Poverty Profile

Executive Summary

Democratic Socialist Republic of Sri Lanka

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Japan Bank for International Cooperation
Chapter 1    Poverty in Sri Lanka

1-1 Poverty Lines

Although there are many poverty lines in Sri Lanka, most of them are based on the data available from the Household Income and Expenditure Survey (HIES) of the Department of Census and Statistics (DCS), or the Consumer Finances and Socio Economic Survey (CFS) of the Central Bank of Sri Lanka. Among others the World Bank’s poverty lines, based on HIES of DCS, is considered to be most influential. The World Bank’s methodology is based on a food consumption poverty line that is calculated by determining the food basket required for an adult male (20-39 years) to intake 2,500 kilo calories of nutrition and 53 grams of protein in one day. In order to calculate the poverty line, called “national reference poverty line”, the cost of non-food basic items is added to the above mentioned food poverty line. This report uses the World Bank’s poverty lines to depict the poverty situation in Sri Lanka.

1-2 Trends of Poverty Incidence and Inequality

From 1953 to 1985, Sri Lanka experienced a considerable decline in the number of the poor. After 1985, poverty incidence reduced from 30.9 percent in 1985/86 to 19.9 percent in 1990/91. However, in 1995/96, the percentage was back up to 25.2 percent. As for trends of poverty incidence in urban and rural areas, poverty incidence in the urban areas decreased slightly from 1985/86 through 1990/91 to 1995/96 (18.4% → 15.0% → 14.7%). On the other hand, in the rural areas and estates, although poverty incidence declined rapidly from 1985/86 to 1990/91 (35.6 to 22.0 percent and 20.5 to 12.4 percent respectively), the figures rebounded to 27.0 and 24.9 percent respectively in 1995/96. This increase in poverty incidence in rural and estate areas was caused mainly by the severe drought in 1996, and the stagnation of agricultural growth from 1990 to 1996. In the estate sector, poverty was also affected by the privatization of estates, which has been promoted since 1995.

As for income inequality in Sri Lanka, the top 20 percent income group is found to have received more than 50 percent of the total national income in 1995/96, while the lowest 20 percent received just 5.4 percent. The gini coefficient, as a whole became worse 0.9 points (from 0.34 in 1969/70 to 0.43 in 1980/81) (representing greater inequality), and since then it has stayed around 0.46. As for the income inequality in urban and rural areas, the gini coefficient in the rural areas has been on the rise since 1980/81 (0.38 → 0.43 → 0.42), and rose up to 0.46 in 1995/96, which is very close to that of the urban areas (0.47). Gini coefficient in the urban areas was severely high in 1990/91 (0.62), but by 1995/96 it had returned to the level of 1985/86 (0.47). The gini coefficient in the estate areas has fluctuated over the period and stood at 0.34 in 1995/96, but has remained below the national average.

1-3 Regional Disparities in Poverty

As for poverty incidence in each province, the regional disparities in poverty incidence tend to be expanded. Poverty incidence decreased from 1990/91 to 1995/96 in the Western Province, which includes Colombo, in contrast to the national poverty trend. On the other hand, poverty incidence has increased slightly in the Central and Southern provinces while increased considerably in the North-Western, North-Central, Uva and Sabaragamuwa provinces. Although all the provinces were at about the same poverty level in 1990/91, a gap had widened among them by 1995/96. The province with the lowest poverty incidence (13.6%) is Western and the province with the highest poverty
incidence (37.0%) is Uva. On the other hand, the disbursement of the poor shows Western Province holds 16.8 percent of the total poor in the country while Uva holds only 10.8 percent. North-Western province, with a high rate of poverty incidence, holds 17.6 percent of the total poor and is in the most severe situation.

1-4 Depth and Severity of Poverty

The depth and severity of poverty of the urban poor, as a whole, improved between 1985/86 and 1995/96, along with an overall decrease in poverty incidence, when measured using both a poverty line and a higher poverty line (120 percent of a poverty line). The poverty incidence in rural areas increased in 1995/96 due to the drought in 1996, but both depth and severity of rural poverty showed a similar trend as the urban situation. In estate areas, both depth and severity increased in 1995/96 partly due to new economic policies. That is, the government privatization policy led to a decrease in employment opportunities in estates and a rise in unemployment. This led to decreased income and consumption for the laid off workers, which widened inequality among the estate poor.

