

**DEPARTMENT OF ECONOMICS
UNIVERSITY OF COLOMBO**



DoE-UoC Working Paper 09

**Harnessing Youth for Economic
Transformation in Sri Lanka:
Opportunities, Barriers, and Policy
Imperatives in an Era of Disruption.**

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WP/DoE-UoC/2025/09

Edited & reviewed by:

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ISSN 3084-8857 (Printed)

ISSN 3084 9233 (Online)

September 2025

DoE-UoC Working Paper

DoE-UoC Working Paper Series

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Citation	Premaratna S.P. and Navaratnam Ravinthirakumaran, Harnessing Youth for Economic Transformation in Sri Lanka: Opportunities, Barriers, and Policy Imperatives in an Era of Disruption. <i>UoC Working Paper 09. WP/DoE-UoC/2025/09</i> , Department of Economics, University of Colombo, Sri Lanka
DoE details	Email: phd@econ.cmb.ac.lk Website: https://arts.cmb.ac.lk/econ/ Address: Department of Economics University of Colombo, PO Box 1490, Colombo 03, Sri Lanka
Reference Code	WP/DoE-UoC/2025/09
Published By	Department of Economics, University of Colombo, Sri Lanka

September 2025

Harnessing Youth for Economic Transformation in Sri Lanka: Opportunities, Barriers, and Policy Imperatives in an Era of Disruption

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Abstract:

This paper investigates the critical role of youth in driving economic transformation in Sri Lanka amid a rapidly evolving global landscape. Despite constituting a vibrant and educated demographic, Sri Lankan youth continue to grapple with high structural unemployment, outdated educational curricula, and inadequate support for entrepreneurship. Drawing from the keynote address delivered at the 1st Undergraduate Research Symposium on Business Economics (URSBE-2025), the study highlights the paradox of a skilled but economically sidelined youth population. Using a qualitative narrative approach grounded in the real-life experiences of three young Sri Lankans, the paper examines how youth-driven innovation in the digital, green, and care economies can serve as a catalyst for inclusive and sustainable growth. The analysis critiques systemic and institutional barriers and proposes targeted policy recommendations aimed at better aligning education, innovation, and enterprise development with national economic priorities.

FOREWORD

Youth represent one of Sri Lanka's most valuable assets in shaping its path toward inclusive and sustainable economic transformation. With a significant proportion of the population under the age of 35, the country has a demographic advantage that, if harnessed effectively, could fuel innovation, entrepreneurship, and productivity growth. Yet, realizing this potential requires addressing persistent barriers such as skills mismatches, limited access to finance, structural unemployment, and regional disparities, all of which are further complicated by global disruptions including technological change, climate risks, and shifting economic dynamics.

This working paper, titled "*Harnessing Youth for Economic Transformation in Sri Lanka: Opportunities, Barriers, and Policy Imperatives in an Era of Disruption*," is part of the Department of Economics Working Paper Series, which seeks to enrich academic and policy dialogues on development challenges. The study explores the evolving role of youth in Sri Lanka's economy, identifying both opportunities for advancement and systemic barriers that constrain their participation in dynamic sectors. By drawing on contemporary research, comparative international experiences, and policy lessons, the paper offers a critical analysis of how Sri Lanka can align education, labour market policies, and entrepreneurship ecosystems to empower young people in an era marked by uncertainty and disruption.

The Department of Economics is committed to advancing rigorous scholarship that informs evidence-based policymaking and strengthens national resilience. It is our expectation that this paper will serve as a resource for academics, policymakers, civil society, and industry leaders seeking to engage with the pressing question of how best to unlock the potential of youth for economic transformation.

We extend our appreciation to the authors for their scholarly contribution and to all those who supported the preparation of this study. We look forward to continued dialogue and further research that will deepen our understanding of youth-led development and inform strategies to secure a more prosperous and equitable future for Sri Lanka.

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September 2025

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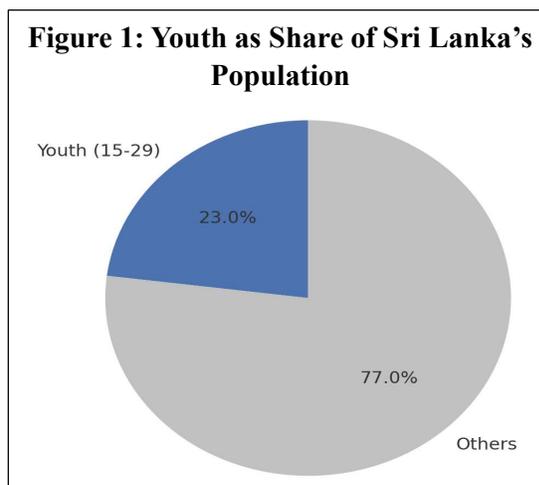
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Harnessing Youth for Economic Transformation in Sri Lanka: Opportunities, Barriers, and Policy Imperatives in an Era of Disruption

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1. Introduction

Youth are increasingly recognized not as passive recipients of policy outcomes but as vital agents of economic transformation. Amid global megatrends such as the Fourth Industrial Revolution, climate change, geopolitical instability, and widening economic inequality, young people are both confronting systemic challenges and actively pioneering innovative solutions. From launching digital platforms and founding start-ups to leading climate justice movements and advocating for inclusive governance, youth are emerging as central actors in reshaping twenty-first-century economies (United Nations, 2021).



Their capacity to leverage digital tools, adapt to technological shifts, and generate social innovation highlights their transformative potential.

Sri Lanka, like many nations in the Global South, stands at a demographic inflection point. Youth aged 15–29 comprise approximately 4.64 million individuals - or 23% of the total population - offering a unique opportunity to harness the benefits of a demographic dividend (Department of Census and Statistics, 2022). Youth literacy exceeds 98%, and over 200,000 students are enrolled in state-run universities and higher education institutions (University Grants Commission, 2023). However, these promising indicators are undermined by structural barriers. In 2023, youth unemployment reached 18.3%, significantly exceeding the national average of 5.2% (Central Bank of Sri Lanka, 2023). This discrepancy reveals deep-seated inefficiencies in integrating educated youth into the labor market.

The disconnect between educational outputs and labor market demands, compounded by limited institutional support for innovation and entrepreneurship, has fostered a climate of disillusionment, brain drain, and economic inertia. Existing employment models and

governance systems have failed to keep pace with emerging economic realities - such as gig economies, green enterprise, care work, and creative industries -leaving many young people underemployed or excluded altogether.

