economic sectors within each country. In short, economic growth does generate jobs, but the number of jobs and rate of growth of jobs depends on the labor intensity of the sector. As we will see, job creation is largely a function of specific economic sectors and the right policies, including economic, legal, and education policies of a country and/or geographic region within the country.

**Demographic and labor supply** Secondly, demographics of the youth workforce show an increasing growth rate of young people as a percentage of total population (i.e., youth bulge). In most of the five countries studied, youth make up around 40 percent of the total population in the country, with the exception of Sri Lanka, where youth compose only 30 percent of total population (Cincotta, Engleman, & Anastasion, 2003). This means that out-of-school youth are entering the workforce in unprecedented numbers, which places enormous pressure on the economy to absorb them. In addition, other factors, such as gender and age of the labor supply, influence labor market decisions.

**Skills mismatch and shortage due to supply-side policies** Skills mismatch refers to a condition whereby the skills and education of the existing workforce do not match the needs of existing firms and industries. Skills shortage occurs when there are not enough skilled/educated workers available in the labor market to fill available positions. This concept means that there is a quantitative shortage of workers (Zeufack, 2006). These conditions accompany economies that are undergoing rapid development and structural economic change. Skills mismatch largely reflects the fact that a country’s policies, primarily labor and education policies, have not adjusted to the needs of its economic sectors. Labor and education policies often continue to be oriented to public sector lifetime employment, with little orientation to private sector employment, career development or productivity. (Zeufack, 2006)

**Social networks and youth expectations** The labor market in the five studied countries is best characterized as a traditional social (family) network, rather than a market where jobs are matched to the skills of job-seekers. Decisions on occupational choice and job search are heavily influenced by parents and family relatives. There is no question that traditional social networks frustrate youth. Youth interviewed in the assessments asked for one simple thing: fair access to employment opportunities. This is particularly important for female youth, who are increasingly participating in paid employment though they are offered few occupational avenues.





Young woman weaving, Hmong Village, on border of Cambodia and Northern Thailand.

The following sections of this paper analyze each of these four issues, based on findings from the five assessment countries. In so doing, the paper highlights the key factors that influence jobs for the 21<sup>st</sup> Century.

# JOB CREATION AND LABOR DEMAND



Young man working in a plumbing and welding shop, Mindanao, the Philippines.

## SECTION SUMMARY

This section examines the key indicators of job creation and labor demand for the five assessment countries of the Cambodia, India, Indonesia, the Philippines, and Sri Lanka. The analysis of these indicators reveals the following findings:

- The economies of the five assessment countries vary considerably in terms of growth and income.
- In each of the countries, structural change in the form of diversification out of agriculture sector into the service sector is occurring, both in terms of employment and output share.
- With the exception of India, the service sector is the primary job generator in these five Asian economies. The service sector is the shining star in terms of new jobs creation and value added in Sri Lanka, the Philippines and even Indonesia.
- While there is significant economic growth and high productivity in the industrial sector, the overall employment contribution is limited in terms of job creation.
- Job creation is largely supported by indirect policies, including macroeconomic policy reforms, capacity-building and governance to support market reforms; infrastructure and technology investment; and investment in education and skills training for private sector development.
- In all five country assessments, firms interviewed state the need for employability skills training, including training in literacy and numeracy skills, inter-personal communication, information technology (IT) and critical thinking. Recruitment remains a significant challenge for firms in the region.



Demand for labor within a country can be characterized by three key indicators: economic growth; production and employment structures; and employment and output trends such as labor productivity and the responsiveness of employment to economic growth (i.e., employment elasticity). Table I uses these indicators to examine labor demand in the five assessment countries, and the findings are elaborated in the subsections that follow. Most of the indicators are disaggregated by productive economic sector (i.e., agriculture, industry and service). These indicators and terms are explained in the Glossary section of this paper. The sectoral framework allows us to make such distinctions, as well as to link the framework to specific skills requirements in each economic sector.

**TABLE I. LABOR DEMAND INDICATORS FOR CAMBODIA, INDIA, INDONESIA, THE PHILIPPINES AND SRI LANKA**

	Cambodia	India	Indonesia	Philippines	Sri Lanka
<b>ECONOMIC GROWTH</b>					
Per capita income, \$US, 2004	323.0	538.0	886.0	972.0	1088.0
GDP growth rates, annual average, 1996-2006	5.2	6.3	2.9	4.0	4.4
<b>STRUCTURE OF EMPLOYMENT AND PRODUCTION</b>					
Employment share by sector, % of total *					
Agriculture	60.0	60.0	44.0	37.0	31.0
Industry	10.0	13.0	13.0	10.0	18.0
Services	30.0	27.0	43.0	53.0	51.0
GDP share by sector, % of total, 2005					
Agriculture	33.0	20.0	15.0	19.0	17.0
Industry	31.0	26.0	44.0	33.0	27.0
Services	37.0	54.0	41.0	48.0	56.0
Status of employment, % of total **					
Wage and salaried	20.0	N/A	29.0	49.0	58.0
Self-employed	41.0	N/A	45.0	38.0	32.0
Contributing family workers	37.0	N/A	19.0	13.0	10.0
Not classified	2.0	N/A	7.0	0.0	0.0
<b>TRENDS IN EMPLOYMENT AND OUTPUT</b>					
Relative labor productivity by sector (index=100) ***					
Agriculture	0.5	0.4	0.3	0.5	0.6
Industry	2.4	1.4	2.9	2.7	0.9
Services	1.5	2.1	1.1	1.0	0.6
Elasticity of employment by sector ****					
Agriculture	0.4	0.7	0.2	0.2	-0.2
Industry	0.7	0.2	0.9	0.6	0.0
Services	1.4	0.3	0.1	0.1	2.7
*All data on employment share is for 2005 except for Cambodia (2004) **All data on employment status is for 2001 except Cambodia (2001) ***All data on labor productivity is 2005 except for Cambodia (2003) and India (2000) ****All data on employment elasticity is from 1992-2004 except for Indonesia and Shri Lanka (1993-2003).					

Source: ADB Key Indicators 2006, ILO KILM 2006

Before embarking on our analysis of these key indicators, we must note two issues. First, the key indicators describe the demand for workers in the real (existing) production sector of the economy. They do not necessarily explain the expectations regarding demand for labor, nor the fundamental variables that drive these real indicators (e.g. expected and real wages and prices). Secondly, macro-economic environmental influences, like trade competitiveness, agricultural subsidies and public sector corruption, influence these labor demand indicators in a number of ways. To the extent possible, this paper also examines key policies that influence the job creation capacity of private sector production and employment, drawing on specific examples from the five country assessments. The discussions that follow all draw on Table 1 and data from the ADB (2006) and ILO (2005).

## ECONOMIC GROWTH AND INCOME

The economies of the five assessment countries vary considerably in terms of growth and income. Overall levels of economic development are best captured by the key indicators of *per capita income* and *gross domestic product (GDP) growth*. The per capita income estimates vary widely between the five countries: average income in the Philippines is more than three times that of Cambodia. Sri Lanka has the highest per capita income, estimated at \$US 1,100. However the two poorest countries, India and Cambodia, have posted rapid economic growth since 2000, while the other countries have been coasting along with moderate growth. Also, the annual average GDP growth rates are estimated over a 10-year period that includes the Asian financial crisis of 1997–1998. In Indonesia, as well as in other countries, economic growth rates were highly volatile during that period, as explained in Box 1. Accordingly, fluctuations in economic growth explain the specific economic and employment performance of the respective sectors.

## PRODUCTION AND EMPLOYMENT STRUCTURES

Production and employment structures significantly impact the overall job creation patterns in a country. These structures are most often measured by two statistics: *employment share* and *output (GDP)*

## BOX 1. FLUCTUATIONS IN ECONOMIC GROWTH: THE CASE OF INDONESIA.

Economic growth in Indonesia has been slowly recovering since the Asian financial crisis, reaching a high of 5.6 percent in 2005. From 1988 to 1992, Indonesia witnessed extremely high economic growth, at around 8 percent of GDP, with both industry and services having rates of growth in the 8–9 percent range. These trends continued from 1993–1997, with GDP growth in industry sectors reaching an all time high of 9.5 percent. During this same time period, GDP growth due to agriculture slowly languished, with only 2 percent growth during the 1993–1997 period. This rapid economic growth came to an abrupt halt throughout Asia with the 1998 financial crisis. The economic contraction in 1998 was severe: industry shrank by 14 percent and the economy declined by 13.1 percent overall. Recovery began in 2000, with growth reaching 5.3 percent in 2004–2005. The industrial sector, though, has lagged behind at only 4.1 percent growth. The agriculture sector has slowly recovered, with economic growth at 3.2 percent in 2004–2005. Currently, the biggest share of economic output is in industry (44 percent), followed closely by services (41 percent). Output from agriculture is less than 15 percent of GDP (ADB, 2006).

*share by economic sector.* Employment patterns have changed significantly in the assessment countries in the last two decades. As of the late 1980s, the biggest contributor to employment in the five assessment countries was agriculture, but during the 1990s and early 2000s it declined in each of the countries. By the period of 2003 to 2005, agriculture had given way to the service sector as the biggest employment sector. While the agriculture



sector remains the largest employer in India and Cambodia (ADB, 2006), the service sector is the shining star in terms of new jobs creation in Indonesia, the Philippines and Sri Lanka.

This increasing role of the service sector also can be seen in terms of the value of economic activity (GDP share) by sector. The GDP share of the service sector is highest in all of the countries with the one exception, Indonesia. In Indonesia, the GDP share of industry and service sectors are almost equal, 44 and 41 percent, respectively. The lowest GDP share in four of the five countries is in agriculture, with the exception of Cambodia (where the output share of agriculture remains slightly higher than that of manufacturing). The lead role of the service sector in terms of both employment and output is a key finding of the assessments (EDC, Nov. 2005, Dec. 2005, July 2006, Aug. 2006, and May 2007).

The industrial sector has the smallest share of employment in all five countries, with 10–18 percent of workers engaged in industry, primarily in manufacturing and processing activities. While there is significant economic growth resulting from industry, the low employment contribution makes for limited job creation. This is not to discount this sector in terms of quality of job creation, however. Industry creates the predominant share of formal private sector employment in the five economies. And there is no question that for many unskilled, uneducated workers, industry manufacturing positions—particularly

those in foreign enterprises—reflect the “good jobs” sought in the private economy because they come with benefits and some contractual certainty.

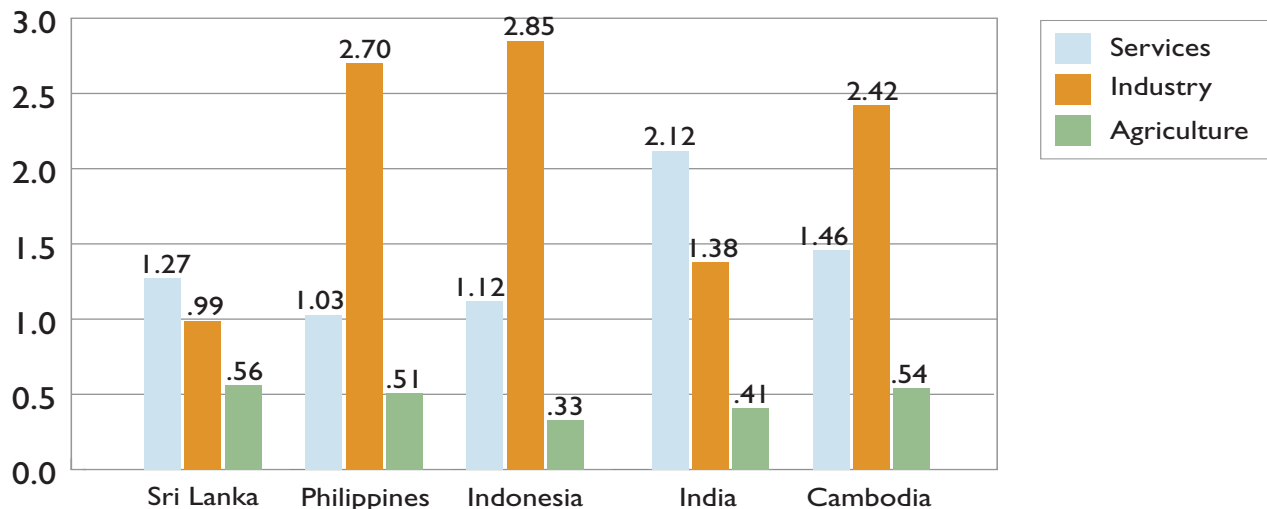
The classification of workers by *employment status*, with a further categorization by wage workers, self-employed, and unpaid family workers is an indicator of the type of risk that the worker takes in terms of the employment position. Self-employed workers are a large and increasing percentage of total employment in each country, from about a third of all workers in Sri Lanka to nearly half in Indonesia. The increasing degree of informality inherent in self-employment parallels a worrying trend of businesses throughout Asia: that of increasing numbers of informal enterprises. The rising informality of enterprises is a key trend witnessed in all countries of Asia (Palmade and Anayiotos, 2006).