1-5 Profiles of the Poor

Profiles of the poor in Sri Lanka can be summarized as follows:
1) Size of the household: Large households appear to be at decreasing of a ratio of expenditure. According to the data in 1990/91, the average number of the household’s members in Sri Lanka is 4.89 while that of the household belongs to the lowest income group is 7.12. Average expenditure of the poor households is less than 50 percent of the poverty line;
2) Occupation: Most of the poor are employed in agriculture sector where productivity is low and infrastructures to access to the market are less developed;
3) Education: Sri Lanka has assured higher educational achievements than other South Asian countries since 1985, realising 100 percent of net enrolment ratio (1985) and 91 percent of adult literacy rate (1998). However, there still remains inequality in educational level between poor and non-poor. There is an indication that the lower the level of education of the head of the households the greater increase in poverty incidence. Educational achievement of students tend to be lower in the provinces with higher poverty incidence;
4) Expenditure of the households: The poor households spend the larger share (80.7 percent) of his total expenditure for food, whereas less than 3 percent for health and sanitary goods and 1.1 percent for education, which are much less than those of the riche households;
5) Human poverty: Access to safety drinking water, public sanitation facilities and electricity are poorest among the poor. (For instance, access to safety drinking water, public sanitation facilities and electricity of Uva with the lowest poverty incidence are 55.4 percent, 65.89 percent and 26.53 percent respectively.) Furthermore the infant and under five mortality rates are higher for poor provinces than for other provinces. It indicates the correlation between health conditions and poverty;
6) Gender: Gender Development Indicator (GDI) of Sri Lanka is higher than the average of the developing countries. Though the poverty incidence of the female-headed households is a little higher than that of the male-headed households in urban areas, gender gap is not remarkable in literacy rate and enrolment rates, in general.
Chapter 2  Government Policy and Actions for Poverty Reduction

2-1  Macro Economic Management

Despite Sri Lanka’s long-lasting ethnic conflict, the economy was growing steadily, posting an average GDP growth of 5.4 percent from 1988 to 1998. Due to the Asian economic crisis in 1997, the GDP growth rate started to decline in 1998 and dropped to 4.3 percent in 1999. However, it has recovered and marked 5.5 percent in the third quarter of 2000. For the past two decades, the manufacturing and service sectors have been the driving forces for its economic development, while agriculture and fisheries’ contribution to GDP has declined. The national accounts have been seriously depleted by the expanding military expenditure due to the protracted conflict and increasing fiscal deficit.

2-2  Public Investment Plan

Sri Lanka is the first country in Asia to have drawn up national economic development plans. However, the long and mid-term plans were lacking in consistency due to an unstable political environment and a mono-cultural economy depending on primary products. In 1979, a Public Investment Plan was launched, and since then development projects have focused on socio-economic infrastructure.

2-3  Government Policies for Poverty Reduction

In 1998, the government started drawing up a comprehensive national poverty reduction plan. There are three major strategies in the plan namely 1) Creating opportunities for the poor to participate in economic growth, 2) Strengthening the social security system, and 3) Empowering the poor and strengthening governance.

1) Creating Opportunities for the Poor to Participate in Economic Growth

Ending the Ethnic Conflict and Promoting Lasting Peace in the Country: The Tamil Secessionist movement has been growing in the country since the 1970s. Since the uprising in 1983, the ethnic conflict has continued to intensify and adversely affected the nation’s economy. In the Northern and Eastern provinces, power bases for the Liberation Tigers of Tamil Eelam (LTTE), around 500,000 people have been displaced, and socio-economic infrastructure has been ruined by the 17-year war. The Government recognizes that lasting peace can make a significant contribution to poverty reduction and has resumed peace talks with LTTE. The Government provides the people in the conflict area with relief programs and other services.

Stabilizing the Macro Economy: The Government has declared its commitment to achieving economic growth and poverty reduction through sound fiscal management, reform of the foreign trade and tax regime and promoting privatization.

Improving Access to Markets: Regional variation in poverty levels continues to persist. One of the reasons for the great disparity in poverty levels is that poor regions are relatively isolated from domestic and international markets. The Government recognizes that developing an effective link
between poor regions and rapidly growing domestic and international markets is one of the main challenges in poverty reduction. They intend to pursue this challenge through a) upgrading the port network, b) building a national highway and integrated road network, c) enhancing the performance of the bus system, d) Modernizing the railways, e) Improving access to telecommunications facilities and f) Upgrading the commercial agricultural marketing infrastructure.

**Promoting Small and Medium-scale Enterprises (SMEs):** SMEs are a significant source of employment for rural and urban low-income households. SMEs account for approximately 90 percent of the industrial enterprises and absorb 70 percent of the employment in the manufacturing sector. Deregulation and simplification of administrative procedures are needed to create new SMEs. Improving access to long-term and low-interest credit and promoting their competitiveness in terms of technology are also indispensable to SMEs. International aid agencies fund a number of credit projects in Sri Lanka to assist SMEs.

