

Sri Lanka
State of the Economy Report 2014

Chapter 12
Poverty and Equity in Asia and the Post-2015
Development Agenda

by
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12. Poverty and Equity in Asia and the Post-2015 Development Agenda

12.1 Introduction

While most of the countries in the Asian region have made considerable progress in reducing poverty, income inequality has remained high or has risen in some of the countries. Even non-income inequalities remain high in some of the fast growing Asian economies. If the countries in the region are to continue their rapid path to development, improving the living conditions of the people, especially amongst the poorer groups, is critical. Indeed, inclusive growth requires an equitable sharing of the benefits of rapid economic growth. Most developing countries in Asia are moving towards meeting their MDGs by the year 2015 and are now examining issues related to the post-2015 development agenda.

For Sri Lanka too, issues of equity in pursuing rapid growth has been at the forefront of government policy discussions. The country has made enormous gains in alleviating poverty with a reported sharp drop in the national poverty headcount ratio from 15.7 per cent in 2006/07 to 8.9 per cent in 2009/10 and to an estimated 6.7 per cent in 2012/13. Reductions to poverty levels have been accompanied by a narrowing of poverty across sectors and regions in the country. With the significant progress made in poverty alleviation efforts, Sri Lanka is also well placed to meet its MDGs by 2015. The country has already achieved the targets for 17 important indicators even before reaching 2015, and most of the other socio-economic indicators that comprise the MDGs are on track to be achieved by 2015.

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Some of these developments in Sri Lanka are even comparable with the developed countries. Free education for all, universal health care facilities and services - including public health services with access even in remote areas - and a range of welfare programmes implemented for more than six decades have made significant contributions. As such, Sri Lanka stands well placed for most indicators in education, health and living conditions. Nonetheless, there still remain a few gaps and regional disparities related to some of the indicators.

The achievement of MDGs is an unfinished agenda, not only in Sri Lanka, but across many low-middle income and less developed countries (LDCs) across Asia. This Policy Brief examines the current status of poverty and equity and the post-2015 development agenda for Sri Lanka, in the context of the wider Asian region.

12.2 Income Inequality in Asia

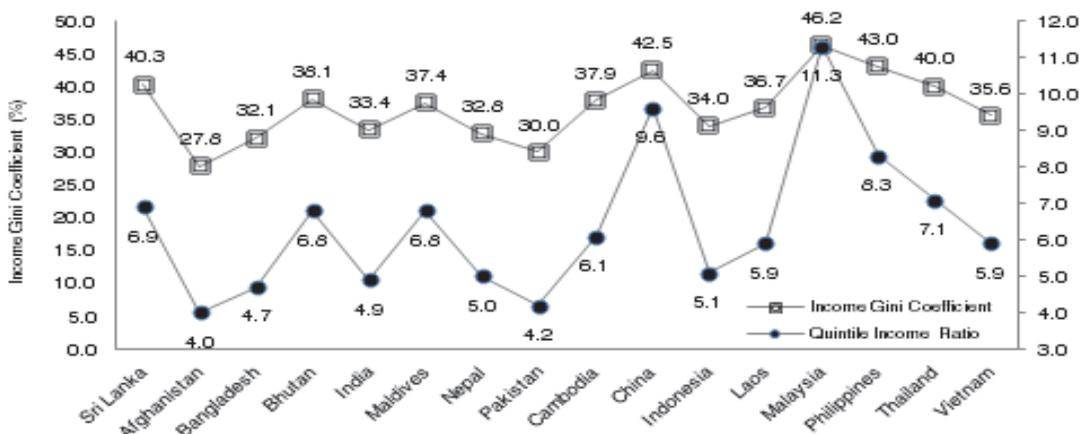
Growth strategies cannot succeed in the long run without a commitment to equality of opportunities, giving everyone a fair chance to participate in the growth process and enjoy the fruits of growth that follow. Despite progress made in tackling poverty, Asia still remains the largest source of the world's poor. Estimates of poverty headcount ratios suggest that South Asia has the second highest percentage of poor (31 per cent) behind Sub-Saharan Africa

(48.5 per cent) with East Asia and the Pacific at third place (12.5 per cent).¹

Even as many countries of the region grapple with high poverty levels, inequality within countries is also a significant challenge for some of the richer Asian economies. The persistence of inequality can trigger social and political tensions and lead to conflicts, while rising inequality poses a risk to stability, which in turn affects economic progress.