This paper responds to this policy urgency by critically reassessing the role of youth in Sri Lanka's economic future. Anchored in the keynote address delivered at the 1st Undergraduate Research Symposium on Business Economics (URSBE-2025), the study integrates international evidence with the lived experiences of three young Sri Lankans - an entrepreneur, a local politician, and a welfare recipient. These divergent trajectories serve as illustrative case narratives, reflecting both the potential and the pitfalls of current youth development strategies.

Employing a narrative policy analysis framework and situating the Sri Lankan context within broader global developments, this paper aims to: (1) identify institutional and policy-level constraints limiting youth agency; (2) spotlight emerging sectors- such as the digital, green, care, and creative economies - where youth-led innovation is already taking root; and (3) propose policy interventions that reframe youth not as marginal beneficiaries of development, but as essential contributors to economic resilience and inclusive prosperity.

Ultimately, the paper argues that unlocking the full potential of Sri Lanka's youth is not merely a moral obligation - it is a strategic necessity. Without urgent reforms in education, entrepreneurship ecosystems, labor market regulation, and governance, the demographic dividend could become a demographic liability. Conversely, if empowered through coherent and inclusive policies, youth can become the cornerstone of a more just, dynamic, and sustainable economic future.

2. Literature Review

The concept of the demographic dividend refers to the economic growth potential arising from a favorable shift in a country's age structure - particularly when the working-age population outnumbers dependents. This opportunity, however, is not self-fulfilling. As Bloom et al (2003) argue, reaping the dividend requires complementary investments in education, employment, healthcare, and institutional quality. In countries like Sri Lanka, where a substantial proportion of the population is young, the demographic window is rapidly narrowing due to persistent policy failures and structural inefficiencies.

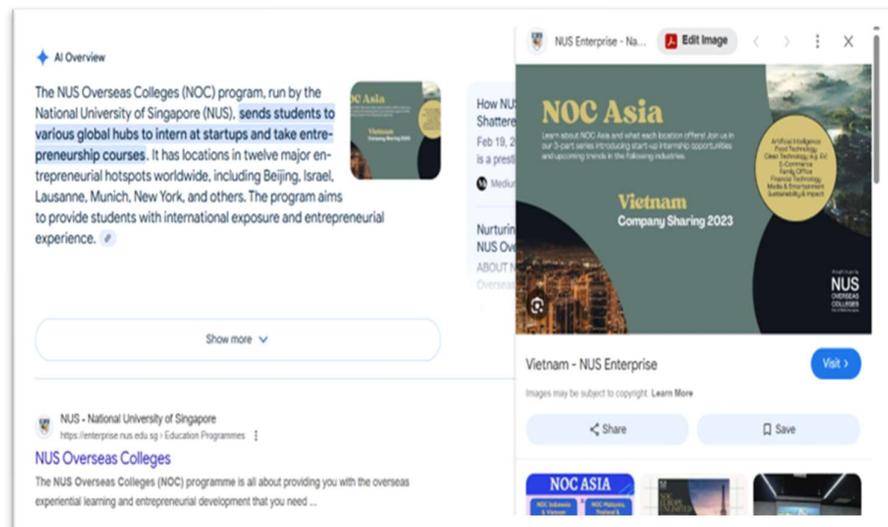
The World Bank (2022) emphasizes that unlocking the economic potential of youth depends on building inclusive, innovation-driven, and adaptable economies. When strategic investments are lacking - particularly in job creation, entrepreneurship, and digital readiness -

youth populations risk becoming liabilities rather than assets. In such contexts, young people are often relegated to underemployment, informal labor markets, or forced to migrate in search of opportunity, leading to brain drain and social discontent.

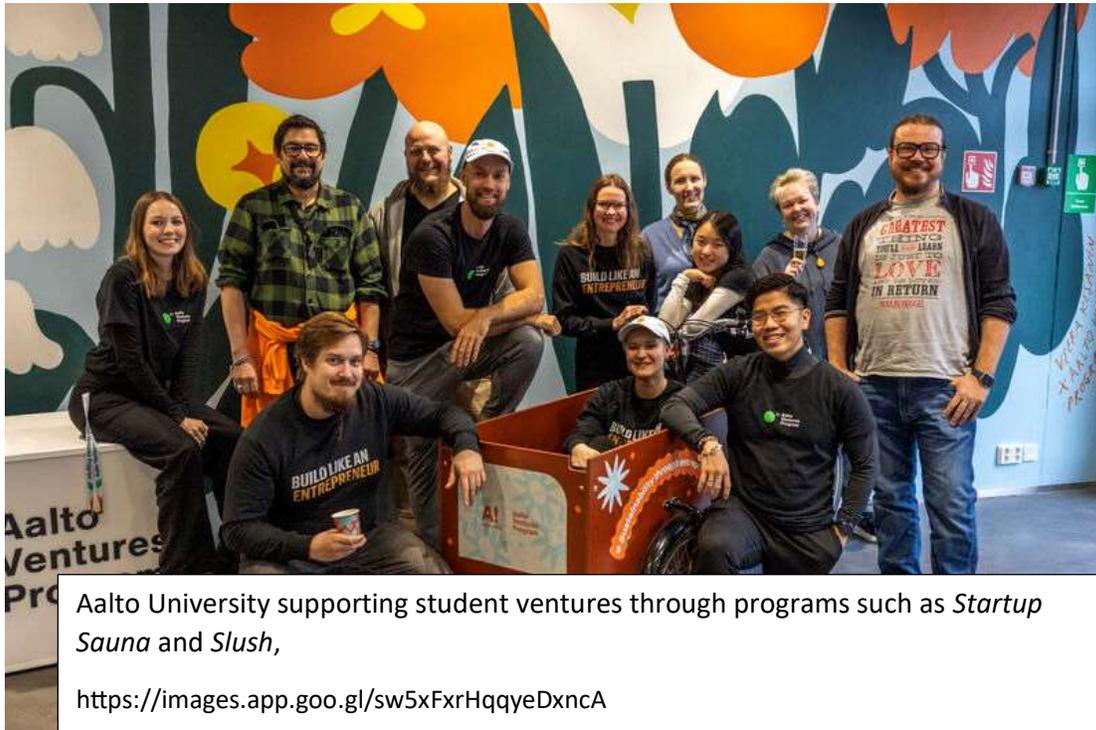
Global evidence from the International Labour Organization (ILO, 2023) reinforces this concern. With over 73 million youth unemployed globally - and many more engaged in insecure, informal, or low-paid work - the youth employment crisis is both widespread and deepening. The ILO identifies three transformative levers for addressing this crisis: (1) aligning education systems with market needs, (2) promoting entrepreneurship and self-employment, and (3) expanding access to finance, technology, and digital infrastructure.