### TRENDS IN EMPLOYMENT AND OUTPUT

To frame the discussion of employment outputs and trends, it is necessary to point out the trade-off between the absolute numbers (quantity) of jobs created, versus the productivity (quality) of the jobs created in the five countries. Two key indicators capture this dynamic: productivity index (by sector) and employment elasticity (by sector). These indicators reveal distinct patterns and differences between the five assessment countries.

The *relative productivity index by economic sector* is

**FIGURE 2: RELATIVE LABOR PRODUCTIVITY INDEX (AVERAGE PRODUCTIVITY = 1.00), 2005**



(Source: ILO 2006)

the ratio of sectoral labor productivity to overall average labor productivity. Using data from the ILO (2005), Figure 2 compares relative productivity in agriculture, industry, and the service sector in the five assessment countries.

Relative productivity in industry exceeds 1.00 in all countries except for Sri Lanka. Industry has the highest relative productivity in the South-East Asian countries with rates over 2.00, meaning that the average industrial worker is producing more than two times that of the average worker. Depending on the country, some are producing two-and-a-half to nearly three times that of the average worker. The average industrial worker in India, based on the rate of 1.38, produces almost one-and-one-third that of the average worker. Sri Lanka's rate, which is the lowest of the five in relative productivity in industry, reflects the limited investment in that sector for the last decade. This is discussed at length in the Sri Lanka assessment (EDC, Aug. 2006).

While industry is the most productive sector in three of the five countries, agriculture is the least productive in all five countries. Across the board, agricultural productivity is estimated at around 0.3–0.6 of average labor productivity. With the lowest relative productivity of the five countries, the Indonesian agricultural worker produces only a third as much as the average worker elsewhere. India has increased productivity in the agricultural sector during the 1990s at a rate of 3.5 percent. The productivity gains are explained by various technological investments, as well as diversification into commercial growing (EDC, 2007b; World Bank, 2003). The performance of India is in sharp contrast to that of Cambodia, a country with a poor performance in the agricultural sector (see Box 2).

The response of employment to output growth is partly measurable in terms of *elasticity of employment by sector* for the five assessment countries (see Figure 3 on the next page). The percentage point change in the number of employed persons in a country or region associated with a one percentage point change in the economic output, measured by gross domestic product (GDP). In technical terms, it is the ratio of the growth rate of employment to the growth rate of value added of the output. Put simply, employment elasticity measures whether or not growth in output is creating growth in new jobs.

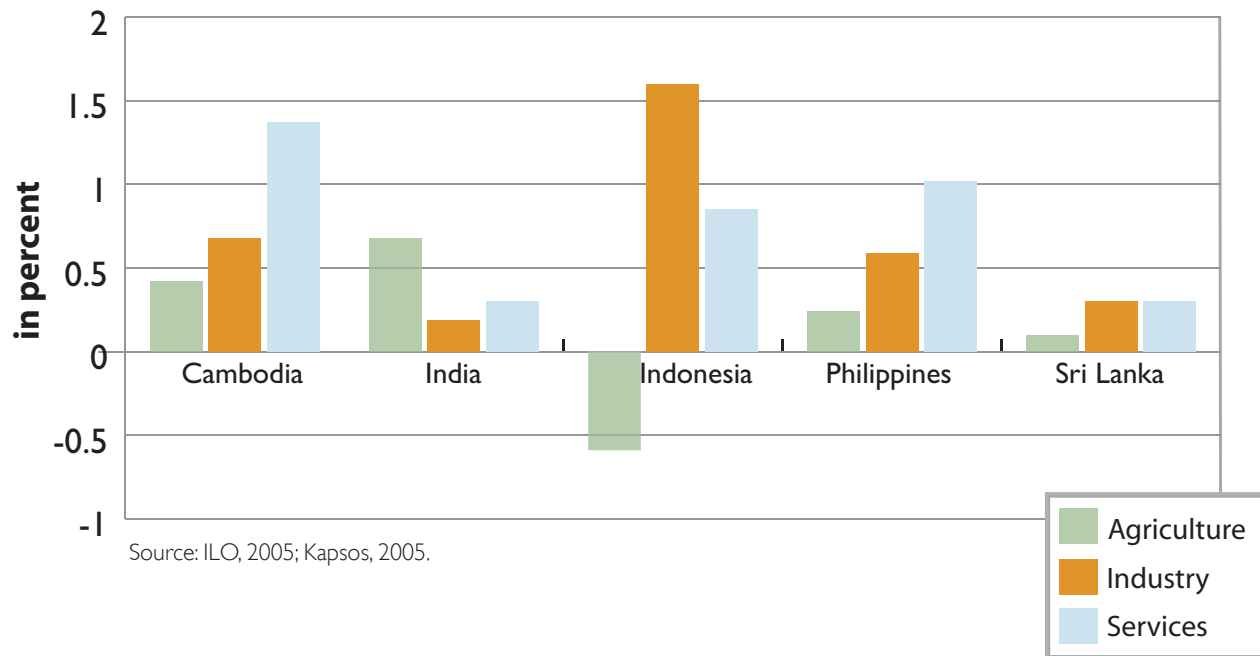
### BOX 2. CAMBODIA'S AGRICULTURAL DILEMMA: LACK OF POLICY REFORMS AND LIMITED INVESTMENT

Eighty percent of Cambodians live in rural agricultural areas, yet increasing levels of landlessness (to be without land holdings for agricultural cultivation) and declining conditions for agriculture have made for little productive job creation in rural areas. According to the Economic Institute of Cambodia (EIC), “the Cambodian agricultural sector can efficiently support only about one to two million people; currently about four million are employed”—or more likely underemployed. Rice is the major crop in the Cambodian countryside but estimates of irrigated land range from 7 percent to 12 percent. (EIC, 2006, pg.12)

The agriculture sector's performance is largely due to a failure to adopt a policy framework on land ownership and investment policies that promote competitive agriculture, which is of critical importance given agriculture's crucial role in rural economies. Agricultural modernization, particularly in terms of irrigation policy and practices, is essential to reactivate the agricultural sector; it would also encourage productive employment and technological change and development. In addition, the limited technological innovation and low productivity of the agricultural sector means few income returns are tied to increased educational spending and technical knowledge. The challenges of the agricultural sector start with the land tenure and investment policies which in turn generate little technological change and no returns to education. At this point, links between productivity and education in the agriculture sector are limited because of the lack of policy reforms.

Source: EDC, July 2006



**FIGURE 3: ELASTICITY OF EMPLOYMENT TO VALUE ADDED BY ECONOMIC SECTOR**

**Notes:**

1. GDP elasticity pertains to total employment. The data are simple averages of the estimates over multiple periods of equal duration.
2. Sector value added all elasticities reflect 1992–2002 period with the exception of Indonesia elasticities for the period 1993–2003 and Sri Lanka for 2000–2004.

This key indicator is often referred to as the “job” indicator, as it shows the responsiveness of employment to economic growth, often referred to as output. The higher the employment elasticity, the greater the number of jobs created for each percent of economic growth. With the exception of India, the service sector is the primary job generator in these Asian economies. Elasticity of employment to service sector economic growth (e.g., output) is estimated in the range of 1.0–1.4 for Cambodia, Indonesia and the Philippines. These rates are higher than international averages for developed countries, which are estimated in the 0.7 range. India and Sri Lanka, however, has extremely low employment elasticity in the service sector, at 0.3 percent. For every 1 percent of output in the service sector, there is only 0.3 percent employment. However, this data may not be capturing all

of service sector employment. The recent 2005 economic census in India finds that rural non-farm agribusiness and rural service sector are the main job creators in India today (Office of the Registrar General, India, 2006). Based on this finding, it is important to understand the limitations of these indicators when approaching job creation, particularly in large rural societies undergoing rapid economic transformation.

Overall, the agriculture sector is a poor performer in terms of job creation. All of the countries, with

<sup>5</sup> There are no consistent estimators of job growth—neither within countries, nor across the five assessments countries. Countries use different definitions of jobs growth, usually only measuring formal sector job growth (e.g., India and Cambodia). Sri Lanka measures only job creation tied to specific investment coordinated with the Investment Board.

## BOX 3. THE JOB GENERATOR OF INDIA: THE RURAL NON-FARM ECONOMY

Rural areas in India generate the most employment, and the leader of the pack is the state of Maharashtra. The rapid economic growth of Mumbai is generating demand for services and products of smaller towns, and the rural non-farm sector is creating high numbers of jobs. As a result, Maharashtra has the top employment growth of all states for the last six years, and is second in terms of enterprise growth. This increase is driven by the rural non-farm sector—around 75 percent of rural job growth is in the non-farm economy—where rural job growth is estimated at 3.29 percent compared to urban job growth at .91 percent. Maharashtra ranks second in terms of enterprise growth, with the majority of these enterprises (85 percent) being non-farm enterprises.

What is the success underlying Maharashtra's job creation strategy? The key policies supporting this strategy are: 1) promoting the commercial and industrial lines of agriculture development; 2) strengthening the global competitiveness of farmers; 3) addressing the needs of vulnerable labor, both skilled and unskilled; 4) preparing a plan of action for water; 5) and investing in key areas, including rural road infrastructure, technical universities, and management and storage of key agricultural products. The success of the Maharashtra strategy is seen in the increased gains in agricultural productivity, largely a result of technological improvements. The increasingly technological content of the agriculture demands new skills and basic education, where the gross enrollment rate in basic education is estimated at 80 percent.

Source: EDC, Nov. 2005.

the exception of India, have very low response of agricultural employment to output, at the 0.2–0.4 level. Sri Lanka has very little employment growth in agriculture, explained in large part by labor-shedding at many of the large corporate farms.

And in the middle of the pack, industrial sector employment elasticity is estimated between .6–.9, with an average of around 0.7 percent for most of the countries, which is equal to the internationally derived average for developed countries (ADB, 2006). This finding is explained by the specific labor absorption rates of industry. Only India remains outside of this pattern, with a particularly low rate of industry employment elasticity of 0.2 percent.

In summary, the above findings demonstrate that:

- In each of the countries, structural change in the form of diversification out of agriculture into services is occurring, both in terms of employment and output share.
- The shift out of agriculture follows rapid population growth and rural-to-urban migration, though a large share of workers end up in the informal economy.
- Under this agricultural transformation, job creation in rural agricultural areas requires off-farm rural employment, which has been found to be more productive. This pulls labor out of agricultural employment, thereby shrinking the numbers employed in agriculture.
- The greatest employment response to economic growth has been in the rural economic non-farm sector in India, and in the service sector in South-East Asia.
- Structural change involves a movement from a low productivity sector (agriculture) to a higher productivity sector (services). Labor absorption is weak in industry, which has the highest sectoral productivity in South-East Asia and has mid-level productivity for South Asia.

The above analysis shows us that the amount of job creation is extremely sensitive to the specific economic sector in which it occurs. The booming

service sectors, both rural and urban, within the assessment countries are providing new economic and employment opportunities in urban and rural towns. Agriculture performs moderately and only in the South Asia countries, such as India, that have undergone reforms to support commercial agriculture; infrastructure and technology development; and investment in education and training. Sri Lanka, a middle-income country, has extremely low rates of job creation in the agriculture sector, as have Indonesia and the Philippines. The Cambodia job crisis reflects the lack of policy reforms and investment in the agricultural sector.

## JOB CREATION AND POLICY REFORM

Strategies of job creation can be divided into direct programs of job creation, and *indirect policies and measures* that stimulate employment. This section examines the critical linkages of job creation to economic and education policies, and identifies specific program activities to support direct job creation. The five country assessments point to four sets of policies and programs to promote job creation: macroeconomic reforms; capacity-building and governance to support market reforms; infrastructure and technology investment; and investment in education and skills training for private sector development.