The quintile income ratio and income Gini coefficient (or index) are two indicators used to measure income inequality in any country.² A cross-section of Asian economies captured in Figure 12.1 suggests that countries such as Malaysia (11.3), China (9.6) and the Philippines (8.3) have high income inequality compared to other Asian countries. Sri Lanka (6.9) is at an intermediate level, while Afghanistan (4.0) records the lowest income inequality. The Gini coefficients

Figure 12.1
Gini Coefficients and Quintile Income Ratios for Select Asian Countries



Notes: Latest available figures during 2000 to 2010. Japan, South Korea and Singapore were excluded as figures are not available in HDR 2013.

Source: Based on data from UNDP, *Human Development Report 2013*.

¹ At US\$ 1.25 a day at purchasing power parity, available at <http://data.worldbank.org/topic/poverty>.

² The quintile income ratio is a measure of the average income of the richest 20 per cent of the population to the average income of the poorest 20 per cent; the income Gini coefficient is a measure of the deviation of the distribution of income (or expenditure) among individuals or households, within a country.

Figure 12.2
Change in Gini Index for Select Asian Countries



Notes: Latest available figures during 2000 to 2010. Japan, South Korea and Singapore, excluded as latest figures are not available in the HDR 2013; Afghanistan, Bhutan and Maldives are excluded as figures for 1990 are not available.

Source: Figures for 1990 (given within brackets) are from UNICEF (2011), "Global Inequalities: Beyond the Bottom Billion", Social and Economic Policy-Working Paper; the most recent figures are from UNDP, *Human Development Report 2013*.

also show a similar pattern with Malaysia at the high-end of 46.2 per cent and Afghanistan at the low end of 27.8 per cent.

Some Asian countries have shown significant increases in inequality over the last two decades, while others in Asia have succeeded in reducing inequality. However, most in the latter group had very high levels of inequality in the 1990s. For example, Thailand has seen a reduction of its Gini index by 10.2 percentage points during the last two decades, but from a very high level of 50.2 per cent in 1990 (Figure 12.2). Conversely, China records the highest increase (10.2 percentage points), followed by Sri Lanka (6.8 percentage points). Thus, despite progress made in MDGs and other indicators, income inequality remains an area for policy attention in Sri Lanka.

12.3 Sri Lanka's Poverty and Human Development vis-a-vis Asia

As Sri Lanka aims to be the 'Wonder of Asia', its success will be judged not only by hard economic

numbers, but also by socio-economic development indicators on multiple fronts. As such, it is important to look at the achievements and progress that the country has made so far within an Asian context. Sri Lanka stands out regionally, significantly ahead of its South Asian neighbours in human development indicators. However, the country needs to look beyond to middle income economies in Asia such as Malaysia or even benchmark itself against high income Asian economies such as Japan, South Korea and Singapore. Indeed, in some MDGs and human development indicators, Sri

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Lanka's achievements are closer to the latter three countries than its immediate neighbours in South Asia.