In the South Asian context, the education-to-employment gap is especially pronounced. McKinsey & Company (2014) reports that while young people across the region are often formally educated, they are poorly prepared for the demands of contemporary workplaces, particularly those driven by digital technologies and innovation. Sri Lanka is no exception. The rigidity of university curricula, reliance on rote learning, and limited exposure to experiential or interdisciplinary education have been widely critiqued as barriers to employability (De Silva & Chandrasiri, 2020). Moreover, systemic disconnects between academic institutions, industry, and policymakers further entrench this gap.

Conversely, countries that have proactively invested in youth-centered innovation ecosystems offer valuable policy insights. A common feature across these models is the strategic integration of education, entrepreneurship, and global exposure. In Finland, entrepreneurship is embedded across university curricula, with institutions like Aalto University fostering student ventures through flagship initiatives such as Startup Sauna and Slush, both of which have gained global recognition and scaled internationally (Koskinen et al., 2021). Similarly,



Singapore's National University (NUS) operates the NUS Overseas Colleges (NOC) program, placing students in leading global startup hubs to cultivate real-world entrepreneurial and innovation competencies (Goh & Lee, 2020). In the African context, Rwanda's Youth Connekt Africa initiative connects young people with digital skills development, access to finance, and mentorship networks -effectively positioning them as key contributors to the country's digital transformation and inclusive development agenda (UNDP, 2020).



Aalto University supporting student ventures through programs such as *Startup Sauna* and *Slush*,

<https://images.app.goo.gl/sw5xFxrHqqyeDxncA>

These diverse examples underscore the importance of aligning higher education with innovation ecosystems, international experience, and targeted institutional support. They also demonstrate how policy coordination and youth agency can be harnessed to drive broader economic transformation - offering valuable lessons for countries like Sri Lanka seeking to unlock the potential of their youthful populations.

These international models underscore the transformative role that institutionalized support - particularly through strategic public-private-academic partnerships - can play in fostering youth innovation. By contrast, Sri Lanka's institutional framework remains largely fragmented and risk-averse, hindering the development of a vibrant youth innovation ecosystem.

The University Grants Commission (UGC), as the apex regulatory body, governs a centralized and often bureaucratic higher education system that is slow to embrace structural change.

Despite policy documents advocating reform - such as the National Policy Framework on Higher Education and Technical & Vocational Education (2020–2025) - progress on integrating interdisciplinary curricula, experiential learning models, and industry collaboration remains limited. Most universities continue to prioritize academic qualifications over employability skills, producing graduates with theoretical knowledge but limited entrepreneurial readiness or digital fluency (World Bank, 2022; Ministry of Education, 2021).

The financial ecosystem further constrains youth entrepreneurship. Local banks and financial institutions exhibit a strong preference for collateral-based lending, which disproportionately disadvantages first-time or low-income youth entrepreneurs. According to a recent report by the Institute of Policy Studies (IPS, 2023), only 12% of youth-owned start-ups in Sri Lanka reported access to formal credit, while over 40% relied on informal family networks or personal savings. In addition, regulatory burdens - including complex registration procedures, inconsistent tax policies, and limited access to intellectual property protections - discourage business formalization and innovation.

Furthermore, the policy environment lacks institutional mechanisms to integrate youth voices into national development planning. Existing youth-related strategies often treat young people as beneficiaries rather than as decision-makers or innovators. Initiatives like the National Youth Policy (2014) and youth enterprise schemes by the National Youth Services Council (NYSC) have yet to demonstrate systemic impact due to limited scalability, weak inter-agency coordination, and budgetary constraints.

Against this backdrop, there is a pressing need for localized, bottom-up research to understand how young Sri Lankans are navigating and overcoming these systemic barriers. As this paper contends, addressing these gaps requires not only institutional and financial reform, but also a paradigmatic shift in how youth are conceptualized within national development discourse. Rather than being passive recipients of aid, training, or narrowly defined employment programs, youth must be empowered as co-creators of innovation, resilience, and inclusive economic transformation.

3. Theoretical Review and Conceptual Framework

3.1 Theoretical Foundations

The role of youth in economic transformation has been widely debated in development economics, sociology, labor market theory, and innovation studies. Youth are not only a labor force to be absorbed but also key drivers of social change, technological adaptation, and

institutional reform. This paper builds on four interrelated theoretical frameworks—**Demographic Dividend Theory, Human Capital Theory, Entrepreneurship Ecosystem Theory, and the Capability Approach**—to explain the structural, institutional, and individual factors shaping youth participation in Sri Lanka’s economy.

1. **Demographic Dividend Theory**

The demographic dividend, as articulated by Bloom et al. (2003), refers to the accelerated economic growth potential that arises when the working-age population expands relative to dependents, provided the right policies are in place. Countries in East and Southeast Asia, including South Korea, Singapore, and Vietnam, capitalized on their demographic windows by investing heavily in education, public health, and industrialization, creating millions of productive jobs (UNFPA, 2016). For Sri Lanka, which currently enjoys a sizable youth population but is rapidly approaching population ageing, the demographic dividend presents both an opportunity and a risk. Without targeted employment generation, digital economy integration, and reforms in vocational training, the youth bulge could transform into a demographic burden, marked by unemployment, underemployment, and outward migration. Thus, the demographic dividend framework underscores the urgency of aligning macroeconomic strategies with youth-centered development priorities.

2. **Human Capital Theory**

Becker’s (1964) Human Capital Theory stresses that investments in education, training, and health improve productivity and enhance economic outcomes. However, in Sri Lanka, structural weaknesses in the labor market and mismatches between the education system and industry demands have led to what is often termed the "education paradox." Despite relatively high literacy and school enrollment rates, many young graduates face difficulties securing meaningful employment. This signals an urgent need for reforms in curricula, greater integration of STEM and digital skills, and stronger linkages between universities, vocational institutes, and industry. The theory also highlights how uneven access to quality education across rural, urban, and estate sectors deepens inequalities, further constraining the productive participation of disadvantaged youth.