**Macroeconomic reforms to promote economic growth and job creation.** Adoption of market reforms and macroeconomic stabilization has jump-started growth over an extended period in Sri Lanka and Indonesia, and fairly recently in India and Cambodia. There remains, however, a sizable unfinished agenda in terms of liberalizing trade and foreign investment rules. For example, government control and nationality restrictions need to be eased in services such as banking and finance, real estate, and utilities and trading. Registration procedures, inspection requirements, labor laws, zoning requirements, and exaction of fees and charges should be simplified and made transparent to reduce the cost of doing business and coax much of the informal sector into the mainstream.

**Capacity-building and governance to support market reforms.** Parallel to eliminating

and simplifying regulations should be a concerted capacity-building effort in a country's regulatory agencies. Strengthening the property rights system would be a major incentive for investment and wealth creation. Business transactions remain under a cloud of uncertainty owing to weak formal mechanisms for contract enforcement. Remediating this involves reform and capacity-building of the judicial system, a key component to improving the quality of governance.

### **Infrastructure and technology investment.**

Gaps are particularly pronounced for irrigation in Cambodia; electricity in India and Sri Lanka; roads in Sri Lanka and Indonesia; and the entire transport network in the Philippines. In most of the countries, agriculture has begun its transformation from subsistence to commercial agriculture, with the exception of Cambodia. Additionally, commercial agriculture and agribusiness require off-farm industry and services, which increases productivity rates in industry and service sectors in rural areas. (EDC 2005, 2006, 2007).

### **Investment in education and skills training to support human resource development.**

The link between education and the private sector is critical to successful strategies for jobs creation. As the Maharashtra, India case study illustrates (see Box 3), the policy reforms in commercial agriculture, technological development and basic education are intricately tied in terms of achieving overall development objectives. There is no substitute for policy reform and investment to establish a foundation for national, regional and sector-wide economic development. Job creation depends on these indirect policies to create the environment to nurture employment within a sector or local labor market.

## JOB CREATION AND SKILLS DEVELOPMENT

Direct job creation programs can be distinguished by two types: learning programs that impart skills and information to specific entrepreneurs and workers; and business development services, financial services and credit programs that are targeted to a specific group of firms or workers. This section looks specifically at skills development and its relationships to job creation.<sup>6</sup>



The assessments' enterprise surveys and secondary research have revealed that the specific workforce skills needed by enterprises and firms depend on three main factors:

1. **Size of firm.** Past research has shown that the size of the firm dictates the types of skills required in the workplace, particularly of organizational and management skills. Large and medium-sized firms need organizational and management skills to orchestrate the work of a large number of employees. Small firms require owner-operators that have multiple skills ranging from accounting to technical skills.
2. **Level of Technology.** Throughout Asia there is an emphasis on technical skills required for the workplace, particularly in information technology and engineering. Even manual technical skills are of considerable value throughout the five select countries. Most training is oriented to technical skills acquisition, particularly the use of new

equipment in the workplace. This technical bias has come at a cost: there is little training in communication or leadership for employees except in large companies.

3. **Economic Sector.** As we will see below, the economic sector is highly correlated to the size of the firm, the technological requirements of processes and specialized skills needed within the workforce. This sector-specific strategy for workforce skills is an essential part of understanding how to promote job creation in labor-intensive sectors through workforce development.

Figure 4 takes these elements into consideration to examine workforce skills strategies by an economic sector's firm size and technology. For example, rural small and micro-enterprises in agribusiness, rural non-farm industry, and the service sector require training and education. Courses provide information to small and micro-firms on credit, technical expertise, basic accounting and marketing. All in all, there is a wide range of programs that provide effective assistance to micro- and small enterprises. All in all, there is a wide range of programs that provide effective assistance to micro- and small enterprises.

<sup>6</sup>This paper does not address the micro-credit and financial services as direct jobs creation programs, as the scope and complexity of these programs makes it beyond the capacity of this paper.

**FIGURE 4. WORKFORCE STRATEGIES BY SECTOR AND FIRM SIZE**

<b>Agribusiness and Rural Non-farm Economy</b>	<b>Micro and Small Enterprise Industry and Service Sectors</b>	<b>Medium and Large firms Industry and Service Sectors Rural Non-farm Economy</b>
<p>Micro- and small enterprise training linked to rural and regional development</p> <p>Livelihood and employability skills training for youth</p> <p>Work-based learning</p> <p>Job counseling</p> <p>Basic life skills certification</p>	<p>Small enterprise training, including accounting, marketing, and product design</p> <p>Frontline-worker recruitment and in-firm training</p> <p>Livelihood and employability skills training</p> <p>Work-based learning</p> <p>Job placement and counseling</p>	<p>Executive and mid-management education</p> <p>Training of operational managers</p> <p>Frontline worker in-firm training</p> <p>Private sector leadership in human resource development</p> <p>Linkages to Labor-intensive value chain and micro enterprise</p> <p>Employability skills training</p> <p>Job placement and counseling</p> <p>Career ladder and counseling</p>

Medium and large firms in the industry and service sectors require another layer of human resource development activities because of their size and organizational complexity. There are many types of training and education activities to be promoted through medium and large enterprises in countries that support human resource development for the private sector. Job creation within medium and large firms is not high in developing countries. Yet the promotion of human resource development activities within medium and large firms is an important component of workforce development in these countries. However, donors should take special care not to subsidize these activities.

One of the most important findings of the five country assessments is the need to promote “employability skills” of new entrants to the labor

market. These employability skills include mastery of basic skills: literacy and numeracy, inter-personal communication, information technology (IT) and critical thinking. Throughout the assessments, the private sector voiced their demand for increased worker employability skills. There is an urgent need to provide career counseling, employability skills training, and general workplace orientation throughout the Asian assessment countries to encourage better job matching and education in the workplace. On the employer side, competency-based recruitment and human resource development are key activities to encourage specific and general skill acquisition (EDC, Nov. 2005, Dec. 2005, July 2006, Aug. 2006, May 2007).



Young woman sells food and other items at her shop, Lhok Seudu, Sumatra.

# DEMOGRAPHIC AND LABOR SUPPLY FACTORS



Smiling youth, India.

## SECTION SUMMARY

Demographic and labor supply characteristics are key factors influencing unemployment. The following are the key findings from this analysis:

- Demographic and labor supply factors vary tremendously *between* the assessment countries. In addition, the differences *within* a country are as important as the differences between the countries.
- There are extremely high proportions of children and youth in the total population in Cambodia, India and the Philippines. In these “young societies,” youth and children make up more than 50 percent of the total population, forming a youth bulge in the future workforce.
- Gender and age explain much variation in unemployment within a country, particularly in Sri Lanka.
- Universal basic education is becoming a reality in the five countries, where all countries have achieved high enrollments in basic education. However, completion of basic education lags in Cambodia and rural India.
- Poor quality of education, little relevance of the curriculum, and poverty are the main factors cited to why children and youth drop out of basic education, particularly in rural areas of all of the five studied countries.
- Most of the countries, with the exception of Cambodia, are now scaling up or improving the quality of secondary education (9<sup>th</sup> grade education)—a key workforce competitiveness benchmark.
- Post-conflict areas, such as Mindanao (the Philippines), Eastern region (Sri Lanka), and Aceh (Indonesia), all have the extremely high rates of unemployment and low rates of basic education completion.
- Targeting analysis by age, gender, education, and geographical region is essential to understanding the specific target population. This information is instrumental in the design of projects and programs.



Labor supply factors reflect the larger population trends and issues that shape the quantity and quality of the labor supply. Three main factors can be analyzed: the demographic profile of the current and future labor supply; the main characteristics of employment, unemployment and labor market participation; and the educational profile that influences existing and future human capital. Table 2 on the following page presents a summary of the key

indicators of labor supply that have been designed and measured to allow for country comparisons.

## DEMOGRAPHIC TRENDS

Demographic profiles of the country are extremely varied for the five countries. Table 2 presents the key indicators of demographic trends of the countries and the following subsections elaborate on the findings.

**TABLE 2. KEY LABOR SUPPLY INDICATORS FOR CAMBODIA, INDIA, INDONESIA, THE PHILIPPINES AND SRI LANKA**

	Cambodia* 2004 (000)	India** 2004 (000)	Indonesia 2004 (000)	Philippines 2004 (000)	Sri Lanka 2004 (000)
<b>DEMOGRAPHICS (ADB)</b>					
Youth Population, % of Total	24.2	19.2	18.7	20.2	17
Children Population, % of Total	36.6	31.6	28.0	34.6	23
Population annual change, %	1.9	1.6	1.5	2.1	1
Rural Population, % of total population***	80.3	71.3	52.1	37.4	79
<b>LABOR FORCE (ILO)</b>					
Total number in labor force	66145.0	430444.80	103937	35916	876
Unemployment rate, %	1.8	7.30	9.9	10.9	8
Labor force annual change, %	17.6	N/A	2.0	1.4	1
Labor force participation rate, %	76.9	53.6	65.7	68.4	48
Males	79.8	82.1	86.0	83.1	66
Females	74.4	34.0	49.2	53.8	31
<b>EDUCATION (ADB)</b>					
Basic education gross enrollment, %					
Males	142.0	120.0	118.0	113.0	102.0
Females	131.0	112.0	116.0	111.0	101.0
Students reaching 5th grade, %					
Males	61.0	81.0	88.0	72.0	N/A
Females	58.0	76.0	90.9	80.0	N/A
Secondary education gross enrollment, %					
Males	35.0	59.0	64.0	82.0	82
Females	24.0	47.0	64.0	90.0	83
Tertiary education gross enrollment, %					
Males	4.0	14.0	19.0	25.0	6
Females	2.0	9.0	32.0	32.0	4
Literacy rates, 15-24 years					
Males	85.0	84.0	99.0	95.0	95
Females	64.0	68.0	99.0	95.0	95

\*Cambodia employment data from 2001.

\*\*India data has organized sector only, unemployment areas based on 2000 estimates from 1999.

\*\*\*Rural population data from FAO... (2005)

Source: ADB Key Indicators 2006, ILO KILM 2006

In terms of current youth population, all five countries have a *high percentage of youth in the overall population*. Sri Lanka has 17.2 percent youth (ages 15–24) in total population while Cambodia ranks highest at 24.2 percent youth in total population. In addition, the differences *within* a country are as important as the differences among the countries. The assessments, through targeted analyses to specific geographical areas, conduct in-depth examinations of the wide disparity in labor supply characteristics by region and province/state of the respective countries.

The second demographic indicator is the *percentage of children* (under the age of 15) in the population. Here we see extremely high rates of children in the total population in Cambodia, India and the Philippines—all countries for which more than 30 percent of their population is children. In these “young societies,” youth and children make up more than 50 percent of the total population, forming a youth bulge in the workforce (See Box 4).

Additionally, Cambodia and the Philippines continue to experience *high population growth rates* of around 2 percent. The persistent population increases put pressure on labor supply. India and Indonesia have significantly lower rates, at 1.6 and 1.5 percent respectively. With its declining population rate over the past decade, Sri Lanka finds itself at a comfortable 1.1 percent population growth rate.

One surprising constant is the large *percentage of rural population* in each of the five assessment countries. With the exception of the Philippines, the countries’ rural populations totaled 50 percent or more of total population. The need to address rural employment, particularly youth rural employment, is an important finding in all of the assessments.

### LABOR FORCE PATTERNS

In addition to demographic factors, characteristics of a labor force, such as size, growth, participation rates, gender and age, allow us to distinguish specific factors that can explain the level, structure and nature of unemployment.<sup>7</sup> Key indicators of the labor force measure the total size of the labor force

### BOX 4. YOUTH BULGE: THE CASE OF INDIA

As of 2006, India’s population is at 1.1 billion people, 60 percent (more than 650 million) of whom are below the age of 30. While birth rates in India have dropped during the last decade, to 1.8 percent annually, the growth rate of workforce entrants is accelerating due to the high birth rates of the late 1970<sup>s</sup> and early 1980<sup>s</sup>. There have been important demographic shifts in the 1990<sup>s</sup>, which in turn influenced the youth bulge within the country. Extremely high population growth in the northern states of in Kashmir, Rajasthan and Bihar, and in the smaller eastern states, has contributed to youth bulges in the Northern provinces. Additionally, the large states of Uttar Pradesh and Madhya Pradesh have significantly higher population growth rates than those to the south. *In short, the high population growth rates in the north during the ‘80<sup>s</sup> and ‘90<sup>s</sup> created an issue of youth bulge within specific geographical areas.*

Source: Office of the Registrar General, India, 2001.