GDP per capita and HDI

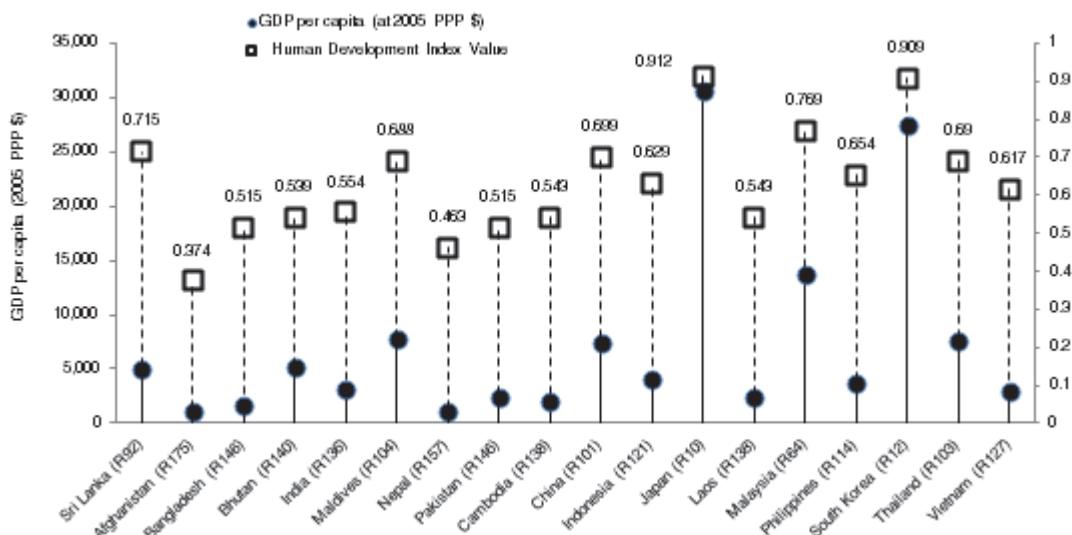
At a relatively low level of GDP per capita, Sri Lanka has historically had a high human development index (HDI). In fact, even at present, Thailand has a much higher per capita GDP than Sri Lanka but ranks lower on HDI (Figure 12.3). Sri Lanka's HDI value in 2012 stood at 0.715 with a rank of 92 out of 186 countries, well ahead of other South Asian countries. Sri Lanka's HDI value even in 1990 (0.608) was higher than the HDI values of all the countries in the SAARC region in 2012, except Maldives. Whilst Sri Lanka lags behind Japan (ranked 10), South Korea (ranked 12), Singapore (ranked 18) and Malaysia (ranked 64), it is noteworthy that the country is also ahead of the two fast developing countries - China (ranked 101) and India (ranked 136).

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Poverty

Poverty measured using the international poverty line of US\$ 1.25 a day (PPP) shows that Sri Lanka had 4.1 per cent of the population below the poverty line in 2009 (Figure 12.4). The Maldives (1.5 per cent) and Bhutan (1.7 per cent) do better in South

Figure 12.3
GDP per Capita (at 2005 PPP \$) and Human Development Index for Select Asian Countries



Note: GDP per capita is at 2005 PPP \$ and HDI values are for 2012. Singapore is not included in the chart as GDP per capita is too high (PPP \$ 53,353); the HDI rank of each country is given within brackets in the horizontal scale of the chart.

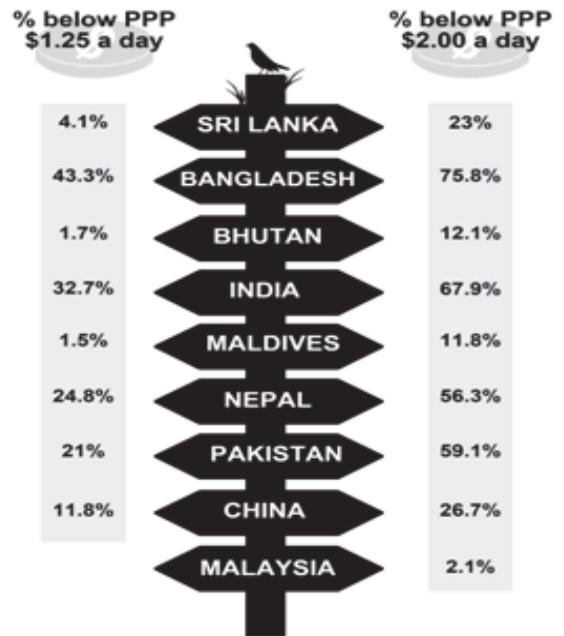
Source: Based on the data from UNDP, *Human Development Report 2013*.