3. **Entrepreneurship Ecosystem Theory**

Isenberg’s (2010) Entrepreneurship Ecosystem Theory argues that entrepreneurial success is not the result of individual traits alone but emerges from the interaction of multiple systemic factors: policy support, financing mechanisms, cultural acceptance, market linkages, education, and institutional support. Finland’s innovation-led ecosystem and Singapore’s globalized entrepreneurial hub are instructive examples of how comprehensive strategies can empower young entrepreneurs. For Sri Lanka,

fostering an enabling ecosystem requires overcoming barriers such as limited access to startup financing, rigid regulatory frameworks, and weak mentorship networks. Strengthening entrepreneurship among youth—through incubators, accelerators, university–industry partnerships, and expanded digital marketplaces—can serve as a powerful driver of economic diversification and resilience, particularly in the face of global disruptions such as automation and climate change.

4. **Capability Approach**

Sen's (1999) Capability Approach goes beyond traditional economic models by focusing on individuals' freedoms, choices, and agency to pursue lives they value. From this perspective, youth empowerment is not merely about employment creation but also about expanding opportunities for civic participation, innovation, leadership, and entrepreneurship. Barriers such as gender discrimination, regional disparities, and limited access to finance restrict youth capabilities in Sri Lanka. The capability approach therefore provides a normative foundation for designing inclusive policies that expand agency, ensure equitable access to resources, and build resilience in the face of shocks such as economic crises or natural disasters.

3.2 Integrative Conceptual Framework

Taken together, these theories suggest that youth economic engagement in Sri Lanka is shaped by the **interaction of three key dimensions**:

- **Demographic Potential** (opportunity provided by a youthful population)
- **Institutional Readiness** (policies, markets, and ecosystems that enable participation)
- **Individual Empowerment** (capabilities, skills, and agency of youth)

The conceptual framework guiding this study integrates structural and institutional factors with human-centered approaches, recognizing that economic transformation requires not only job creation but also an enabling environment where youth can exercise their full potential as innovators, entrepreneurs, and citizens. By situating Sri Lanka's youth within this multi-dimensional framework, the paper underscores the urgency of a comprehensive policy agenda that addresses both systemic barriers and individual empowerment pathways in an era marked by digital disruption, climate change, and global economic volatility.

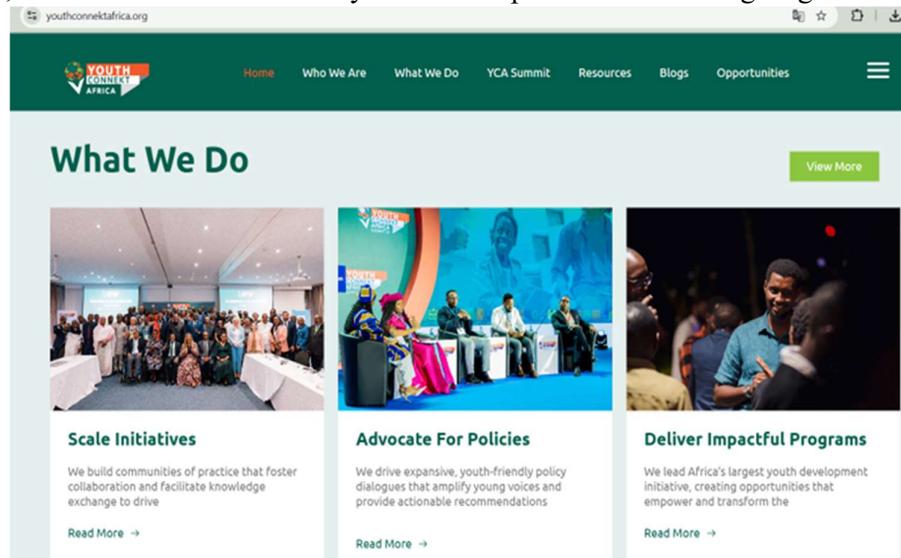
3.3 Comparative Insights from Global Practice

Countries that have successfully harnessed their youth bulge offer practical illustrations of these theories in action. In South Korea, demographic dividend theory was operationalized through synchronized investments in technical education, export-led industrialization, and support for SMEs. Finland institutionalized university-led entrepreneurship by embedding experiential learning, hackathons, and venture support into higher education policy - aligning

with ecosystem theory. Singapore's Smart Nation and Skills Future initiatives reflect a holistic strategy that integrates human capital and capability development by equipping youth with digital skills, innovation competencies, and pathways to entrepreneurship.

In the Global South, Rwanda demonstrates how youth can be positioned as strategic agents of national rebuilding. The

Youth Connekt Africa program integrates digital literacy, access to finance, mentorship, and civic engagement - reflecting a practical synthesis of capability and ecosystem perspectives (UNDP, 2020).



These country cases converge around three critical elements: strategic coordination across sectors, enabling institutional environments, and the centrality of youth agency. These are precisely the gaps that remain unaddressed in Sri Lanka's current approach.

3.4 Conceptual Framework for the Study

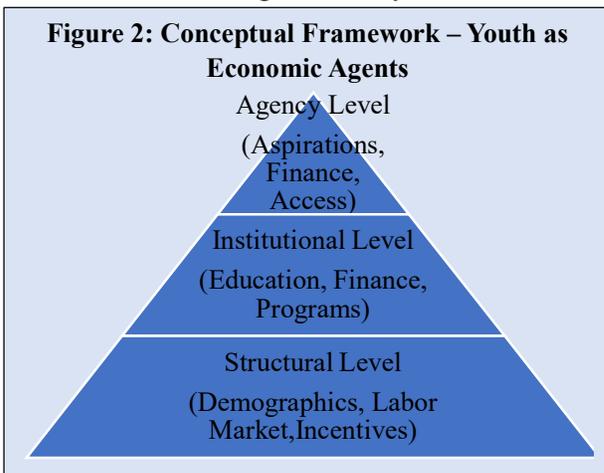
Based on the above theoretical foundations and comparative insights, this study proposes a hybrid conceptual framework to explore the Sri Lankan youth paradox - characterized by high literacy and education levels, but low economic absorption and innovation output. The framework integrates structural, institutional, and agency-based factors to capture the multi-layered barriers and enablers of youth economic engagement (see Table 1).

Table 1. Conceptual Framework – Youth as Economic Agents in Sri Lanka

Level	Key Enablers	Key Constraints	Likely Outcomes
Structural Level	Demographic advantage; universal education access	High unemployment; labor market rigidity; skill mismatch	Underemployment; Brain drain
Institutional Level	Policy initiatives (e.g., TVET, YouLead, S4IG); public universities; innovation hubs	Rigid curricula; weak university–industry linkages; limited incubation support	Low youth-led innovation; low transition to formal economy
Agency Level	Youth aspirations; digital literacy; grassroots entrepreneurial efforts (e.g., Ishara)	Limited access to finance; taxation burdens; gendered norms and risk aversion	Fragmented and informal entrepreneurial ecosystems

Source: Prepared by authors based on theoretical synthesis and policy review.