(number of eligible workers), the labor participation rate (those that are actively searching or working in the labor market), and the unemployment rate (those that are without work and actively searching for employment). These measures are based on labor and/or household survey information, and, as discussed previously, have several limitations in terms of quality and comparability across group. The data presented in Table 2 have been harmonized in order to allow for comparisons across the group. Also, only individuals of 15 years of age and older are included (ADB, 2005).

<sup>7</sup>As has been discussed in the labor literature, labor supply characteristics influence a number of labor market behaviors, including the decision to search and/or actively participate in the labor force, the decision to acquire education and/or skills; and the decision of labor mobility. These behaviors in turn influence the unemployment rate in countries. See Killingsworth (1984)

Of all the countries studied, India has the largest *size of the labor force*, estimated at more than 400 million. Indonesia ranks second in terms of absolute labor force size, which is estimated at slightly over 100 million. The Philippines ranks third, with approximately 36 million workers. Cambodia and Sri Lanka have substantially lower estimates of total labor force size, at 6 million and 8 million, respectively.

There are large differences in the *rate of labor force growth*. Cambodia tops the mark with an 18 percent annual growth rate and approximately 200,000 new entrants to the labor force annually. India is experiencing a similar tidal wave of new entrants, with around 15 million new entrants to the labor market. These numbers are significant both in relative and absolute terms. Population shifts have conversely affected the rates in Indonesia and Sri Lanka, where labor force growth rates are diminishing. In each of the respective countries, the growth rates of youth population are reflected in the labor force growth rates.

In terms of *labor market participation rates*, meaning those that are employed or searching for work, there are high rates of labor market participation in the “youngest society,” Cambodia. Here, 77 percent of the labor force is actively employed or searching for work. This is largely explained by the large number of young children/youth that have dropped out of the education system, as well as the large number of elderly who continue to work. In the Cambodian context, poverty pushes all individuals to work. At the other extreme, Sri Lanka has the lowest rate of labor market participation, estimated at 49 percent. This is explained in large part by the low gender labor market participation rates, as discussed below.

Gender plays a powerful role in labor participation and unemployment, as can be seen by the *gender disaggregates of data*. The differences in labor market participation between Sri Lanka and the Philippines can be largely explained by female labor market participation. Similar to India, Sri Lanka has a low rate of female labor market participation. These findings contrast with the rates of the Philippines and Indonesia, which have witnessed a gender workforce revolution in the past decade whereby

about 50 percent of women now participate in the labor market. Throughout the analysis, the gender factor has been significant in labor force participation and unemployment. Women experience higher rates of unemployment in all five countries studied. Gender disaggregated analysis of labor force trends is strongly recommended because gender creates a profoundly distinct dimension for women’s experiences as compared to their male counterparts.

The final labor force indicator is the *unemployment rate for males and females aged 15 and over*. This statistic measures those that are actively searching for employment and is based on individual behavior in the labor market, which makes it a labor force characteristic. As discussed in the first section of this report, these rates vary widely based on age, gender and rural/urban employment patterns. The Philippines has the highest rates of adult unemployment of the five countries, at around 11 percent. Cambodia, due to underemployment and extreme poverty, has the lowest rate of an estimated 1.8 percent. India’s unemployment statistics also reflect the urban bias of the calculations. Unemployment in India is around 7 percent and varies greatly based on two factors: rural/urban employment and gender. Sri Lanka has the greatest differences in the unemployment rates are in Sri Lanka. Youth unemployment (29 percent) is more than three times greater than total unemployment (8 percent). For a worker who is more than 30 years of age, unemployment is estimated at around 3 percent. As will be explained in the following section, there are also large variations in Sri Lanka unemployment due to education and gender.

## EDUCATION PROFILES

The third set of labor supply indicators relates to the educational profile of new entrants and future entrants into the workforce. This data provides skills and education benchmarks. To a large extent, the “trainability” of the future workforce reflects these broader educational characteristics. For our purposes, the focus of the analysis is on the new entrants into the workforce, primarily youth (ages 15–24 years). As we will see, there are important differences in the five Asian countries on education participation and achievement by gender (see Table 2).



There has been tremendous progress in achieving universal access to basic education, as measured by *basic education enrollments and completion rates*. Within the five assessment countries, all of the countries have gross enrollment rates of higher than 100 percent. The main challenge within basic education relates to the quality and relevancy of the primary education system. Here the indicators reveal several important findings. First, we see the majority of the countries assessed, namely Indonesia, the Philippines and Sri Lanka, have diminishing gross rates of enrollments, which signals increased efficiency within the system. This means that repetition rates in the basic education system are being reduced. Secondly, the percentage of students reaching 5th grade is high, as much as 80 percent for all the countries, with the exception of Cambodia. Both indicators are associated with increased quality and relevancy of the basic education system; students stay in school longer and with fewer repetitions. Yet these rates are not enjoyed by all, as detailed in Box 5. Post-conflict areas throughout Asia continue to struggle with access and completion of basic education for all children and youth (see Table 2).

There is a wide range of secondary and tertiary education enrollment rates in the five assessment countries. Cambodia has extremely low rates of secondary enrollment, around 30 percent, and fewer than 3 percent of Cambodian youth enroll in tertiary education. In Indonesia and India, success with primary enrollments is placing enormous pressure on the secondary education system. The rapid rise of secondary education enrollments, currently at 50–60 percent, is predicted to be at 80 percent by 2010. Sri Lanka and the Philippines have gross secondary rates at around 82 and 85 percent, respectively

### BOX 5. THOSE LEFT BEHIND IN THE PHILIPPINES: BASIC EDUCATION IN POST-CONFLICT AREAS

Many of the assessments examine the special needs of post-conflict areas. One such case is the Philippines, where the local USAID Philippines mission requested that the assessment examine the special needs of the post-conflict area of the Autonomous Region of Muslim Mindanao (ARMM). One of the most glaring differences is the level of education in the ARMM as compared to the nation.

The table below presents these differences. ARMM has extremely high rates of functional illiteracy and extremely low rates of elementary school completion. Secondary enrollment is less than half of the national average. *These findings point to the urgent need to address basic education needs of both children and youth. As shown in the assessment, youth workforce programs oriented to basic education and livelihoods provide a springboard into the labor market in the post-conflict areas.*

Source: EDC, Nov. 2005.

	Functional Literacy Rates (2003)	Education Rates (2001)		
		Elementary Enrollment	Elementary Completion Rates	Secondary Enrollment
National	84.1	97.0	62.0	73.4
ARMM	62.9	95.2	33.5	32.4

(ADB, 2006)

However at the tertiary level, Sri Lankan enrollment rates are at a noticeably low 4–6 percent, a bit higher than Cambodia’s tertiary enrollment rates. These tertiary education rates are surprisingly low compared to the correspondingly high secondary education rates. Indonesia and the Philippines have the highest tertiary enrollment rates, at around 25–30 percent. With the exception of Cambodia, all of the countries are undergoing a profound transformation of their secondary system and/or tertiary education systems.

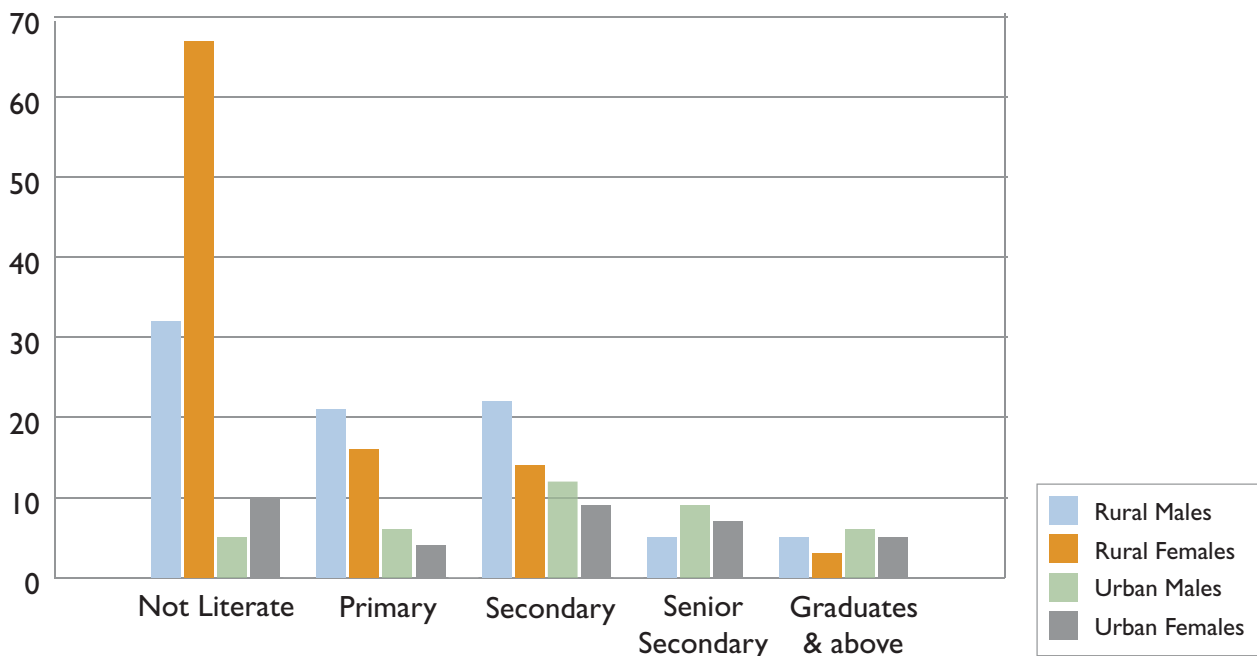
Youth in the assessment countries have increasing access to some secondary education. This is a critical transformation in terms of workforce. It is often cited that a 9<sup>th</sup> grade education is the turning point in terms of problem-solving and critical thinking skills (United States Department of Labor, 1991). This finding has been confirmed for developing countries in research in India, Indonesia, the Philippines and Sri Lanka (World Bank, 2005). Therefore, because they now have access to lower secondary education, most youth in the five countries are able to reach a key benchmark in the development of a competitive workforce. There are two caveats that must be addressed: the rural/urban challenges to education, and the gender differences in education.

**BOX 6. URBAN/RURAL AND GENDER DIFFERENCES IN EDUCATION: THE CASE OF INDIA**

The figure below presents the basic educational enrollments of youth in India by rural/urban location and gender distributions. It identifies the largest sub-group of youth by geography and education: the over 100 million rural youth with little to no education. Within this large cohort of uneducated rural youth, female youth represent 66 percent of the illiterate rural group. This sub-group includes those living in rural areas that have dropped out of school before completing primary or secondary school education. Based on these assumptions, 60 million rural youth are unemployed in the country.

Source: Office of the Registrar General, India, 2001.

**EDUCATION OF YOUTH, AGES 15-25, RURAL/URBAN AND GENDER, INDIA 2000**



Source: NSSO, 2000.

All of the assessments have shown significant differences between educational enrollment/completion rates in urban and rural areas. The targeted analysis of specific geographical areas demonstrates the wide gulf in educational opportunities between urban and rural residents. Gender differences also loom large, particularly in specific countries like Cambodia and India. For these countries, female participation in the educational system is substantially lower for all levels of educational enrollments (see Box 6). However, it is important to note that in the more highly educated countries, like the Philippines and Indonesia, there is gender bias in the opposite direction: more females participate in the educational system than males. This finding is largely due to the limited economic opportunities open to females, pushing them to stay in school.

### TARGETING ANALYSIS

As part of the analysis in the five country assessments, specific geographic regions have been analyzed using a statistical targeting analysis. This analysis identifies a target population, and then describes the target population by key characteristics (or key indicators). The above key indicators—demographic, labor force, and educational—are the main indicators used in the targeting analysis. Disaggregating the indicators by gender, age and urban/rural distributions proves valuable, as many of the above examples have shown. Most importantly, the provincial, district and city census and educational data now available in some countries provide the analytical capacity to perform targeting analysis at a very precise geographical level. The targeting analysis allows for greater specificity in describing the size and key characteristics of the respective target-beneficiary for future programming. Targeting analysis is essential to understanding the specific target population and designing policies and programs relevant to its needs. As shown in the various country assessments, the targeting analysis is particularly important when examining youth and workforce populations in post-conflict areas, where youth and new entrants experience extremely high rates of unemployment. (See Box 7).

The analysis has compared the five assessment countries in terms of labor supply characteristics.

