

# PROMOTING ENTREPRENEURSHIP FOR DEVELOPMENT: A STUDY BASED ON STATUS OF EMPLOYMENT DATA IN SRI LANKA

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## **Abstract**

*Currently a high emphasis has been given to promote entrepreneurship as a policy instrument to acquire a rapid increase in employment generation, income creation and poverty alleviation in almost all the countries irrespective of their degree of development. Accordingly, Sri Lanka too has attached a considerable importance to promote this area in formulating its development policies, and already taken a number of steps for creating more entrepreneurs. However, in most of the deliberations, the need of the entrepreneurial development is discussed theoretically without even reviewing the success so far achieved based on the relevant national wide data in the economy. Nevertheless, this study, going against this conventional wisdom, attempts are made to analyze more rationally why entrepreneurship should be promoted based on the analysis of status of employment data available in Sri Lanka with catching its development so far achieved. Accordingly, the study found that the formal sectors' labour absorption has reduced from 64.7% in 1991 to 58.7% in 2013 while that of informal sector has increased from 35.6% to 41.3% in the corresponding period on account of not expanding the entrepreneur category in the employment structure of the economy, beholding a higher level of unemployment for the more educated youths as substantiated by the available official data which indicates that open unemployment for the educated youths is as twice as that of lower level educated persons.*

*Thus, more importantly, the study shows that percentage of the size of employers or the successful entrepreneurs compared to those of other sectors' has been stagnated at inadequate low level around 2 to 3 percent of the employed over the study period, and this fact highlights the failure of the country's attempts so far made to increase entrepreneurs, and why entrepreneurship should be really promoted in order to increase employment generation, income growth and poverty alleviation for the economy. Also, the study concludes suggesting more elaborative ways and means for increasing the size of the volume of employers or successful entrepreneurs to acquire a rapid increase in employment generation, income creation and poverty alleviation for the economy.*

**Keywords:** Status of the employment, Entrepreneurship, Employment, income and poverty alleviation

## **1. INTRODUCTION**

Almost all the countries irrespective of their degree of development a high emphasis has been given to promote entrepreneurship to acquire a rapid development through increasing employment generation, income creation and poverty alleviation. Accordingly, Sri Lanka too has given a considerable importance to promote entrepreneur class. To some experts, the entrepreneur is one who is willing to bear the risk of a new venture if there is a significant chance for profit. Others emphasize the entrepreneur's role as an innovator who markets his innovation. Joseph Schumpeter (1883-1950) viewed entrepreneurship as a force of "creative destruction." Accordingly, established ways of doing business are destroyed by the creation of new and better ways to do them. Peter Drucker (1909-2005) describes the entrepreneur as someone who actually searches for change, responds to it, and exploits change as an opportunity. Stanford University Professor Tom Byers (2007) defines entrepreneurship as a management style (mindset) that involves pursuing opportunity without regard to the resources currently controlled.

The concept of entrepreneurship in the present form was first established in the 1700s, however, until very recent time it has not become an academically important area, and was considered as an area for making use (starting up business) for those who failed in persuading their higher studies or for school dropouts. But, today we experience an immense growth in entrepreneurship research as evidenced by surfacing a large number of academic journals on this area as many as over 50. As such, now it has gained more importance, and realized that economies have largely depended on entrepreneurship, and entrepreneurial drive and persistence for bringing economies back from economic downturns and ensuring economic development as well. Rest of the article consists of 3 sections. The 2<sup>nd</sup> section presents criteria for judging economic development. The 3<sup>rd</sup> section analyzes the status of employment data while the last section gives the conclusion.

## **2. Requirements for Judging Economic Development**

Everywhere, whether in developed or developing world, Promoting entrepreneurship has become an essential strategy for economic development. Famous development economist, Dudley Seers asks three important questions in determining the level of development of a country such as what has been happening to the level of unemployment, what has been happening to poverty, and what has been happening to the income distribution over a given time. If all three have declined considerably from a higher level, then he concludes beyond any doubt that this has been a period of development for a country (2004). In this background, as emphasized by the Organization for Economic Cooperation and Development (2003), development related problems can be mainly solved through promoting entrepreneurship as it says that "Policies to foster entrepreneurship are essential to job creation, economic growth, and poverty reduction".