Asia. By contrast, Thailand that has a poorer HDI value than Sri Lanka does better in poverty with only 0.4 per cent of its population considered to be poor. Malaysia is a good example of a country with a relatively high per capita GDP, high HDI and zero poverty. While China has a poverty incidence of 11.8 per cent, India fares much worse with a ratio of 32.4 per cent, closer to LDC economies such as Bangladesh (43.3 per cent) and Laos (33.9 per cent).

Poverty levels rise when US\$ 2 a day poverty line is applied. However, the trends are very similar with Malaysia (2.1 per cent) showing the lowest percentage of persons below the line. Although Sri Lanka (23.0 per cent) is comparatively better than the rest of the countries considered in Asia, around 19 per cent (i.e., those between US\$ 1.25 and US\$ 2 a day per person) of the population in Sri Lanka is vulnerable, and at risk of slipping back to poverty due to any external or internal economic shock.

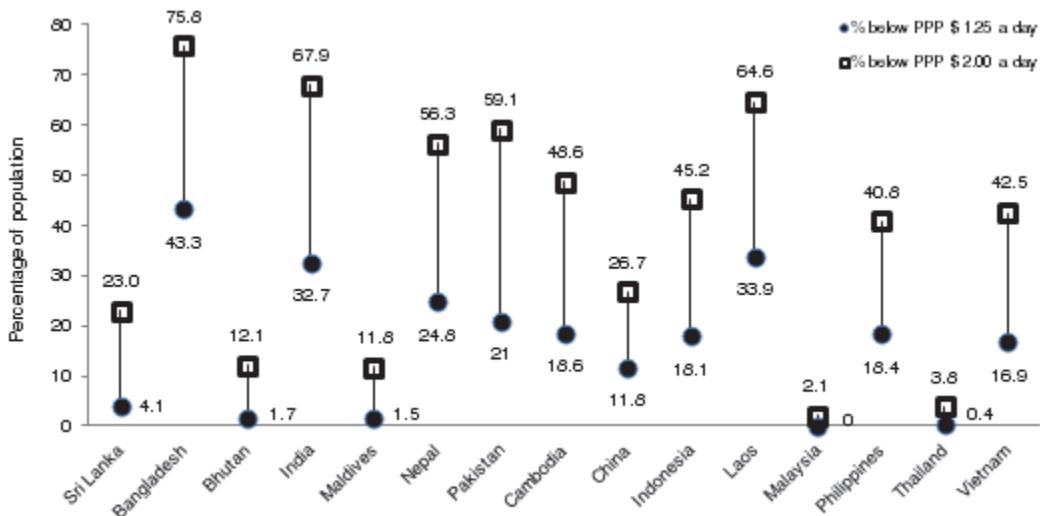
Education

Sri Lanka does well in education by generic measures. For example, the proportion of population



at 25 years and above who have at least secondary education records 75.5 per cent for males and 72.6 per cent for females (Figure 12.5). This is very much above all South Asian countries, and many other countries in Asia, including Malaysia (72.8 per cent for males and 66.0 per cent for females). Only South Korea (91.7 per cent for males and 79.4 per cent

Figure 12.4
Incidence of Poverty in Select Asian Countries



Notes: Based on international poverty lines (US\$ 1.25 a day PPP and US\$ 2 a day PPP) for 2009 or closest year.

Source: Computations based on World Bank, PovcalNet.

for females) and Japan (82.3 per cent for males and 80 per cent for females) show higher percentages for both males and females than in Sri Lanka. Other countries show significant gender disparities. For example, while China records a rate of 80.1 per cent for males, it is a low 54.8 per cent for females. Sri Lanka's ratio for women is even better than that for women in Singapore (71.3 per cent) despite the country outperforming Sri Lanka by huge margins in many other key indicators discussed previously.