**Creating Opportunities for the Poor:** Despite a decline in the unemployment rate since 1990, government labor policies such as restrictive regulations for the protection of laborers obstruct the growth and creation of employment opportunities in the private sector. The government has been expanding public sector jobs in order to absorb unemployed youth, who are the vast majority of the total unemployed, and this act has become a problem for the government. Since poverty in Sri Lanka is concentrated in rural areas and most of the poor are engaged in agriculture, the development of the rural areas and agricultural sector is recognized important to reduce poverty. Strategies to address the problem of unemployment are presented as follows in the Framework for Poverty Reduction: a) Creating employment opportunities in rural areas, b) Modernization of the agricultural sector, c) Urban development, and d) Creating employment opportunities by fostering the industrial sector.

**Social Development:** While primary education is almost universal in Sri Lanka, there is a disparity among regions in education quality. The government regards public education policies as a means to achieve poverty reduction. Therefore, it has made recent plans (in accordance with the reform of education in 1999) to improve education quality and achievement, expand education expenditure and reinforce related infrastructure. More specifically, the government plans include constructing schools in remote areas, providing free uniforms and textbooks, as well as subsidies and scholarships, and providing skills training that correspond to the needs of market economy.

Health indicators keep improving overall in Sri Lanka despite some growing problems. The network of health and medical institutes (both public and private) covers most of the country, and provides good access to preventive and primary health care. Recognized problems include the declining quality of services, and an increased incidence of malaria, malnutrition, and AIDS. It is now necessary for the health sector to adapt to the demographic transition by reallocating resources. In broad terms, the poverty reduction strategy related to health is strengthening preventive health care services in rural areas, where most of the poor are concentrated. Meanwhile, the government is also considering to implement charges for some health services, in order to reduce the health expenditure, which has been increasing year by year.

Sri Lanka has a shortage of about 500,000 houses, two-thirds of which are needed by low-income families dwelling in urban areas. Although the government has been attempting to meet the housing needs, success has been hampered by population growth, rapid urbanization, the low-income level of urban poor, expensive land prices, and an inability to provide low-cost housing loans. Until recently, the government housing policy has targeted middle-income groups in rural and urban areas, and has not met the needs of the urban poor. Recognizing this, since 1994, the government housing policy has shifted towards constructing more houses in urban areas and improving the residential environment in
rural and estate areas. The National Housing Development Authority has implemented a public housing program that provides housing loans mainly to low income groups.

Providing water and sewage and sanitation services is a priority of the government, which intends to improve health conditions of the people in Sri Lanka. Though the Framework for Poverty Reduction aims especially at targeting the urban poor, progress in this area has been slow due to population growth, rapid urbanization, and increased demand caused by industrialization. According to the Central Bank of Sri Lanka, the coverage of water supply services is 31 percent for the whole country, 86 percent in the urban areas and 20 percent in the rural areas. In many places there is a problem of constant availability of the service. Although the above figures reflect a greater need in the rural areas, the Framework for Poverty Reduction actually prioritizes the urban areas. Objectives included in the plan are; to provide large water and drainage infrastructure in urban areas; to expand small scale water supply systems in respective communities; and to provide water and sanitation facilities at every door for the urban poor.

Environment: The erosion in the coastal regions of southwest Sri Lanka spreads by 300,000 to 500,000 square meters annually, causing damage to thousands of low-income fishery households in the area. Conservation measures of the government include prohibiting the use of the coral reef; controlling harvesting of seafood; and implementing conservation projects.

Forests now cover 24 percent of the land of Sri Lanka, yet will decrease to 17 percent by 2020 due to population growth and economic expansion. Deforestation causes soil erosion, irregular water flows and a shortage of fuel such as firewood and charcoal, which in turn affect the rural poor. Assisted by the Asian Development Bank, the government is currently managing the buffer zones, replanting, developing timber farms, and promoting conservation-oriented farming practices. The project is expected to benefit 43,000 households in forest areas and 18,000 in rural areas.

2) Strengthening the Social Security System

Strengthening the social security system is the second strategy of the Framework for Poverty Reduction. The government so far has offered special social security and income transfers to the socially vulnerable. As the private sector will lead the economy of Sri Lanka, the government recognizes that further expansion of the social security system is important. The aim is to develop a system that enhances the self-reliance of poor and vulnerable people. The government directs its relief to the victims of the conflict, disabled people, children and elderly suffering from poverty, and is trying to improve and strengthen the current Samurdi Program, and to draw up the RRR (Relief, Rehabilitation and Reconciliation) framework, assisted by international organizations. The Samurdi Programme started in 1995, succeeding the Janasaviya Programme (1989-1985), and has been carried out as the core of poverty reduction policy in Sri Lanka.