### **2.1 Unemployment**

According to the official data, Sri Lanka's unemployment is currently around 4% in general and for the educated youths it is as twice as that. But, anecdotal evidence shows that Sri Lanka's percentage of unemployment plus underemployment is about 30 percent of the labour force indicating that about 1/3 of labour is being wasted currently. There is an unsolved debate going on of why such an unemployment has been appeared in the country. Some

emphasize that there is a huge structural mismatch of the labour market for triggering such a high level of unemployment (Ramar, 1994). Accordingly, although the economy has employment opportunities, required persons with suitable skills are not found in many instances creating a high level of unemployment, particularly for certain categories of labour. But, others are of the view that job creation of the economy is generally inadequate due to less economic growth the country has so far achieved. Still some others emphasize queuing up for either finding government jobs or recognized and protected private sector jobs. Moreover, factor market distortions and capital-skill complementary hypothesis are also highlighted as some reasons for having a high level of unemployment in Sri Lanka. Whatever the reason for seeing a high level of unemployment and under employment its inevitable result is increasing poverty.

## 2.2. Poverty

According to Seer's definition of development if level of poverty of a country has considerably reduced within a given period that country has acquired a reasonable level of development. There are a number of methods to measure the extent of poverty. Out of them, Gini coefficient, especially is used to determine how income has been distributed among the population of a country and resulting poverty levels. For the past few decades, Sri Lanka's Gini co-efficient ratios can be presented as follows.

**Table 01: Trends in Income Distribution**

Year	1970	1980	1990	2002	2009	2012
Gini Coefficient	.41	.43	.47	.47	.49	.48

Source: Annual Reports (various), Central Bank, Sri Lanka

Gini co-efficient is developed based on the Lorenz Curve by the formula,  $A / A+B$ , where A represents the area between the equal distribution of income line ( $45^{\circ}$  degree line of the Lorenz curve) and the Lorenz curve (actual income distribution line) in a graph shown in the positive quadrant, and as such, bigger the A area higher is the income inequality. B represents the area between Lorenz curve and the rest of the area in the lower section horizontal and vertical axes of the diagramme. Substituting extents of these two areas into the Gini co-efficient formula we find that Gini co-efficient varies from 0 to 1. If the A area is smaller income distribution is more equal and Gini co-efficient gets a smaller value closer to 0. Otherwise if the B area is bigger income distribution is more unequal and Gini co-efficient gets a higher value closer to 1. As shown by above data, Gini co-efficient for Sri Lanka shows gradually an increasing trend in values, indicating that the country's income distribution over years have widened and as a result, poverty level too has increased, indicating that a considerable percentage of people are deprived from obtaining sufficient income even to secure the basic requirements irrespective of economic growth so far achieved by the country.

Having recognized this increasing trend in poverty, a high priority has been given in the policy agenda also to solve this problem. For example, Successive governments have been implementing various types of programmes to reduce poverty in Sri Lanka. Out of them the most influential programme is the SAMURDHI PROGRAMME commenced in 1996 under which a number of sub-branches such as Department of Relief for the Poor, Sumurdhi Bank

Societies, Samurdhi Entrepreneurship Credit Scheme for the Self-employed, Samurdhi Marketing Development Programme, Community Development Projects, Human Resources Development Programme and Sumurdhi Social Security Programme have been set up. Apart from that, in the banking sector also, now, more prominent place is given to funds channeling to reduce poverty. Poverty Alleviation Micro Finance Project – II of the Central Bank can be cited as an example. This line of activity has become a prominent area in commercial banks as well. For example, Chairman of MBSL has recently declared that Bank will focus more on giving micro credit to the sectors of small industries, entrepreneur development and agriculture. In the recently held HSBC bank’s Youth Enterprise Awards Ceremony, each winner and runner-up of business plan contest were awarded seed capital of Rs. 1, 00,000 to help them to establish their own enterprises. In this setting, it is generally agreed that entrepreneurship should be encouraged as a necessary step for stimulating employment generation, poverty alleviation, and increasing economic growth.

### 3. Analysis of Status of Employment Data

Now, universities also have come forward to organize entrepreneurship degree programmes with the purpose of generating employment faster. In this scenario, rather than competing for few existing jobs undergraduates are encouraged to come forward and be prepared to starting up new ventures of their own and providing jobs not only for them but also for others. Anecdotal evidence shows that our education system has failed to motivate students becoming entrepreneurs. Whatever level they are studying whether at upper school level or university undergraduate or postgraduate levels, for example, in a given class consisting of 50 students, if they are asked about their willingness to start up their own business only one or two students are ready to do so. Almost 98% of students expect joining the existing organizations and business ventures as employees of different grades once they finish their education, and only about 2% to 3% of students are prepared to be entrepreneurs. This willingness of the percentage of students is consistent with the national level data as highlighted by the data in the employer column in the status of employment table (See Table – 2).