### BOX 7. YOUTH UNEMPLOYMENT IN POST-CONFLICT AREAS

One of the most disconcerting findings of the Jobs for the 21<sup>st</sup> Century project is the extremely high rates of youth unemployment in post-conflict areas. Three of the assessments examine post-conflict areas: the Philippines (ARMM), Sri Lanka (eastern region), and Indonesia (Aceh region). On average, youth unemployment in post-conflict areas is around 6 to 7 times higher than the national average. In the ARMM of the Philippines, youth unemployment is 42 percent, compared to the overall national average of 6 percent and youth national average of 16 percent. In Sri Lanka, youth unemployment in the eastern region is estimated at 35 percent compared to the 3 percent national average and 26 percent youth national average. Aceh youth unemployment is estimated at around 70 percent, a shocking employment statistic. All of these regions are rural and isolated, posing many challenges in terms of job creation as well as labor supply. *Targeting to the needs of out-of-school youth in post-conflict zones reflects the dismal employment prospects of this group; youth development programs linked to education and livelihood are recommended strategies to this out-of-school youth population in post-conflict zones.*

Source: EDC, Nov. 2005, Dec. 2005, July 2006, Aug. 2006, May 2007.

To a large extent, each of these factors influences labor market absorption of youth and new entrants into the labor force. Here are some basic insights gained from the analysis:

- Demographic factors. Of the five countries studied, Cambodia has an extremely high percentage of youth and children coming into its labor market. The Philippines and India also



have large concentrations of youth and children, which creates increased demographic pressure on its workforce. Sri Lanka and Indonesia have relatively stable population dynamics, whereby demographic factors will not play a large role in terms of employment pressures. *Based on this analysis, Cambodia and rural areas of the Philippines and India require immediate attention to these large “youth bulge” populations.*

- **Labor force factors.** Labor force statistics reflect the structure of production and employment in the respective countries. Cambodia has the highest concentration of young workers in their economy, with high levels of underemployment in rural areas with little open unemployment. India also has a large amount of underemployment; this is explained by the persistence of agricultural employment (50 percent of total employment) and increasing amounts of non-farm informal employment. The Philippines and Indonesia have the highest unemployment rates in the region, given that there is very limited jobs creation in the main economic sector—that of industry. Sri Lankan labor force statistics are particularly sensitive to gender and age, with extremely low rates of adult unemployment over the age of 30 years. *Targeting to a specific group (e.g. gender, rural or youth) requires careful analysis of the key labor supply characteristics. Programs must be developed according to these specific characteristics, particularly as it relates to rural employment and female participation.*
- **Educational factors.** The key educational indicators of labor supply measure the “trainability” of a labor force, as education provides the foundation for future skills development of the workforce. There are tremendous variations in the five countries studied. Cambodia is at the first stage of educational development, that of ensuring universal basic education for all. Yet quality and relevancy of the basic education remains a challenge in Cambodia. The Philippines has made large strides in terms of secondary education, yet only 25 percent of Filipinos are enrolled in tertiary education. Similarly, Indonesia finds itself with increasing rates of secondary and tertiary level enrollments. India has an enormous challenge in increasing secondary education enrollments in the next five years. Finally Sri Lanka, with high secondary education enrollment, continues to have few tertiary-level enrollees or graduates. Overall, all of these countries, with the exception of Cambodia, are well on their way to the provision of 9<sup>th</sup> grade education—the key workforce competitiveness benchmark. Most importantly, these findings show the tremendous variation in educational profiles of youth in a country. *Workforce development programs should target populations with incomplete basic education, paying special attention to varying needs based on geographic location (rural/urban), gender, age and equity. Investments should focus on quality basic education through grade nine, at a minimum, to stimulate workforce competitiveness.*



Woman selling sweets in the market, South-East Asia.

# SKILLS MISMATCH AND SHORTAGES DUE TO SUPPLY-SIDE POLICIES

Classroom training session at Notre Dame of  
Midsayap College, Mindanao, the Philippines.



## SECTION SUMMARY

When there is persistent youth unemployment, particularly for educated youth, the supply-side institutions and policies are most often the reason for the skills mismatch. Skills mismatch occurs when the policies and programs of the education and training institutions do not promote the skills needed for the demands of the private sector. Skills shortages occur when there are not enough trained workers in the workforce. Either case leads to unemployment. The main findings of the analysis are:

- Sri Lanka is a “textbook” example of skills mismatch due to labor protections and traditional education system that is not oriented to skills and job matching.
- Educated youth in the Philippines and India also have the highest rates of unemployment, particularly among women.
- Labor protection policy, lifetime employment and public sector employment have been found to discourage youth employment.
- Little flexibility in hiring/dismissal and high levels of worker protection in the formal sector provide no incentive to hire youth in the five countries.

The above analysis has examined the labor demand and supply factors that create the market for skills. In classical economic analysis, the demand and supply for labor and skills should reach equilibrium, whereby demand will be equal to supply. When this does not occur, when there is persistent youth unemployment, particularly for educated youth, this is a condition of skills mismatch due to supply-side institutions and policies that are not responsive to labor demand.

There have been many examples of skills mismatch due to supply-side policies. One such case is Sri Lanka, where there is significant econometric evidence that public sector employment and long-term hiring regulation contribute to labor market inefficiency and skills mismatch. Studies in Indonesia and the Philippines also confirm that labor, and, in some instances, education policies contribute to inefficiency in the labor market and skills mismatch (Rama, 2003a, 2003b; World Bank, 2006). The above labor regulation should not be confused with child labor protections, that establish the minimum age of employment of 15 years of age. All of the five countries recognize the ILO Convention No. 182: Worst Forms of Child Labour Convention of 1999 and have specific programs to combat child labor in the countries.

To simplify this discussion, let us first look at education policy and programming at polytechnic institutions at the tertiary level. An educational institution trains and educates students that are the future

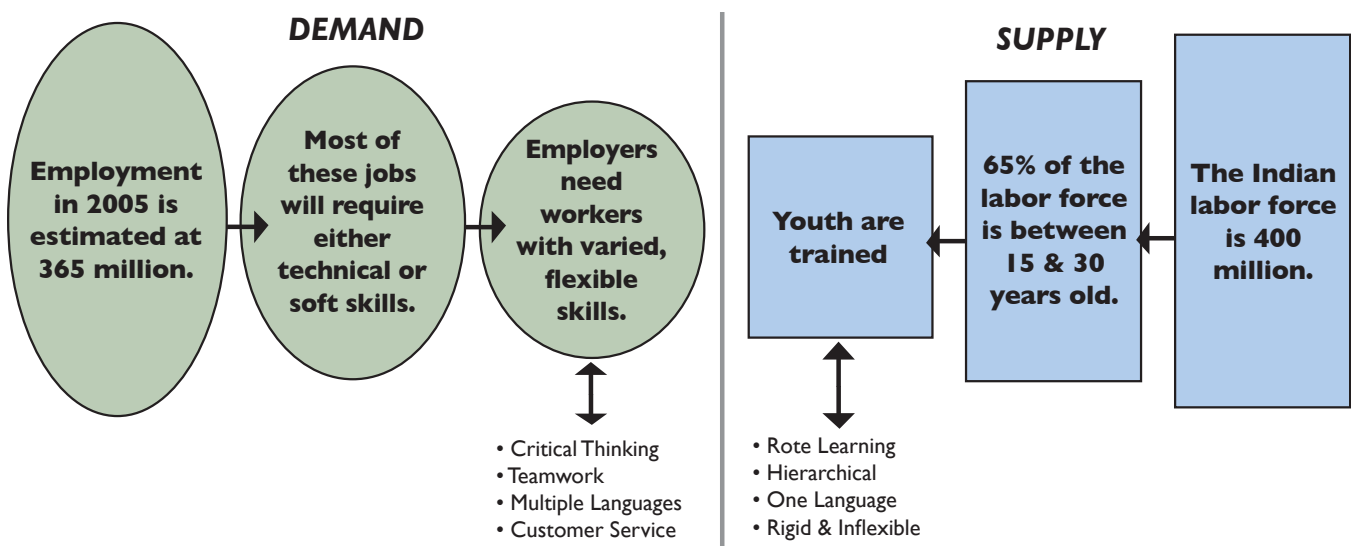
workforce for a given field. Should this institution not be responsive to the needs of the market (e.g. the types of engineering courses), the students will not have the appropriate skill mix to work in a given job.<sup>8</sup>

For many of the five countries, there are critical skills shortages, particularly at higher technical levels, which require a tertiary-level scientific degree. These are most evident in the information technology sector, where there are simply not enough engineering programs to prepare young people. These critical skills shortages primarily relate to technology, skills application and problem-solving. Several countries, such as India and Sri Lanka, have gaps between the skills demanded and the skills supplied. (Zeufack, 2006).

The Indian case is extremely well-documented in term of skills mismatch and shortages, particularly at the higher levels of education. Enterprise based surveys conducted by both donors (e.g. World Bank) and the private sector (McKinsey Global Institute) have estimated a large demand for technical and higher education. These findings are supported by the series of interviews of large numbers of employers conducted as part of the assessment's in-country research.

<sup>8</sup> For our discussion, skills mismatch refers to the gap between supply and demand for qualitative skills of the existing or new workforce. Skills shortage is a quantitative concept that measures the number of skilled workers demanded that are not being supplied in the market, as defined earlier in the report.

**FIGURE 6. DEMAND AND SUPPLY SKILLS MISMATCH IN INDIA**



Source: EDC, Nov. 2005.



Business executives interviewed in all industries and regions unanimously stated that India is not producing workers with the high-quality skills needed to meet workforce needs. *They say this is a problem of both relevance and quality.* Many executives, however, pointed even more strongly to a lack of key communication, interpersonal and critical thinking abilities rather than to any specific technical skills.

This demand is slowly transforming the secondary and tertiary education systems. The demands of the “knowledge economy” of India have made for a new perspective within the massive and complex education system, one oriented to the needs of a private sector. The scale-up of secondary and tertiary education facilities and programming is clearly impressive. Moreover, there is a new curriculum focus, one that stresses the key skills demanded by the private sector. (World Bank, 2005).

General functional skills, such as critical thinking, problem-solving, teamwork, and interpersonal communication, are absent from the traditional formal education curriculum. Often referred to as “soft skills,” these general functional skills have been identified repeatedly by firms as the basic skills needed for the workplace. And while reforms are occurring in the educational curriculum in the five countries, there is still a wide gap between the entry level skills demanded by the private sector and the general skills being taught within the education system. The Philippines, Sri Lanka and India assessments all addressed this skills gap issue. This is sketched out in Figure 6 on the previous page.

A second type of policy causing skills mismatch is government labor policy. Within the five countries studied, there is a preponderance of labor policies that discriminate against hiring youth (15 years and over) in the private sector. Most of these policies are indirect, such as lifetime employment policies, in that they do not intentionally discriminate against youth. Little flexibility in hiring/dismissal and high worker-protections in the formal sector provide no incentives to hire youth. Yet reforms of these labor policies have been delayed and there are few success stories to report. (Rama, 2003a; Rama, 2003b )

The consequence of skills mismatch is persistent and prolonged youth unemployment, with low adult unemployment. It indicates that the youth transition

### BOX 8. SRI LANKA: THE CASE OF YOUTH UNEMPLOYMENT AND SKILLS MISMATCH

The Sri Lanka experience shows the link between prolonged and persistent youth unemployment, lifelong employment with little turnover, and marked skills mismatch. Adult unemployment rates are relatively low (less than 3 percent for males over 30 years old). Young males experience rates of unemployment at 24 percent for the young men between the ages of 15 and 19 years, and a 12 percent rate for older youths, between 20 and 29 years. Women face an even more difficult labor market search, with female rates of unemployment at 49 percent for younger women, of 15 to 19 years, and 26 percent for women of 20 to 29 years of age. Educated youth experience the highest rates of youth unemployment, at around 35 percent.

Two main trends must be noted: 1) Unemployment trends basically reflect an adult labor market that historically has been dependent on lifetime employment contracts and relatively low turnover. The rigidity of the adult labor market curtails the youth employment opportunities, limiting insertion and mobility of youth in the labor market. 2) For Sri Lankan youth, the higher the level of education, the higher the unemployment rate. The school-to-work transition is lengthy because the educational profile of youth does not align with demands of the economy. In short, the slow absorption of youth between the ages of 15 and 24 into the labor market is most often attributed to the mismatch both in terms of size, skills and expectation of youth labor supply to the workforce demands and rigidity of the labor market. The Sri Lanka experience points to the highly correlated issues of youth unemployment, social policies that encourages lifetime employment and skills mismatch issues. And while the phenomenon may be transitory, the losers are the youth, individual firms and society.