Janasaviya Programme (JSP):

JSP provided the targeted poor with monthly cash grants. Poor households with a monthly income below Rs.700 (self declaration) received a grant of 1,458 Rs per month over 2 years, of which they had an obligation to allot 1,000 Rs for living cost and the remaining 458 Rs for savings. At the end of the term, they were provided another grant of 25,000 Rs, which they could use for investing in their business or supporting self-help activities. In order to receive 1,000 Rs for their living cost, beneficiaries were obligated to participate in community infrastructure programs, vocational training or micro-enterprise activities for 20 days per month, which consequently led to a boost in public development and improved skills of the beneficiaries. However, JSP was constrained by a number of
factors including inadequate targeting and low efficiency in allocation.

**Samurdhi Programme:**
Samurdhi Programme is a poverty reduction program introduced in 1995 in order to create employment opportunities, supply socio-economic infrastructure, provide vocational training for unemployed youth, and to improve the nutritional status of people in rural areas. The Programme has covered the entire country except for the Northern Province, but is soon to be extended to Jaffna and Vavuniya districts. The Programme’s components include support for living expenses, savings and trust services to assist small businesses, and development of rural infrastructure. The main problems found are its political biases, targeting activities and sustainability. The government stipulates the future need to take steps to solve these problems in the ‘Framework for Poverty Reduction’.

3) **Empowering the Poor and Strengthening Governance**

Empowerment of the poor and strengthening governance is the third strategy in the Framework for Poverty Reduction. The government views the participation of the poor in decision-making as an effective and efficient poverty reduction measure. The government is aiming at improving accountability, transparency and monitoring, as good governance is recognized as a critical factor for economic growth and poverty reduction. The strategy includes community-led development, decentralization and government reform, institutional reform, improving access to legal service for the poor, removing gender inequality, and redistributing capital to the socially vulnerable.
Chapter 3 Partnerships for Poverty Reduction

3-1 Partnerships

More than 20 international organizations and donor countries (including United Nations organizations, Japan and the U.K.) gather for a periodic “Forum” chaired by the World Bank. ADB is coordinating taskforces in the following areas: social and economic infrastructure, natural resources, and environment. Donor coordination is also arranged between the World Bank and the ADB in the overall development strategies and activities related to ports, water and sewage, and energy.

UNDP and WB have assisted the government of Sri Lanka in the formation of the Framework for Poverty Reduction. Based on the Framework, they will develop concrete poverty reduction measures and ensure the budget. The government has already begun discussions with its major donors, WB and ADB, on their possible assistance and sectoral strategies. UN organizations are also collaborating on the Common Country Assessment (CCA). Though UNDG (United Nations Development Group) members, WB, UNHCR, ILO and FAO are carrying out their own activities in different areas, the common development targets of the UN organizations are 1) the empowerment of civil society and the improvement of governance; 2) poverty reduction, and 3) the achievement of peace in the nation.

3-2 Donor Assistance for Poverty Reduction

Sri Lanka received almost 3.5 billion dollars of ODA in total from 1995 to 1999, in which loans amounted to 2.7 billion, and grants 810 million. During the term, ODA amounted to 582 million dollars annually, with 447 million in loans and 135 million in grants. The total amount of ODA increased slightly until 1998 (a year showing an increase in grants), then dropped to half in 1999. Major donor countries and organizations are Japan, WB and ADB, followed by UN organizations, United States, Netherlands, Germany, U.K., Australia, Canada, Sweden, Norway, France and Korea.

3-3 Poverty Reduction Programs of Civil Society Organizations

In Sri Lanka, NGOs are active and play an important role in providing a safety net for vulnerable people. The number of NGOs in Sri Lanka is estimated at 30,000, including community-based organizations. Domestic NGOs whose activities cover the whole country number around 300, and international NGOs number 48. Most are small and funded by international donors.

The major domestic NGOs are Lanka Jathika Sarvodaya Shramadana Sangamaya and Sewa Lanka Foundation. There are many umbrella organizations of NGOs, which oversee activities in areas such as social welfare, development, humanitarian relief, and research. The major umbrella organizations are Central Council of Social Services (CCSS), NGO Council of Sri Lanka, NGO Water Supply & Sanitation Decade Service, Consortium of Humanitarian Agencies (CHA), and Network of NGOs on Small Scale Savings and Credit (NNSSC).