**Table 02: Status of Employment**

Year	Public sector employees	Private sector employees	Employers	Self employed	Unpaid family workers	Total salaried employees	Total non-salaried persons
1991	22.9	39.5	2.2	25.4	10.0	62.4	37.6
1993	17.4	42.8	2.0	27.4	10.4	60.2	39.8
1995	15.6	44.3	2.5	28.3	9.4	59.9	40.1
1997	15.2	44.0	2.4	29.1	9.3	59.2	40.8
1999	14.4	43.1	2.0	28.3	12.2	57.5	42.5
2001	13.8	44.8	2.3	28.5	10.6	58.6	41.4
2003	13.6	43.9	2.7	29.7	10.7	57.5	42.5
2005	13.2	46.2	2.8	29.7	8.1	59.4	40.6

Year	Public sector employees	Private sector employees	Employers	Self employed	Unpaid family workers	Total salaried employees	Total non-salaried persons
2007	13.8	42.7	2.8	30.4	10.5	56.5	43.7
2009	15.5	42.1	2.8	30.4	10.6	57.6	43.8
2011	14.4	40.5	2.9	31.5	10.8	57.8	42.2
2013	15.1	40.6	3.0	32.2	9.1	58.7	41.3

Source: Annual Report (various); Central Bank and the researcher's calculation

Accordingly, only between 2% to 3% of successful entrepreneurs or employers can be seen in the economy as a whole. The status of employment data published by the Central Bank of Sri Lanka clearly depicts absorption of labour by various sectors of the economy such as public sector, private sector, employers sector, self-employed sector and unpaid family workers sector in the economy. Based on these sectors' employment absorption, economy can be divided into two major sectors such as the formal economy and the informal economy. If the formal economy is expanding it is much better than expanding the informal economy. Those employed by the formal economy are monthly salaried people with more stable and higher income, and as a result, they are enjoying a higher standard of living. Conversely, those in the informal economy do not receive stable income such as monthly salaries, and their income is irregular and lesser than that of their counterparts in the formal economy, and as a result, their standard of living is also much lower having an increasing poverty. As shown by the description by the above table, formal economy constitutes of the public sector + private sector + employers while the informal economy represents by the self-employed sector + unpaid family workers sector. In 1991, the formal sector of the economy had provided 64.4 % of employment while it has reduced to 58.7 % of the workforce by the end of the year 2013 while the informal sector's share has increased from 35.6% to 41.3% in the corresponding period. This trend indicates that the labour market situation has deteriorated during this period, suggesting that economy is not strong enough to generate new jobs in the formal sector of the economy although the Central Bank data shows that the rate of open unemployment has been continuously reducing during this period. This proves the fact that unemployment has reduced not because of increasing the formal economy's job creation ability, but because of shifting the unemployed themselves to the informal sector as explained above or migrating for foreign jobs mostly. This fact is further substantiated by experiencing an increasing trend in output-employment gap in the economy or having a jobless growth, especially in the formal economy as shown by the following data.

In this background, it is necessary to investigate the reasons for this unrealistic behavior of having reduced unemployment while employment generation, particularly in the formal economy shows retardation. Researchers identify that exodus of labour to finding foreign jobs as one of the major reasons for appearing such a phenomenon (Athukorala, 2013).

**Table 03: Output-Employment Gap in 2012**

2012	Agriculture	Industry	Service	GDP
Growth (%)	+ 5.8	+ 10.3	+ 4.6	+ 6.4
Employment (%)	- 7.5	+ 7.2	- 0.6	-0.8

Source: CBSL, 2012

When exodus of labour to foreign countries for finding jobs is considered, over the past ten years (2002-2012), on average, a quarter of a million Sri Lankans have left annually for overseas employment, with the number increasing every year. As such, total stock of Sri Lankan overseas contract migration workers has reached 2 million by 2011, amounting to over 14% of the total working-age population of the economy (ibid, 2012). Some other reasons also have contributed to reducing job generation and falling unemployment at the same time. Only those who are 'looking for work' is counted in labour force. Some people get fed up and stop looking for jobs for the reason that they have lost hope after continuously trying for formal sector jobs for a number of years, and with that also unemployment can reduce (Sandaratna, 2012). Another reason might be fast demographic transition and its effect on reducing unemployment (Patabendige, 2006). On account of these facts, one can argue that open unemployment ratio around 4% of the labour force in recent years does not show the rigor of the educated youths' unemployment problem which is comparatively nearly twice (7.5) of that of open unemployment (4%) as shown by the following data.