This framework recognizes that youth outcomes are shaped not only by demographic structure



or personal ambition, but by the interplay between macro-level policy environments, meso-level institutional capacities, and micro-level agency and access. It enables diagnostic assessment and comparative benchmarking - providing a structured basis for evaluating how Sri Lanka’s youth ecosystem could be realigned for greater inclusion and

innovation.

4. Methodology

This study adopts a qualitative, interpretive research design, integrating Narrative Policy Analysis (NPA) with comparative case-based reflection, Focus Group Discussions (FGDs), Key Informant Interviews (KIIs), and documentary analysis. This multimethod approach is justified by the study's dual objective: (1) to critically interrogate the structural and institutional determinants of youth economic participation in Sri Lanka, and (2) to formulate context-sensitive, actionable policy recommendations rooted in empirical and comparative insight.

The principal methodological lens is Narrative Policy Analysis, originally conceptualized by Roe (1994), which is designed to navigate complex, uncertain, and contested policy environments by exploring how problems and solutions are framed through competing policy narratives. NPA is particularly suited for the Sri Lankan context, where youth economic engagement is shaped not only by measurable economic indicators but also by contested social values, identity politics, and institutional path dependencies.

Central to the analysis are three constructed narrative personas—Ishara, Ruwan, and Anil (pseudonyms)—which were adapted from case studies presented in Premaratna's (2025) keynote address at the 1st Undergraduate Research Symposium on Business Economics (URSBE-2025). These personas, while fictionalized for ethical and analytical purposes, are grounded in empirical observations and function as representative archetypes of youth in Sri Lanka. The use of narrative personas provides a methodological tool to synthesize individual experiences with broader structural dynamics, thereby allowing for a nuanced examination of how socioeconomic conditions shape youth trajectories. To enhance analytical depth, supplementary illustrative cases were also developed to capture additional dimensions of lived realities, ensuring that the discussion reflects both diversity of experience and contextual specificity at the ground level.

Complementing these narratives, FGDs were conducted with university students in Colombo and youth in estate communities in Nuwara Eliya, while KIIs were carried out with financial institutions, vocational training officers, and local government representatives. These qualitative insights humanize the policy debate, highlight systemic silences, and triangulate findings from secondary sources.

Ishara, the entrepreneurial undergraduate navigating constrained opportunity structures;

Ishara – The Digital Entrepreneur

Ishara, a 23-year-old undergraduate from Colombo, embodies the resilience and innovation of Sri Lankan youth. When the economic crisis disrupted her studies and family income, she turned to her passion for art and design. With no formal training, Ishara relied on YouTube tutorials and peer networks to teach herself digital tools. She began offering freelance graphic design services via Instagram and later expanded to international clients through online platforms.

Despite her success, Ishara faces major hurdles. A lack of access to startup finance and formal incubation support forces her to rely on personal savings. Moreover, Sri Lanka's taxation policies penalize young entrepreneurs like her, with a combined tax burden of nearly 60%. Ishara's story reveals both the **transformative potential of digital micro-entrepreneurship** and the structural barriers that stifle youth-led innovation.

Ruwan, the politically engaged non-graduate confronting exclusion from formal employment;

Ruwan – The Politically Engaged Youth

Ruwan, aged 27 from a rural district, represents another trajectory. With limited educational attainment and no professional qualifications, Ruwan found formal employment inaccessible. Instead, he turned to politics, where networks, patronage, and loyalty outweighed merit or productivity. Through party affiliation, he gained visibility in local governance but contributed little to economic productivity or community innovation.

Ruwan's story highlights the **distortions in opportunity structures** faced by many youth. While politics provides influence and social status, it does not equip young people with the skills or economic agency needed for long-term transformation. His case illustrates how aspirations are sometimes channeled into power-seeking rather than productive or entrepreneurial activity.

Anil, the informal sector worker marked by economic precarity and social invisibility.

Anil – The Informal Worker Dependent on Welfare

Anil, a 25-year-old living in a rural town, illustrates the struggles of marginalized youth. He works informally in construction and odd jobs, with income that is unpredictable and insufficient to support his household. Without vocational training or access to affordable finance, Anil remains trapped in low-paid labor. His family depends heavily on Samurdhi welfare payments, which, while essential for survival, provide no clear pathway out of poverty.

Anil's story exemplifies how **structural exclusion and institutional neglect** can perpetuate cycles of dependency. Despite his willingness to work, systemic barriers—ranging from lack of training programs to rigid financial systems—keep him economically invisible. His experience underscores the need for targeted interventions for rural, estate, and low-income youth communities.

Dilini, graduated with a degree in fine arts and run a sustainable fashion business

Dilini - Creative Industry Entrepreneur (Urban Kandy)

Dilini, 25, graduated with a degree in fine arts and sought to build a business around sustainable fashion. She launched a small brand producing eco-friendly clothing made from handloom fabrics and natural dyes. Initially, her social media presence generated interest among urban middle-class youth. However, she struggled to access affordable working space and faced heavy import taxes on essential raw materials such as eco-friendly dyes and sewing equipment. “There is demand for sustainable fashion, but the system makes it more expensive to produce responsibly. I sometimes feel punished for trying to innovate,” she explained. Her journey highlights how cultural entrepreneurship can generate youth livelihoods and promote sustainability, but remains stifled by weak institutional support and high input costs.

Shalini (Urban Colombo): a 26-year-old female tech start-up founder navigating gender and financial barriers in accessing formal credit.

Shalini - Female Tech Start-up Founder (Urban Colombo)

Shalini, 26, is a computer science graduate from Colombo who launched a mobile app for online tutoring during the COVID-19 lockdowns. The platform connected undergraduates with schoolchildren for personalized tutoring in mathematics and science, capitalizing on the rising demand for online education. Initially, Shalini’s app attracted more than 500 registered users within six months, largely through social media marketing. However, as she attempted to scale the business, she faced persistent challenges in accessing finance and recognition.

Despite her strong technical background and proof of concept, investors and banks demanded traditional collateral, such as land deeds, which she did not possess. Attempts to apply for bank loans were met with skepticism about the viability of a woman-led digital business. “Every bank officer asked me for land deeds or my father’s guarantee. I had the skills and a business model, but not the kind of assets they wanted,” Shalini recalled in frustration. Moreover, taxation policies and bureaucratic hurdles delayed the formal registration of her start-up.