Source: EDC, July 2006.

from school to work is a difficult one. In general, skills mismatch is an important factor during the short-term school-to-work adjustment. Sri Lanka offers the most striking example of skills mismatch, whereby labor market inefficiency, lifetime employment policy, and skills mismatch are significantly linked to unemployment. (See Box 8).

Other countries also have skills mismatch issues, particularly those with high rates of secondary education and tertiary education. For example, the Philippines has particularly high rates of unemployment among higher-educated youth. A college educated person is three times more likely to be unemployed and searching for employment than an elementary school graduate. Unlike Sri Lanka, though, the Philippines has the highest overall rates of unemployment, so unemployment is not simply a skills mismatch problem. The Philippines situation is a reminder that multiple causes for unemployment exist in every country.

Finally, the private sector has its own, unique perspective on skills mismatch. In focus groups with

business firms, all stated some concern for skills mismatch. For example, the Indonesia assessment carefully examines skills demands of Northern Sumatra enterprises, using existing primary data and data gathered in in-firm case studies of 7 enterprises (EDC, 2007; World Bank, 2006). The findings support earlier research (Tzannatos & Sayed, 1997), which showed that the vast majority of firms in Indonesia, including foreign-owned, take advantage of cheap labor by opting for labor-intensive processes based on simple and traditional methods. The main concern in these enterprises is at the recruitment level of unskilled front-line workers. Only a few highly skilled workers are required alongside hundreds of unskilled and semi-skilled operators who undertake repetitive tasks, which is typical of labor-intensive light manufacturing production. These findings show how production structures do not promote higher technological processes, instead preferring mass production technologies that have been transferred from other countries (Tzannatos & Sayed, 1997; World Bank, 2006)

Youth learning to mix cement , Mindanao, the Philippines.





# SOCIAL NETWORKS AND YOUTH EXPECTATIONS



Young woman inspecting construction site, Mindanao, the Philippines.

**Social networks shape youth expectations about the labor market and influence key decisions on job search.**

## **SECTION SUMMARY**

Social networks are crucial to finding employment in every country in the five countries of this analysis. Youth employment decisions are made with input from family and friends, and jobs are often taken by people with a connection to one's social circle. This may happen regardless of skill match between the job and the employee. The prevalence of this social employment network means that programs and policies need to reflect this reality. Incorporating youth and their families is key to designing youth workforce programs.



The previous sections highlight the key economic and educational behaviors, policies and practices that largely shape the employment and unemployment patterns in the five Asian countries studied in this paper. Yet there is one remaining factor—the importance of social networks and youth expectations in shaping labor market behavior. These social networks and youth and family expectations are examined in each of the five country assessments. Quantitative and qualitative surveys have been conducted in Sri Lanka and Indonesia that specifically measure the attitudes of youth and their role of social networks in job search and recruitment by firms (ILO, 2006). The findings are clear: social networks shape youth expectations about the labor market and influence key decisions on job search and labor market efficiency.

A key finding from the assessments is that the youth decide to work or participate in workforce training based on parental and family input, which shapes youth relations to the labor market. As is the case with young people worldwide, the individual youth does not necessarily agree with their family's decisions, and is often frustrated by his/her lack of independence in making these decisions. Throughout youth surveys of school-to-work transition, youth voice their demands for fair and equitable access to work, particularly regarding “independence in work.” For many youth, joining a family firm or household enterprise is not an attractive option in terms of independence. All project design and programming activities should incorporate youth and adult perspectives on social networks into their service delivery programs. (See Box 9). (EDC, Nov. 2005, Dec. 2005, July 2006, Aug. 2006, May 2007).

These findings point to the need to incorporate youth and their families into the design and programming for jobs creation and workforce development. This has been confirmed by a series of donor studies on youth workforce development (World Bank, 2006). Unlike traditional labor supply analysis, it is not sufficient to simply interview youth as part of the planning of projects. The power of parents and households is significant in youth job search processes. This reflects the underlying importance of social networks in the labor market in the Asian region, and are, therefore, key factors to be analyzed in the project preparation and design.

## BOX 9. YOUTH ENTRY POINTS TO EMPLOYMENT: HOUSEHOLD PRODUCTION AND THE INFORMAL ECONOMY

In all five countries studied as part of the Jobs for the 21<sup>st</sup> Century Initiative, there are two main avenues for entry of youth into the labor market: family household production and informal economy employment. Based on a large number of youth surveys in the Cambodia, India, the Philippines, and Sri Lanka, youth will often have multiple temporary jobs obtained through family or friends, which provide them some income and job experience. Through these short-term positions, youth create a social network in which to access further employment, which hopefully also offers more income or job security. However, labor market research in Indonesia has shown that this process, known as career laddering, does not necessarily lead to a movement out of the informal economy into formal economy employment. Yet, these informal economy career ladders unquestionably offer young people valuable work experience that both adjusts their expectations of the labor market and increases income and job security (ILO, 2003; World Bank, 2003).

Source: Office of the Registrar General, India, 2001.

# KEY FINDINGS AND LESSONS LEARNED



Young man working in at an emissions testing center, Mindanao, the Philippines.

**The new “jobs economy” in the five countries is the service sector of the non-farm economy.**

## **SECTION SUMMARY**

This section highlights the main findings and lessons learned of the from the Jobs for the 21<sup>st</sup> Century Initiative. Each country has its own distinct combination of labor demand, labor supply, skills mismatch, and social network issues that affect its labor market. By identifying the unique mix present in each, countries and donors can create programs and policies that encourage job creation.

## ADDING IT ALL UP: MAIN FINDINGS

This synthesis paper points to the four broad factors that influence unemployment in five Asian countries: job creation and labor demand; demographic and labor supply factors; skills mismatch and shortage due to supply-side policies; and social networks and youth expectations. Each of these factors has been examined in terms of their importance in the Cambodia, India, Indonesia, the Philippines and Sri Lanka. The following highlights the key findings of the analysis, and also inserts the main programming priorities that have been recommended in the respective Jobs for the 21<sup>st</sup> Century assessments. These assessments are attached at the end of this paper as Attachment 1.

- Cambodia has a crisis of jobs creation and labor supply. In the rural economy there are insufficient jobs to accommodate the large youth bulge now occurring due to demographic changes. Extremely low job creation in rural areas pushes youth off of the farm and into villages and cities. There is an immediate need to address these issues in a massive jobs and workforce development program that will encourage workforce skills development for the large number of youth that have dropped out of formal education, as well as promote employment in non-farm rural economy. Given the low educational profile, skills mismatch is not a pervasive problem in explaining unemployment. *Overall, there is a need to target large, rural populations through both job creation and services to out-of-school youth. (EDC, July 2006).*
- India presents a more complex picture, one which requires extreme sensitivity to the large and substantial differences between the rural and urban populations. First, the agriculture sector remains the largest employer in India, yet the sector is slowly transforming. Rural non-farm employment is now leading job creation and changing the rural economy. Also, there are large youth population differences *within* the country. There is tremendous variation by state and region within the above three key indicators in India. Urban regions and even select rural areas (such as Maharashtra) have lowered birth rates (and thus lower labor supply); increased basic education, improved infrastructure, and initiatives that promote job creation. Other states and regions lag behind. Skills mismatch, particularly among the more highly educated youth, is extremely high due to traditional educational and labor policies. The assessment proposes a flexible program that is finely tuned to the distinct needs of urban and rural areas, and promotion of short-term competency-based training in key employability skills (EDC, Nov. 2005).
- Indonesia presents a more straightforward picture, in which the main problem is jobs creation. Labor supply is relatively stable and there is limited evidence of skills mismatch. Within this labor market, which has been well studied for the last decade, the main obstacle is the need to move to higher technology manufacturing processes. Doing so would mean that the education and skills of new entrants are effectively used in the labor market, and income and job security would be enhanced. *The assessment which focused on the post-conflict Aceh province and surrounding areas identifies the various avenues into manufacturing and service sector employment in the northern Sumatra area that could link youth technical workforce in the post-conflict area of Aceh to employment opportunities in surrounding areas.*
- In the Philippines production and employment structures are similar to the Indonesia, with one caveat: the industrial sector has a lower job creation potential. Limited job creation in industry, the high costs of formal employment, and current demographic trends all contribute to the high unemployment ranking. Moreover, skills mismatch is an issue for unskilled labor and educated labor, so both sub-groups experience high rates of youth unemployment. Lastly, post-conflict areas further complicate these situations and show results quite different than the national averages. *The Philippines assessment, targeted to the Autonomous Region of Muslim Mindanao (ARMM), shows the gaps in basic education and job opportunities. The assessment recommends targeting basic education and livelihood skills training to out-of-school youth.*
- Sri Lanka has a profile distinct from the other countries, one in which the lack of job creation as well as skills mismatch are large contributors to youth unemployment in the country. Other than in the service sector, there has been negligible job creation in the country in the last decade. Neither agriculture nor industrial sectors of the economy have contributed to job creation. For that reason, job creation is a key factor contributing to unemployment, and more specifically youth unemployment. However, unemployment in Sri Lanka is extremely high only for youth, particularly amongst educated youth. Thus, Sri Lanka is, most importantly, a classic case of skills mismatch



due to traditional education and labor policies. Labor supply factors play little role in explaining unemployment, as youth population rates have been relatively stable over the past ten years. *To address this skills mismatch, the assessment recommends a job-matching approach, educating youth with core employability skills and providing work-based learning experiences.*

### LESSONS LEARNED

- **Lesson One:** Wide country variation exists in terms of job creation. Each country has specific labor demand structures, dynamics and policies that significantly shape job creation potential. Programs to stimulate job creation must be based on an analysis of each country's unique situation.
- **Lesson Two:** The “youth bulge” is predominantly a characteristic of rural isolated regions, and is often characteristic of post-conflict regions. There are large and increasing populations of youth in Cambodia and India.
- **Lesson Three:** The new “jobs economy” in the five countries points to the service sector and non-farm rural economies for the future. Business development and youth training must be tied to these sectors, assuring relevant education and training programs for the local labor market.
- **Lesson Four:** Gender issues are distinct in the five countries. Indonesia, Cambodia and the Philippines have high rates of female labor market participation. India and Sri Lanka have extremely low participation rates of females. Rates of female youth unemployment are proportionately higher than those of males in most of the countries. Programs should specifically address gender inequities in education, training and workforce participation.
- **Lesson Five:** Indirect policies of job creation include macroeconomic reform, capacity building, infrastructure and technological development and basic education. Education reforms should widen participation and access to all levels of the education system and encourage flexible learning systems relevant to local livelihoods and local labor markets.
- **Lesson Six:** Post-conflict areas, typically located in rural and isolated areas of the countries, experience the highest rates of youth unemployment and the lowest basic education completion rates. Conflict-affected, out-of-school youth are usually left behind by the social service sector, and require additional programming of services in order to gain fair access to jobs and economic opportunities.



Young woman checking out the new baking equipment, Mindanao, the Philippines.

# GLOSSARY

## ECONOMIC AND LABOR TERMS

**Economic sector**—Economic sector refers to one of three broad groupings of productive economic activities: 1) agricultural sector consists of agricultural, forestry, hunting and fishing; 2) industry sector comprises mining and quarrying, manufacturing, construction and public utilities; and 3) service sector consists of wholesale and retail trade, restaurants and hotels, transport, storage and communications, finance, insurance, real estate and business services, and community, social and personal services.

**Employed persons**—All persons above a specific age who, during a specified period, either 1 week or 1 day, were under (i) paid employment, i.e. they performed some work for wage or salary, in cash or in kind, or they have a job but were temporarily not at work; (ii) self-employment, i.e. they performed some work for profit or family gain, in cash or in kind, or if they have an enterprise and were temporarily not at work. “Some work” may be interpreted as work for at least 1 hour. The self-employed include employers, own-account workers, and contributing family workers. Employment rate—ratio of employed to total labor force. Unemployed persons—all persons in the labor force above a specified age who during the reference period were: (i) without work, i.e. without paid employment or self-employment; (ii) currently available for work; and (iii) “seeking work,” i.e. had taken specific steps in a specified recent period to seek paid employment or self-employment.

**Employment elasticity**—The percentage point change in the number of employed persons in a country or region associated with a one percentage point change in the economic output, measured by gross domestic product (GDP). This increase in economic output is often referred to as an increase in value-added.

**Formal Employment**—All jobs in formal sector enterprises or all persons who, during a given reference period, were employed in a formal enterprise, such as that enterprises are of a size of 10 number of workers, and comply with national regulation on labor protections. There is large variation in country definitions of formal employment.