**Table 04: Unemployment by Educational Level (2012)**

Below Grade 5-9 / Year 6-10	3.4
GCE (O/L)	5.9
GCE (A/L) and above (graduates)	8.6

Source: (CBSL, 2013)

On the other hand, when the duration associated with the unemployed is concerned long-term unemployment is most conspicuous among those who have obtained higher educational qualifications, and, also compared with 2012 data, GCE (A/L) and above (graduates) unemployment percentage has increased from 7.5% to 8.6% in 2013. Also, according to Senerath (2011) among those who have graduated in the discipline of Commerce and Management between 2005-2010, only 54% of the graduates are doing jobs which are consistent with their level of education. Others are doing jobs which are not matched to their level of education. These evidences show that actual unemployment problem among the youths with higher education are more severe than indicated by the Central Bank data on unemployment, and this trend is mainly because of retardation of employment creation especially in the formal economy as shown above. Having understood the trend of increasing unemployment, particularly among the educated youths, we have to examine ways and means to reduce it. Data analysis of the Table -2 indicates that employer's column data varies between 2% to 3% over the years indicating that a number of employers in the economy was comparatively lower and inadequate to increase national output and generate new employment. This employer sector, mainly can be considered as the sector which comprises of all successful entrepreneurs so far economy is having, and, in that sense, if this sector's size can be increased the country's economic output / income and employment creation can

be increased. Then, we will have to think of the strategies for achieving this requirement. The way forward is to initiate an effective policy meditation to promote entrepreneurs. Through promoting entrepreneurship, employees from the public sector and the private sector can be transferred to the employers sector on one hand and, on the other hand, the self-employed also can be transferred to the employer sector once they become successful entrepreneurs. In addition, through paying more attention to entrepreneurship education at schools and higher education institutions, mostly the youths can be motivated to enter the employer sector rather than encouraging them to compete for existing inadequate jobs available in the public sector and the private sector as currently done. There are a large number of persons who prematurely get retired from their public or private sector jobs. Also, every year a considerable number of persons come back to the country after ending their foreign job assignments with earned funds with them. Majority of the persons in these segments opt for starting their own business. Further, innovations can be promoted from the school levels and those show competencies can be enticed to become successful entrepreneurs guiding and providing them with necessary requirements and facilities. Sri Lanka is considered a difficult country to be an inventor in. Inventors do not receive much recognition for their creations, and that is why most inventors end up selling their patents to foreign companies. Also, support from the government and politicians was limited as there is not much public interest in poor inventors who do not have the capital to turn their ideas into marketable products (Karunaratna as appeared in Gunatilake, 2015). As such, currently, we do not find any formal arrangement to capture these segments and promote them for becoming successful entrepreneurs. If policy formulation is made to cover these areas and implementing them successfully the economy definitely can increase the size of the employers' column represented by the data highlighted by the table of Status of Employment.

#### **4. CONCLUSION**

Sri Lanka too as many other countries has committed to promote entrepreneurship in formulating its development policies, and already taken a number of steps for creating more entrepreneurs to acquire a rapid increase in employment generation, income creation and poverty alleviation. However, in most of the deliberations, the need of the entrepreneurial development is still discussed theoretically without reviewing the success so far achieved by entrepreneurial promotional programmes based on the relevant data in the economy. Analysis of economy wide status of employment data through this study shows that economy's formal sectors have failed to generate sufficient amount of employment especially for the educated youths, and as a whole more people have shifted to the informal sector for finding work and income. But this latter sector (family support sector + self-employed sector) too does not show a considerable expansion irrespective of having a number of major entrepreneurial promotional programmes functioning in the country for a long period. As a result, employers sector of the economy has not expanded over time beyond 3% of the workforce which can be identified as the major constraint for not generating sufficient employment in the economy. Having understood this phenomenon the paper emphasizes the importance of attracting more people from other sectors (public, private, family support and self-employed sectors) of the employment structure to employers sector through promoting entrepreneurial abilities of people. For this purpose, the paper suggests a more elaborative ways and means for increasing the size of the volume of employers or successful entrepreneurs to acquire a rapid increase in employment generation, income creation and poverty alleviation for the economy.

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