The case illustrates two interlinked problems: gendered barriers in finance and the undervaluing of intangible digital assets. While her innovation was relevant to the post-pandemic economy, the lack of incubator support, credit guarantees, and mentorship networks hindered scalability. Shalini’s story reflects the broader systemic neglect of female entrepreneurs in the tech sector, despite their potential to drive digital transformation.

Kasun (Rural Anuradhapura): a 24-year-old agripreneur experimenting with hydroponics, facing institutional neglect in technology transfer and value-chain support.

Kasun- Youth Agripreneur (Rural Anuradhapura)

Kasun, 24, is a school leaver from Anuradhapura who sought to modernize his family's small-scale farming by experimenting with hydroponic cultivation of leafy vegetables. With minimal formal training, he relied on online tutorials and occasional advice from a retired agriculture officer in his village. By using recycled materials, Kasun built a small hydroponic setup in his backyard, producing high-quality spinach and lettuce. Local hotels and restaurants quickly became his regular buyers, impressed by the freshness and pesticide-free quality of the produce.

Despite promising demand, Kasun's efforts to expand met systemic roadblocks. He lacked access to cold storage and efficient transport to urban markets, resulting in frequent losses due to spoilage. Attempts to obtain extension support from government agricultural offices were unsuccessful, as officials prioritized traditional paddy cultivation. "We are told agriculture is the future, but we are left on our own when it comes to technology and markets," Kasun lamented. Without formal credit access or cooperative structures, his initiative remained confined to a small scale.

This case highlights both the ingenuity and vulnerability of rural youth entrepreneurs. Kasun demonstrated willingness to innovate in sustainable agriculture, yet the absence of extension services, cold-chain infrastructure, and financial inclusion constrained his growth. His experience underscores the need for targeted rural innovation policies—such as agri-tech incubators, subsidized cold storage facilities, and improved farm-to-market linkages—that would allow youth agripreneurs to contribute meaningfully to national food security and green economic transformation.

Sajith - returned after working as a machine operator in the Middle East for three years.

Sajith- Returnee Migrant Youth (Kurunegala)

Sajith, 28, returned to Kurunegala after working as a machine operator in the Middle East for three years. He brought back some savings and hoped to start a small automobile repair shop. However, the lack of local credit support, coupled with bureaucratic delays in business registration, eroded his enthusiasm. While his technical skills were advanced compared to local standards, the absence of structured reintegration support left him vulnerable. "When I was abroad, I learned advanced tools and systems, but here I have no access to finance or recognition of my skills. My savings are draining fast," he noted. His experience demonstrates how youth returnees—potential conduits for knowledge transfer—are excluded due to policy blind spots on migrant reintegration.

Malathi - from a tea estate community.

Malathi- Youth Social Innovator (Estate Sector, Nuwara Eliya)

Malathi, 22, from a tea estate community, recognized the high dropout rate of girls from secondary schools in her area. With support from a local NGO, she began running evening tuition classes in English and IT for estate children, using a borrowed laptop and free online resources. Over two years, her initiative supported more than 50 students, with several continuing education beyond the O/L examination. Despite her impact, she received no institutional support or recognition. “We are invisible because we come from the estate. People think youth here can only pluck tea. But we want to lead change in our communities,” Malathi emphasized. Her case illustrates the power of grassroots youth-led social innovation, while also showing how marginalized estate youth lack pathways to scale their initiatives.

This narrative trajectories serve as heuristic devices to illuminate how individual agency interacts with systemic constraints. By framing analysis through lived experience, this study humanizes policy debates and surfaces the institutional silences and policy gaps often overlooked in quantitative approaches.

In parallel, the study employs comparative case-based reflection, drawing on international exemplars of youth engagement and empowerment. Countries such as Finland, Singapore, Rwanda, South Korea, and India were purposively selected based on criteria including:

- demonstrated policy success in youth innovation and employment generation;
- socio-economic relevance to the Sri Lankan context;
- evidence of scalable or replicable institutional mechanisms; and
- documented outcomes in areas such as vocational training, start-up incubation, digital inclusion, and education-to-employment transitions.

These cases are not presented as prescriptive blueprints but as contextual reference points, offering insights for localized adaptation rather than wholesale imitation.

To triangulate the findings from narrative analysis and comparative cases, the study draws on a broad corpus of secondary data, including:

- Labor market statistics from the Department of Census and Statistics and Central Bank of Sri Lanka;
- Higher education and skills data from the University Grants Commission (UGC);

- Global reports from the International Labour Organization (ILO) and the World Bank on youth employment and skills;
- Evaluation reports from donor-funded initiatives such as Skills for Inclusive Growth (S4IG) and YouLead;
- Scholarly literature on demographic dividend theory, human capital development, entrepreneurship ecosystems, and the capability approach.

These sources were subjected to thematic content analysis, guided by the conceptual framework developed in Section 3. Emergent themes were organized along three analytical levels:

- Structural: macroeconomic and demographic factors such as unemployment trends, labor market segmentation, and regional disparities;
- Institutional: the role of formal systems such as education policy, labor regulations, and political inclusion;
- Agency: youth aspirations, risk-taking behavior, and informal coping strategies in response to economic exclusion.

Limitations of the study are acknowledged. First, the personas, while grounded in empirical observation, are stylized representations rather than statistically sampled individuals. Second, the narrative analysis is interpretive and does not claim to produce generalizable conclusions in the positivist sense. Third, while the international cases offer valuable policy inspiration, contextual dissimilarities necessitate careful consideration before adoption in Sri Lanka.

Despite these constraints, the triangulated, multi-layered methodology allows for a rich, contextually embedded understanding of the youth–economy nexus. It enables the study to move beyond diagnosis and toward evidence-informed, story-driven, and policy-relevant recommendations for improving youth economic engagement in Sri Lanka.

5. Findings and Discussion

The analysis of Sri Lanka's youth economy reveals a complex web of interdependencies between structural conditions, institutional arrangements, and individual agency. Drawing on the multi-tiered conceptual framework introduced in Section 3, the findings are organized into three levels of analysis: structural, institutional, and agency. This structure allows for a nuanced exploration of the conditions that either enable or constrain youth economic participation and transformation.

5.1 Structural Level: Demographics, Labor Market Mismatch, and Incentive Distortions

At the structural level, Sri Lanka possesses a demographic advantage - youth aged 15–29 comprise approximately 23% of the population - combined with relatively high literacy and increasing tertiary enrollment. However, this potential is undermined by persistent macroeconomic rigidities and labor market mismatches.