**Informal Employment**—All jobs in informal sector enterprises or all persons who, during a given reference period, were employed in at least one informal sector enterprise, irrespective of their status in employment and whether it was their main or secondary job. Informal enterprises include self-employed street vendors, taxi drivers, home-based workers, persons engaged in very small-scale or casual activities that are not reported in official statistical surveys.

**Labor force**—Persons classified either as employed or unemployed during a specified period of reference, usually a day or a week.

**Labor force participation rate**—The number of persons in the labor force as a percentage of the working-age population. The working-age population is the population above a certain reference age—15 years old and over, 15–64, etc..

**Unemployment**—The International Labour Organization has a long, technical definition of unemployment that may be roughly summarized as a person who was without work in the previous period of measurement, as defined by the relevant governing body, but is available for and seeking work.

**Unemployment rate**—Ratio of unemployed to total labor force.

**Underemployment rate** (time-based)—Ratio of underemployed to either total labor force or total employment.

**Underemployed persons (skill-based)**—Persons who are employed in jobs that require less skill than that which they possess.

**Underemployed persons (time-based)**—Persons in employment whose hours of work were below a certain cut-off point and reported involuntary reasons for working fewer than full-time hours, or who wanted to work additional hours, or who sought to work additional hours.

### EMPLOYMENT CLASSIFICATION

**Contributing family workers**—Those workers who hold a “self-employment” job in a market-oriented establishment operated by a related person living in the same household, who cannot be regarded as a partner, because their degree of commitment to the operation of the establishment is not at a level comparable to that of the head of the establishment.

**Employers**—Those workers who, working on their own account or with one or a few partners, hold the type of job defined as a “self-employment job” and, in this capacity, on a continuous basis (including the reference period) have engaged one or more persons to work for them in their business as wage or salaried workers.

**Own-account workers**—Those workers who, working on their own account or with one or more partners, hold the type of job defined as a “self-employment job,” and have not engaged on a continuous basis any “employees” to work for them during the reference period.

**Self-employed**—Those engaged in jobs where the remuneration is directly dependent upon the profits (or the potential for profits) derived from the goods and services produced (where own consumption is considered to be part of profits).

**Wage and salaried workers**—Those engaged in paid employment jobs with explicit or implicit employment contracts that give them a basic remuneration that is not directly dependent upon the revenue of the unit for which they work. Persons in “paid employment jobs” are typically remunerated by wages and salaries, but may be paid by commission from sales, by piece-rates, bonuses or in-kind payments such as food, housing, or training.

### OTHER

**Skills mismatch**—Skills mismatch refers to a condition whereby the skills and education of the existing workforce does not match the needs of firms/industries. It is the gap between the supply and demand for qualitative skills of the existing or new workforce.

**Skills shortage**—Skills shortage occurs when there are not enough skilled/educated workers available in the labor market to fill positions that are available in firms; this concept refers to a quantitative shortage of workers.

**Youth bulge**—Demographics of the youth workforce show an increasing growth rate of young people as a percentage of total population.

Sources: Cincotta, Engelman, & Anastasion, 2003; ILO, 1997; ILO, 2006; Zeufack, 2006



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## Appendix I: Country Summaries of Jobs for the 21<sup>st</sup> Century Assessments

Jobs for the 21<sup>st</sup> Century Assessment: Cambodia Summary

Jobs for the 21<sup>st</sup> Century Assessment: India Summary

Jobs for the 21<sup>st</sup> Century Assessment: Indonesian Summary

Jobs for the 21<sup>st</sup> Century Assessment: Philippines (ARMM) Summary

Jobs for the 21<sup>st</sup> Century Assessment: Sri Lanka Summary



# JOBS FOR THE 21<sup>ST</sup> CENTURY: CAMBODIA

## ASSESSMENT SUMMARY



photography by Karl Grobl

Young woman selling silk products at a market in Siem Reap

During July 2006, the Cambodia Assessment was conducted, collecting a wide range of sources and data from surveys, interviews, and focus groups. This Assessment provides a broad picture of the youth, the economic environment, the local educational and workforce institutions, and the current USAID programs that shape workforce development in Cambodia. This summary highlights the main findings and recommendations of the Assessment.

**Cambodia is a “young society.”** With around 50 percent of the entire population under the age of 25, Cambodia is often depicted as the young society. Youth, age 15–25, represents around 32 percent of the total 7.5 million people in the country. *This youth bulge adds 300,000 new entrants to the Cambodia labor market every year. Most of these are rural youth, of whom 80 percent are either self-employed or unpaid family workers.*

**Urban and rural youth have surprisingly similar aspirations regarding employment.** There are more similarities than differences between urban and rural youth’s employment aspirations and potential. In general, both have enrolled, studied, repeated, struggled, and failed within the formal basic education system. They share a severely limited view of the job spectrum

and its relationship to education level. Both groups have primarily agrarian families, have worked in agriculture as children, and continue to survive as farm laborers for their families or others.

**Jobless growth and limited “safety valves” mean few entry points for youth employment.** Formal employment is extremely limited in Cambodia: “Roughly 300,000 people are added to Cambodia’s labor force every year, and economic growth generates formal sector employment between 20,000 to 30,000 new jobs per year.” (World Bank, 2005) The key “safety valves” of employment are the garment sector, representing 250,000 workers, and the tourism sector, hiring 70,000 employees.

**Landlessness and stagnant agriculture require essential policy reforms.** Eighty percent of Cambodians live in rural agricultural areas, yet landlessness and declining conditions for agriculture have made for little productive jobs creation in rural areas. This poor performance by the agriculture sector—a critical sector of employment in rural economies—is largely due to a *failure to adopt a policy framework in land ownership and investment policies that promote competitive agriculture. Agricultural modernization, particularly in irriga-*

tion policy and practices, is essential to reactivate the agricultural sector; it would also encourage productive employment for youth in the rural areas.

**Promising practices in agribusiness and micro-enterprise offer pockets of job growth.** Promoting transformation within the rural economy is the agribusiness sector. Types of labor-intensive activities in the rural areas include rice-milling, small-scale rural electric enterprise, fishing and fish processing, silk-making, and cotton-spinning and -weaving. These potential pockets of job growth are largely tied to micro- and small enterprises in the rural sector. The current Development Alternatives, Inc. USAID-financed project provides excellent examples of how to build value chain projects to promote income and employment in the rural economy of Cambodia.

**Despite improvement in basic education enrollments, school completion lags seriously.** Increasing numbers of children are entering school and spending some time there. Yet most of the recent gain in primary net enrollment is due to the net gain in the proportion of children that enter school, most of

whom are over age, rather than youth staying longer in school. Only 35 percent of those who start school actually complete the basic education cycle. Over-age enrollment is a major factor in explaining high dropout rates.

**Vocational and technical education is a case of unfulfilled promise.** In 2004, the newly formed Ministry of Labor and Vocational Training was mandated to bring together all the technical and vocational education and training (TVET) activities of government agencies under one ministry. This system is designed for around 25,000 enrollees, but actually services only 4,000 students. The limited enrollments are largely due to fiscal budget constraints.

**Non-formal education and non-profit organizations show promising practices.** The Assessment evaluates existing non-formal education (NFE) and non-profit institutions and projects. Promising practice projects include: the Digital Divide Data project of social entrepreneurship for jobs creation; the World Education anti-trafficking child labor project with job placement services to rural female youth; and the community centers of the Non-Formal Education Department of the Ministry of Education and Youth.

## KEY RECOMMENDATIONS:

Address the mismatch between current and future supply and demand in youth employment through creation of a *youth opportunity network*.

Deepen support of capacity-building efforts in micro-, small, and medium enterprises, to promote their role in job and household income production and to encourage their involvement with the proposed youth opportunity network.

Incorporate other new Ministry institutions, such as the TVET and NFE, in the proposed youth opportunity centers.

Promote youth workforce development in a large-scale, labor-intensive agricultural modernization initiative focused on irrigation and other agricultural innovations.

Identify key policy actions to address agricultural and enterprise development, to encourage employment and economic growth in these key rural sectors, and to reduce instances of official corruption; improve government policy tools, such as the labor market information systems.

## MOVING RECOMMENDATIONS INTO PROJECT ACTION

USAID Cambodia, in an effort to provide continued financing to its existing education portfolio, has issued no new procurement in Workforce Development. However, the recommendations in the Assessment have been used in the re-orientation of the work skills component within the current education programs, as well as in the economic growth programs.

# JOBS FOR THE 21<sup>ST</sup> CENTURY: INDIA

## ASSESSMENT SUMMARY



Young man selling  
in a market on an  
Indian roadside

photography by Karl Grobl

During November, 2005, the India Assessment was conducted, collecting a wide range of sources and data from surveys, interviews and focus groups. This Assessment provides a broad picture of out-of-school youth in India, the economic environment, the local educational and workforce institutions and the current USAID programs that shape workforce development in India. Particular attention is given to three states in the Republic of India: the National Capital Region, Maharashtra, and Jharkhand. The following highlights the main findings and recommendations of the assessment:

**Four main sub-groups of vulnerable youth identified.** A key design feature of the Assessment is the study of four main sub-groups of vulnerable youth: *Youth in rural areas who have dropped out of primary or secondary school and lack employability skills; Youth who migrate from rural to urban areas or from one rural area to another, alone or with their families; Unemployed youth with secondary school diplomas or vocational education or university degrees*

*who are not working; and Urban vulnerable youth, such as long-term slum dwellers.*

**Over 100 million rural youth are illiterate and unskilled.** The largest majority of youth in India reside in rural marginalized areas. Over 100 million rural youth have no or little education. Female youth constitute 66 percent of this large cohort of uneducated rural youth. Based on these findings, 60 million youth are rural, illiterate, and unemployed.

**Voices of youth call for fair access and “respectable work.”** Youth in India are clear about what they want from the labor market: fair access to opportunity and “respectable work,” in terms of social protections and basic workplace rules. They are greatly frustrated by the recruitment system, where employers demand more qualifications (such as education) than the job actually requires. Key programs and services that would help youth in their job search include job networking, recruitment services, and part-time continuing education and training.



**Women’s work is increasingly in the informal sector.** The majority of women in both rural and urban areas of India are employed in the informal sector, which is characterized by low productivity, minimal incomes, and a lack of economic and social security. So while female youth in India are participating in the labor market by increasing numbers, they continue to face major hurdles in terms of access to formal sector employment. *Building career ladders and occupational mobility for women are essential steps toward enhancing women’s income and employability.*

**High economic growth yet large gap between skills demand and supply.** India is experiencing unprecedented economic growth of greater than 8 percent per year. However, despite its impressive growth rate, the country faces two extremely important workforce issues—job shortages and unprepared workers. *This “skills mismatch” is a central bottleneck in the India labor market system.*

**Wanted: 15 million jobs per year plus policy reforms.** *The bulging population and the expanding workforce will require about 15 million new jobs every year, against the 10 million new jobs being projected by the government.* Jobs creation is primarily in the rural non-farm sectors of agribusiness and

service sector. Key policy reforms are necessary to address this economic and employment growth. The three main barriers to faster growth and employment in India are *the multiplicity of regulations for government product markets, distortions in the market for land, and widespread government ownership of business.*

**Private sector perspective: Employability skills needed.** Corporate business executives point to the need for greater employability skills in their workforce, including mastery of basic literacy and numeracy skills, inter-personal skills, communication skills, IT skills, and critical thinking skills, rather than specific technical skills.

**Within the education sector, important strides and remaining challenges.** The assessment pointed to an education and training system in the midst of reforms and important expansion. The key findings are:

- Gains in basic education...lead to secondary education crisis.
- Vocational technical education reforms and delays.
- Excellent models of “second chance” programs and flexible learning systems are now in place and can be scaled up to national models.

## KEY RECOMMENDATIONS:

Build a bridge of better communication and understanding on workforce development between partnering institutions.

Promote core employability skills and competencies.

Support institutional transformation of technical education.

Encourage active labor market programs for all skill levels of youth, but with particular attention to rural and vulnerable youth.

Give priority to “second chance” programs.

## MOVING RECOMMENDATIONS INTO PROJECT ACTION

The USAID India mission is now in the first stage of execution of a program targeting disadvantaged youth for new economy jobs. USAID is providing seed funding of around \$5 million for a 4-5 year period for one or more public-private partnership projects to demonstrate or scale up innovative approaches, programs and models that will provide viable career and employment opportunities for vulnerable youth.

