

Equitable Growth and Development:
Key Issues, Challenges and Strategies

- There is generally a strong relationship between GDP growth and poverty reduction. However economic growth may not result in equity.
- In Sri Lanka growth has not resulted in automatic trickle down to the poor. Relatively high GDP growth since 1978 but levels of poverty have not reduced significantly.
- According to Consumer survey degree of inequality has actually increased in Sri Lanka.
- But in absolute terms – Total household spending on goods has increased – for both the rich and the poor during this period.
- Pro poor growth came to be articulated since 1994 due inequality rising
- Regarded as “**Development with a human face**”- A strategy that advocated growth programs that were deliberately biased in favour of the poor.
- Janasaviya and Samurdhi programs were implemented as part of this policy

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- However balanced growth policies are not always clear? Neither freemarket or socialist.
- Can create inefficiency. Self sufficiency in rice production is encouraged in SL through subsidies and other benefits. However growth of agriculture of 50 year period has only been 2 -3% per annum
- Transfer payments to poor – handouts – are available in other countries too. But has become a political tool in Sri Lanka.
- There is lack of policy consistency in the strategy.
- In SL by following the pro poor growth strategy capital investments have been sacrificed for consumption purposes. We do not have enough resources yet to do both.
- Balanced economic growth was encouraged to reduce disparity between Western and other provinces.
- Western province poverty is 11%. In other provinces high as 25%
- Are we overplaying this regional disparity given that there is free flow of goods and services?

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Donor perspective

- What is the Role of the Government?
- Relationship between growth and poverty
- Macroeconomic stability implications for investment and growth
 - Volatility in inflation – highest inflation in Asia
 - High interest rate/capital cost
 - Fiscal constraint
- Underinvestment in Infrastructure
- Need high productivity and more investment
- Insufficient decentralization of service delivery
- Limited options for pro-poor growth and development

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Cont...

- Help poor through capital injection not consumption injection
- Rural Infrastructure Vs. Fertilizer subsidy
- Policy options
 - Security
 - Development
 - Welfare
- **Security and Development**

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Increasing Competitiveness of Exports of Goods and Services

- Poverty Reduction → Job Creation → Competition → Locally & Globally
- Competition → Macro level & Firm level
- Problems Faced by Developing countries:
 - Lack of resources
 - Absence of measures to curb adverse selection and moral hazards
 - Existence of a large public sector
 - Weakness in existing incentive mechanisms
 - Rent seeking in the public sector
 - Exodus of human capital
- With Better Infrastructure → Lower Price
- External VS Internal → Increase Quality Demand
- Legitimate and illegitimate Quality Demand
- Technology Support for Quality Management
- Access to Industrial Finance at Competitive Interest Rates

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Delivering Quality Education for Growth and Equity

- Have made progress in recent years
 - Public investment / private investment in education increased , performance levels improved
- Is education meaningful to the poor?
 - Quality of education gone down → quality erosion led to better outcome figures
 - Wider disparities in infrastructure (physical and human) across provinces and sectors
 - Western province and urban biased / gap can't be totally explained by the demand factor
 - Less successful in producing relevant skills to the poor to capture labour market requirements / get away from poverty
 - Budget allocations for education (Physical capital and related services) do not meet the needs of the poor / little for development aspects of education
 - Needs of the poor / resource constraints not addressed/ not reflected in administrative reforms

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- Policy reforms aimed at improvement of quality
 - Introduction of school based self- management system, curriculum upgrading, child friendly education (social and resource), modernization of examinations
 - Permitting public universities to retain funds generated through course fees, consultancy services etc...
 - Importance of use of electronic media in service delivery (best way to reach the rural poor)
 - Supervision management/ monitoring the quality of education is needed
 - Creation of graduates with better cognition
 - Encouraging private sector investment in education / private and international school → wider disparity ?

No mismatch between labour market requirements and education;

A demand side constraint, not a supply side constraint

A problem of overall growth / limited absorption capacity of the economy.

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Overcoming Stagnancy in Infrastructure Development for Poverty Reduction & Growth

- Sri Lanka's long term development strategy
Poverty reduction, regional disparities, economic growth
- Infrastructure is expected to fuse to stimulate growth, spread outcome of development
- Issues of poverty reduction and growth need addressing spatial imbalances
- 'Balanced Development' in the different regions needed

Infrastructure Differentials

- Development plans are investment plans that set out capital needs
- Stagnancy in infrastructure development outside the Western province
Weak infrastructure in rural areas.
Poor electricity/ transportation/ communication
Lack of innovation, low cost techniques both in public and private sector / totally mismatch supply chain
- Spatial dimension ignored
- Country is still dominated by centralized planning / lack of regional level capacity

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Huge gains can be made from transport and distributional efficiency/ networks
Better infrastructure → lower prices for consumers & higher prices for producers
→ welfare gains

Proposed Strategy

- Require special strategy in the context of macroeconomic policy
- Retain agglomeration-driven scale of Colombo centred economy/ Creation of counterpart agglomeration
- Partnership beyond national borders / Physical connectivity with neighboring countries

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Making State-owned Enterprises (SOEs) Support Pro –
Poor Growth

- Service Delivery
 - Quality
 - Quantity
 - Price
- Developed policy options in terms of improving efficiency in SOEs
- Ownership Vs. Management
- Privatization, liberalization (Private Participation) Competition provides better deal for consumer
Eg: Port

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Cont....

- Public Private Partnerships (PPIs)
- Corporatization without Privatization
- Management contracting
- Creating a government holding company to perform the government's shareholder ownership
- Competing for subsidies

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