- The youth unemployment rate, standing at 18.3% (CBSL, 2023), reflects a stark disconnection between educational qualifications and available job opportunities.
- Labor institutions continue to prioritize seniority-based public employment over merit-based or innovation-driven hiring, reinforcing risk aversion and inefficiency.
- Taxation policies disincentivize youth entrepreneurship: for example, entrepreneurial youth like Ishara - earning formal income - face a combined tax burden of nearly 60% (36% direct, 24% indirect), while economically inactive individuals like Anil may receive net fiscal transfers via welfare programs such as Samurdhi (Jayaweera et al., 2023; Premaratne et al., 2024).

This creates a policy paradox: while social safety nets are essential, their design can unintentionally encourage dependency in the absence of clear exit pathways into productive employment. Anil's case illustrates this: informal employment, limited mobility, and passive welfare receipt reinforce economic stagnation.

Similarly, Ruwan's entry into politics - despite lacking economic productivity or formal education - highlights another structural distortion: access to power is often detached from entrepreneurial capacity or evidence-based policy knowledge. This raises questions about the incentive alignment in public decision-making and its implications for youth aspirations. The experiences of Kasun, the rural agripreneur, exemplify these structural limitations. "We are told

agriculture is the future, but we are left on our own when it comes to technology and markets,” he observed, pointing to systemic neglect of rural innovation.

Taken together, these examples point to a misalignment between demographic potential and economic structures, where innovation and productivity are not sufficiently rewarded, and distortive incentives continue to dominate policymaking.

5.2 Institutional Level: Higher Education, Financial Systems, and Programmatic Fragmentation

Sri Lanka’s institutional landscape - including universities, financial institutions, and regulatory bodies - has not evolved in alignment with the changing aspirations of a digitally native and entrepreneurial youth cohort.

- Universities largely remain content-delivery institutions rather than innovation ecosystems. Rigid curricula, lack of experiential learning, and limited university - industry linkages hinder the development of entrepreneurial mindsets (De Silva & Chandrasiri, 2020).
- Attempts at institutional innovation - such as entrepreneurship hubs at the University of Colombo and University of Moratuwa - remain isolated, underfunded, and poorly integrated into national innovation strategy.
- National youth-targeted programs (e.g., YouLead, S4IG) are largely donor-driven and lack systemic institutionalization. Their reach and scalability remain limited due to governance fragmentation and insufficient domestic funding.
- Financial systems remain risk-averse and collateral-dependent, offering minimal support for youth-led or women-led enterprises, particularly in rural areas (Fernando, 2023).

FGDs with university students in Colombo (2025) highlighted this disillusionment:

“Our degree is respected, but companies ask for experience and soft skills. How do we get those without internships?” (Male, 22)

“We want to create our own ventures, but even registering a business is a nightmare.” (Female, 23)

Shalini’s case also illustrates institutional gaps. *“Every bank officer asked me for land deeds or my father’s guarantee. I had the skills and a business model, but not the kind of assets they wanted,”* she noted, reflecting gendered barriers in finance.

KII with a Vocational Training Officer (Badulla, 2025):

“Our training programs are outdated. Students ask for digital skills, but we still teach them typewriting. We need a revamp if we want to attract youth.”

Together, these findings confirm institutional rigidity, where outdated systems fail to meet modern youth aspirations.

This contrasts sharply with international models. In Finland, the Startup Sauna ecosystem facilitates university–industry–government collaboration. Singapore’s NUS Overseas Colleges program embeds students in global innovation hubs. Rwanda’s YouthConnekt initiative synchronizes policy, finance, and skills training to nurture youth-led growth.

In contrast, Sri Lanka’s institutions operate in silos, resulting in piecemeal interventions rather than coordinated ecosystems. Without integrated institutional reforms, the country’s youth advantage risks becoming a demographic liability.

5.3 Agency Level: Aspirations, Digital Entrepreneurship, and Grassroots Innovation

Despite structural and institutional constraints, Sri Lankan youth continue to demonstrate remarkable resilience, adaptability, and entrepreneurial initiative, often operating outside formal systems.

Ishara’s story - a university student who launched a graphic design venture on Instagram during the economic crisis - exemplifies how youth are leveraging digital tools, peer learning, and informal networks to bypass institutional barriers. Her entrepreneurial trajectory, developed through YouTube tutorials and online freelancing, reflects broader global trends in platform-based labor and digital micro-entrepreneurship (ILO, 2023).

Similarly, estate youth in FGDs (Nuwara Eliya, 2025) revealed aspirations beyond traditional labor roles:

“We finish school but have no clear path. Vocational training is far, and jobs mean migrating to the city.” (Male, 20)

“Girls like me are expected to work in tea estates or garment factories. No one talks about IT or green jobs for us.” (Female, 19)

Such voices reflect untapped potential constrained by geography, gender norms, and limited access to enabling ecosystems.

KII with Local Government Officer (Puttalam, 2025):

“Youth involvement in councils is minimal. They attend events, but not decision-making. We still design programs for them, not with them.”

This reveals the limited empowerment of youth agency within governance structures.

Youth-led innovation is also visible in sectors such as:

- Climate action (e.g., Thuru, ZeroTrashSL);
- Mental health startups (e.g., Happy Mindz);
- Social media content creation and freelance work across digital platforms.

Yet, this potential remains under-realized. Barriers to scalability - including lack of mentorship, inadequate access to finance, absence of IP protection, and weak support networks - limit the transformation of individual agency into systemic impact (Fernando, 2023).

This disconnect highlights the need for policies that not only “engage” youth but empower them - through participatory platforms, start-up incentives, youth innovation grants, and robust digital infrastructure.

5.4 Cross-Level Linkages: Interdependencies and Trade-Offs

The composite narratives of Ishara, Ruwan, and Anil illuminate how structural, institutional, and agency-related factors intersect - often in contradictory ways:

- Ishara and Shalini show innovation despite structural and institutional hurdles, but both are penalized by taxation and lack of financial support.
- Ruwan leverages institutional avenues (i.e., political entry) without contributing to economic productivity - highlighting a disconnect between authority and economic competence.
- Kasun reflects the rural innovation potential blocked by weak value-chain integration.
- Anil, excluded structurally and neglected institutionally, defaults to welfare dependency, further pressuring fiscal systems without clear exit strategies.
- FGDs and KIIs highlight systemic mismatches between youth aspirations and institutional responses.