# JOBS FOR THE 21<sup>ST</sup> CENTURY: INDONESIA

## ASSESSMENT SUMMARY



In response to the Asian tsunami, the USAID-Chevron partnership for technical education helped hundreds of youth from Aceh and Nias learn skills needed to help in the region's reconstruction, including electrical and wiring installation.

In March 2007, the Indonesia Assessment was conducted, collecting a wide range of sources and data from surveys, interviews and focus groups. This Assessment complements the existing body of research and explores remaining issues to support the implementation of the USAID Aceh Province partnership with Chevron in Indonesia. With this country-specific program in place, the purpose of this labor assessment funded by USAID Asia and Near East Bureau is to support effective implementation and targeting. The following highlights the main findings and recommendations of the assessment:

**Indonesian unemployment is largely a reflection of demand-side factors, rather than youth bulge or labor supply increases.** The unemployment rate has swollen up to its present level of about percent. This rate is almost double that of 1998; it results from weak job creation from the demand side.

**In the medium term, employment of technical workers will increase substantially, and employment of unskilled labor will increase even more.** Manufacturing employment is still largely oriented toward unskilled labor. Data from the Rural Investment Climate Survey (RICS) and the case studies suggest that the average firm may hire as many as four unskilled workers per technical worker.

**The most significant bottlenecks for economic growth are gaps related to institutions, governance, and infrastructure.** Research points to institutions, governance, and infrastructure as factors increasing the cost of doing business; they can as well be interpreted as obstacles to business growth. Case study interviews confirm the seriousness of market-distorting regulations and inadequate investments in public utilities. If these problems are not addressed, there is a real danger that the expected rapid growth may fail to materialize in the medium term.

**Aceh province anticipates an economic transition, from resource-based industries to agro-industrial development (including fisheries).** As explained in the analysis of the enterprise case studies, there are many reasons for the transition from resource-based industries to agro-industrial development: the resource depletion in the oil and gas sector; environmental protection of the logging industry, and the priority of local autonomous government to the agro-industry. The main areas have been identified in terms of specialized skills: metallurgy, foundry, rubber, boiler operation, specialized software, and English.

**Out-migration is an important pathway for youth workforce with tertiary technical education.** Highly educated and technically trained youth are being pulled out of the region, and into other parts of Indonesia and Southeast Asia region. There is a critical demand for technical workers in the East and Southeast Asia regions, which will in turn have impact on the regional and local labor markets of the northern Sumatra and the Aceh region.

**Extensive partnership networks of technical and vocational education institutions are poised to meet labor market needs.** The

current number of partnership arrangements established through Memoranda of Understanding (MOUs) suggests that inter-agency public and public-private partnerships are well understood in Indonesia and the northern Sumatra region. Cooperation and outreach service coordinators in educational institutions sustain and build partnerships.

**Youth expectations continue to be affected by the tsunami disaster.** Many youth have experienced traumatic family losses that affect their labor market expectations. As part of traditional family life, parents play an important role in directing and choosing the field of study as well as the education institution where the youth should enroll. Gender issues (traditional gender roles) persist and influence the selection of occupational study and work expectation.

**The youth workforce in Aceh needs employability skills, high school credentials, and job experience.** Youth perceive that they need basic general skills, such as computer operating skills and English. Work-based programming, such as apprenticeships and on-the-job training, is viewed a big positive in terms of future employability. Informal social networks are the foundation for this informal job search.

## KEY RECOMMENDATIONS:

- Establish linkages with local and regional economic activity
- Strengthen management, empowerment, and stakeholder representation
- Focus on trainability and employability skills of students
- Change youth expectations in Aceh toward access to education and job opportunities
- Strengthen local responsiveness/accountability along with labor demand, economic development, and community needs
- Broaden resource mobilization to sustain programs beyond startup phase

## MOVING RECOMMENDATIONS INTO PROJECT ACTION

USAID/Indonesia is moving forward with the USAID-Chevron Alliance for Technical Education. Under this public-private alliance, each partner will provide \$5 million in funding to support vocational skills training and the construction of a new polytechnic institution in Aceh. The assessment has been used for the planning of this initiative.



# JOBS FOR THE 21<sup>ST</sup> CENTURY: PHILIPPINES—AUTONOMOUS REGION OF MUSLIM MINDANAO SUMMARY



photography by Karl Grobl

Young woman selling goods at her store in the Mindanao region of the Philippines

Data collected from a wide range of sources and surveys during December 2005 reflect the needs of out-of-school youth in the Autonomous Region of Muslim Mindanao (ARMM) of the Philippines. This summary highlights the main findings and recommendations of the Assessment.

**ARMM youth population is exceptionally high with high rates of poverty and unemployment.** The ARMM region has an extremely high level of youth “bulge,” with half the population of the region below the age of 18. These youth live in a region that hosts an extremely high overall unemployment rate of 42 percent, and where an estimated 60 percent of households (2000) live in poverty. ARMM youth experience the highest rates of poverty and youth unemployment in the Philippines—a country with the highest rates of youth unemployment in Asia.

**The principal causes of school dropout are poverty and low-quality schooling.** Poverty and the poor quality of schooling are key factors explaining the high drop-out rates from basic education: only 35 percent of ARMM children complete elementary education. Research conducted by the Assessment Team points to “insufficient family funds” as the main reason that

youth drop out of school. Youth in the ARMM region clearly state their top requests—more literacy programming and an opportunity to return to school activities.

**Main entry points for ARMM youth into the labor market: Household production and the informal economy.** The household enterprise and informal service sectors are the two main entry points of youth in the ARMM economy. These two economic activities largely form the livelihood opportunities for youth in the ARMM region. Promoting entrepreneurship is a critical skill for the youth livelihood sector, particularly for Muslim youth with tight bonds to the local community.

**Out-of-school unemployed female youth face distinct challenges in ARMM, and livelihood development should be tailored to their day-to-day reality.** Initiatives must ensure that young women have access to livelihood development opportunities, as women frequently carry key responsibilities in household economies and enterprises.

**Agriculture, forestry, and fisheries employ 70 percent of the ARMM workforce.** ARMM households depend heavily on traditional agriculture,

forestry, and fishing for their livelihoods. These three sectors provide 60 percent of the region's total economic output and employ 70 percent of its workforce. Major agricultural exports, such as coconut oils, bananas, and fish products, have suffered from uneven development, due to little new investment and employment in these traditional sectors.

**Investment and employment in ARMM and Mindanao region are now targeted through local economic development.** Up until 2005, ARMM received the least amount of investment capital in the Mindanao region. To address this issue, incentives have been established to attract and focus inward investment. The new government investment policies have resulted in an investment upturn. In areas outside of ARMM, such as Zamboanga City, there is new demand

for unskilled out-of-school youth, through non-traditional sectors, such as retail services and tourism. These new sources of labor demand pull youth from the ARMM areas into the nearby urban areas.

**Some excellent initiatives meet education and training needs of out-of-school unemployed youth in ARMM, but these need to be strengthened and scaled up.** The alternative learning system program offered through the Department of Education's Non formal Education Program enables out-of-school children and youth to acquire a basic education diploma and offers a variety of literacy instruction. Existing USAID EQuALLS and GEM2 projects provide basic education and livelihood skills to the poorer provinces of Mindanao.

## KEY RECOMMENDATIONS:

Develop a targeted yet comprehensive workforce development strategic initiative for out-of-school youth in ARMM, supported by public/private sector partnerships, to include the following components:

- An alternative learning system to provide basic functional competencies, equivalent to a high school certificate;
- Focused technical vocational education and training to acquire government certified competencies;
- Opportunities for employment with participating businesses in Mindanao;
- Supervised facility for micro financing available for youth and small-scale business ventures.

Strengthen efforts to ensure ARMM children will not drop out of school, and enroll those already dropped out into non-formal basic education accreditation programs.

Establish more effective career counseling and labor market information for out-of-school youth and their families in ARMM.

Strengthen vocational education and training programs for ARMM key economic sectors (agriculture, fisheries, and forestry) and for ARMM migrants in urban centers.

Develop a local economic development program to prioritize action on jobs creation and investment for out-of-school youth in Mindanao and the ARMM.

Develop a youth community service project for out-of-school youth in ARMM and Mindanao.

## MOVING RECOMMENDATIONS INTO PROJECT ACTION

Based on the recommendations of the Assessment, USAID Philippines reformulated its basic education strategy under the EQuALLS Phase 2 program to incorporate education and livelihood skills in selected areas of the Philippines, particularly those most affected by conflict and poverty. The program will increase learning opportunities, strengthen capacity for teaching English, math, and science, and will improve the relevance and quality of training for out-of-school children and youth. The project will work with a broad range of organizations to strengthen formal and non-formal basic education for youth in Muslim areas of Mindanao, including the ARMM.

# JOBS FOR THE 21<sup>ST</sup> CENTURY: SRI LANKA

## ASSESSMENT SUMMARY



photography by Karl Grobl

Young woman at a training center in Galle, Sri Lanka

During May 2006, the Sri Lanka Assessment was conducted, collecting a wide range of sources and data from surveys, interviews and focus groups. This Assessment provides a broad picture of youth in Sri Lanka, the economic environment, the local educational and workforce institutions and the current USAID programs that shape workforce development in Sri Lanka. The following highlights the main findings and recommendations of the assessment:

**Persistent youth unemployment continues for all youth, particularly the most educated.** While the overall unemployment for adults over 30 years old is relatively low (less than 4 percent), the cost of unemployment is borne by the young. The long and persistent unemployment of Sri Lankan youth is particularly onerous for educated youth, who experience unemployment rates of 35 percent. Educated unemployed youth (A-level completers) is the key target group examined in the Assessment.

**Skills mismatch is an underlying reason for the prolonged youth unemployment.**

The public education system at the senior secondary and tertiary system is oriented to education credentialism, not to skills competency, resulting in a structural skills mismatch in the system. Also, labor policies make for few incentives to hire youth permanently, thus contributing to the skills mismatch problem.

**For most Sri Lankan youth, the future of jobs in their country is in the private sector.**

- The slowly tightening labor supply reduces unemployment and puts pressure on firms to rethink their recruitment and incentive policies.
- Specific sectors are experiencing skills shortages—IT and tourism, certain occupational categories, and some geographical areas.
- Rural sectors require technical skills for agro-processing and agribusiness; urban and semi-urban sectors require technical skills for the service sector.



- Finally, public sector employment is on the decline even though educated youth and their families continue to prefer public sector employment, due to the lifetime employment and benefits it offers. The greater the exposure to work-based experience, the less youth prefer public sector employment.

**The private sector demands key employability skills: “soft” skills, such as communication, problem-solving, and leadership; business English; and applied ICT.**

The transformation of training to support private sector employment must take account of the key “employability” skills—those skills that make youth workforce ready. An important first step is for the training institutions to teach these basic workplace skills—soft skills, English, and ICT—and to test students on these skills and competencies.

**Private sector institutions, including tertiary non-university and non-profit institutions, are growing.** There has been a rapid increase of private sector training provision in the country. At the tertiary non-university level, private sector institutions have increased by 50 percent in the last five years. Thousands of small firms in urban and semi-urban areas of Sri Lanka provide short-term skills-training in English and IT. In addition, non-profit institutions have increased their institutional presence in the country, in programs for both in-school and out-of-school youth. USAID has supported many showcase programs, including the Junior Achievement International and Don Bosco Trust vocational programs. These private training providers constitute a new dynamic in the workplace training system in the country.

## KEY RECOMMENDATIONS:

Change expectations of youth and their families by promoting “demand-driven” programming for youth workforce development.

Emphasize targeting strategies to specific geographical regions, carefully distinguishing needs of the region by economic demand, educational profiles, and gender issues. Rural and urban regions differ significantly.

Recommendation: Support an integrated learning program that offers workforce skills and competencies in a single learning program.

Recommendation: Encourage research and analysis, planning, and communication on the needs of youth workforce programs.

## MOVING RECOMMENDATIONS INTO PROJECT ACTION

The USAID Sri Lanka mission is now implementing a \$3 million demonstration project titled “Accelerated Skills Acquisition Program (ASAP) in Sri Lanka.” This project targets senior secondary students who have passed their Advanced Level (A/L) and/or Ordinary Level (O/L) General Certificates of Education. Its main goal is to demonstrate effective programs that can promote “employability” of youth unable to gain access to the university system. The project promotes collaboration with private sector training organizations to develop training youth (17–25 years old) on critical skills for employability (workplace skills, English, and computer literacy skills); develops business partnerships for workplace training collaboration; and conducts career guidance/job fair events to assure employment of program completers. Enhancing the capabilities of local training organizations is an important outcome of this project.