These interdependencies expose deep policy incoherencies. Sri Lanka’s demographic dividend is being undermined by systems that disincentivize innovation, reward conformity, and redistribute value regressively. Rather than supporting youth as engines of transformation, the current system either sidelines or exhausts their potential.

The consequences are profound. Growing disenchantment, rising emigration among skilled youth, and informalization of labor are symptoms of a deeper failure to align policy design with demographic realities and economic aspirations.

6. Policy Implications and Recommendations

This study affirms that the challenges facing Sri Lanka's youth economy stem not from a lack of talent or ambition, but from systemic misalignments across structural incentives, institutional mechanisms, and individual opportunity pathways. Unlocking the country's youth potential necessitates a multi-level policy response grounded in equity, innovation, and intersectoral coordination.

6.1 Structural Reforms: Aligning Incentives with Economic Opportunity

1. Develop a National Youth Economic Transformation Strategy (NYETS)

Launch a long-term, multi-sectoral strategy that integrates employment, entrepreneurship, the digital economy, and green growth. NYETS should include measurable targets - such as youth enterprise survival rates, innovation outcomes, and youth employment in high-potential sectors like climate tech, creative industries, and care work.

2. Introduce Youth-Friendly Taxation Policies

Reform the tax code to reduce barriers for youth entrepreneurs, including tax holidays or exemptions for startups founded by individuals under 35 during their first 3–5 years. Revisit the Digital Services Tax (DST) to prevent penalizing digital freelancers and platform-based creators who earn in foreign currencies.

3. Reprioritize Public Investment Toward Youth-Centric Sectors

Shift national budget allocations toward sectors that are labor-intensive and youth-inclusive - such as agritech, ecotourism, circular economy, and early childhood development - thereby stimulating job creation and sectoral innovation.

6.2 Institutional Reforms: Reimagining Education and Innovation Ecosystems

4. Transform Universities into Entrepreneurial Launchpads

Institutionalize innovation hubs within universities to provide incubation, mentoring, seed funding, and industry partnerships. Embed entrepreneurship, digital fluency, and

design thinking into curricula across all academic disciplines - not only within business schools.

5. Expand Access to Finance and Digital Infrastructure

Establish a Youth Innovation Fund, co-managed by the Ministry of Finance and higher education institutions, to provide accessible capital for youth-led ventures. Introduce a simplified, low-cost “Youth Startup Passport” to formalize micro and informal enterprises. Incentivize banks and MFIs to develop credit lines for youth with state-backed guarantees.

6. Mainstream Youth Representation in Policy-Making

Institutionalize youth participation in local development councils, sectoral advisory committees, and national policy dialogues - including pre-budget consultations - to ensure that young voices are embedded in governance and reform processes.

6.3 Enabling Youth Agency: Empowerment through Access and Equity

7. Invest in Marginalized and Underserved Youth Communities

Provide gender-sensitive and bilingual capacity-building in entrepreneurship and digital literacy - especially targeting youth in estate, rural, and conflict-affected regions. Enhance soft skill development (e.g., leadership, communication, collaboration) through extracurricular platforms and peer networks.

8. Promote the Care, Creative, and Green Economies

Offer targeted subsidies, market access initiatives, and startup toolkits for youth-led ventures in sectors such as elder care, early childhood education, mental wellness, sustainable fashion, and eco-innovation.

9. Establish a National Youth Innovation and Research Observatory

Create a centralized platform - co-managed by a research university consortium and the Ministry of Youth Affairs - to collect real-time data, track best practices, and evaluate youth programs. Develop a “Youth Transformation Index” to benchmark institutional performance and inter-ministerial accountability.

6.4 A Call to Action: From Passive Beneficiaries to Strategic Co-Investors

Sri Lanka stands at a pivotal juncture. The nation must transition from viewing youth as passive recipients of welfare to recognizing them as strategic co-investors in national development. This requires moving beyond fragmented, donor-dependent programs toward a coherent and structural reform agenda that rewards innovation, nurtures talent, and restores trust between youth and the state.

Youth should no longer be asked, “What can you do for the economy?” Instead, the country must ask, “What kind of economy must we build for our youth?”

7. Conclusion

Sri Lanka’s youth represent a transformative force—capable of driving the country’s transition toward a dynamic, inclusive, and innovation-led economy. The findings of this study indicate that their economic marginalization stems not from individual shortcomings but from systemic constraints embedded in outdated institutions, fragmented policies, and inequitable opportunity structures.

Addressing these challenges requires a holistic, coordinated, and equity-centered approach. Structural reforms must realign incentives toward productivity and innovation, while institutional frameworks—particularly in education, finance, and governance—must evolve to support entrepreneurship, creativity, and inclusion. Above all, policies should recognize and empower youth as active agents of change rather than treating them as passive recipients of intervention.

If Sri Lanka embraces this paradigm shift toward youth-driven economic transformation, it can unlock not only the demographic dividend but also a more resilient, equitable, and sustainable development trajectory. Building enabling ecosystems that nurture and amplify youth potential is critical for transforming the country’s youngest citizens into architects of a shared and prosperous future.

At the same time, systemic obstacles must be addressed to prevent talent loss and dependency traps. Heavy tax burdens should be redesigned to reward productivity and innovation, while the external business environment must be made more supportive of investment, decent work, and entrepreneurship. By tackling these constraints, Sri Lanka can reduce the outmigration of skilled youth and ensure that individuals like Ruwan and Anil—representative of those navigating precarious or subsidized livelihoods—are instead integrated into a thriving

economy. In this way, the country can transform vulnerability into agency and dependency into meaningful participation in national development.

8. Policy Roadmap for Youth-Driven Economic Transformation

1. Tax and Incentive Reform: Shift from burdensome taxation toward productivity- and innovation-linked incentives that encourage youth entrepreneurship and formal sector participation.
2. Business Environment: Streamline regulations, reduce barriers to entry, and foster a predictable policy climate that attracts investment and supports youth-led enterprises.
3. Education and Skills Development: Modernize curricula, expand vocational and digital training, and strengthen university–industry linkages to align skills with labor market needs.
4. Inclusive Finance: Expand affordable credit, seed funding, and microfinance tailored to young entrepreneurs, with safeguards against over-indebtedness.
5. Youth Empowerment in Governance: Institutionalize youth participation in policy-making forums to ensure their voices shape decisions that affect their futures.

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**Published by the Department of Economics,
University of Colombo, Sri Lanka
ISSN 3084-8857 (Printed)
ISSN 3084 9233 (Online)**

Price: Rs. 450.00