As such, Sri Lanka is very much closer to the more developed countries in Asia in terms of education, with almost universal primary education, very high adult and youth literacy rates. Despite gender equity in education outcomes in Sri Lanka, the country however continues to record a low female labour force participation (FLFP) rate. In fact, Sri Lanka has one of the lowest rates, even below that of Bangladesh (Figure 12.6).

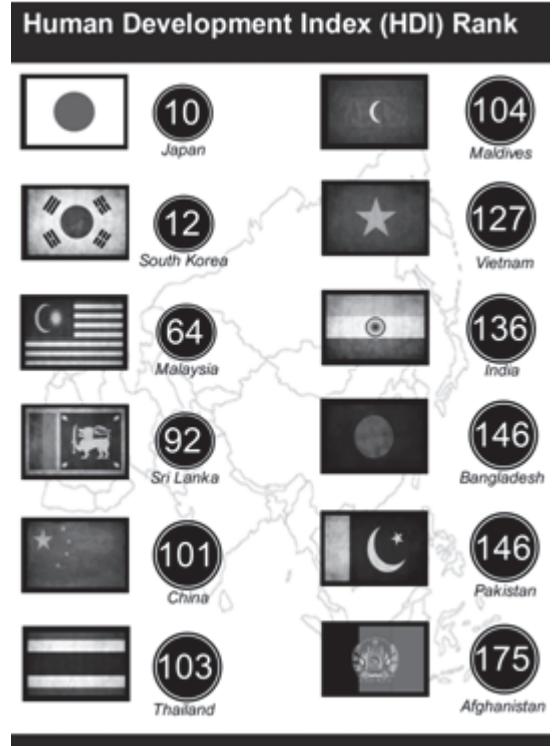
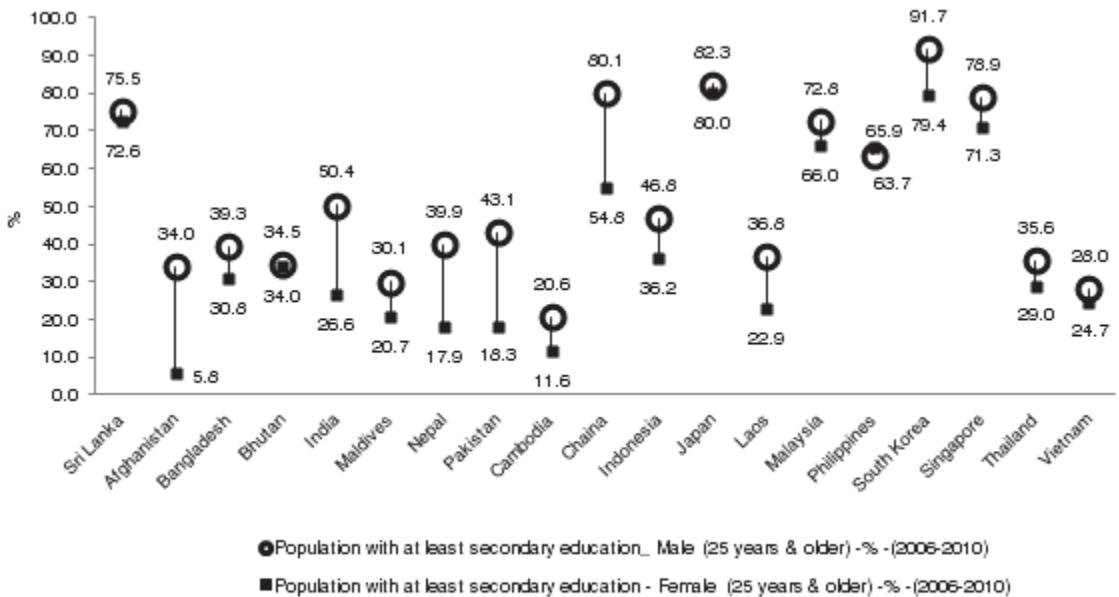
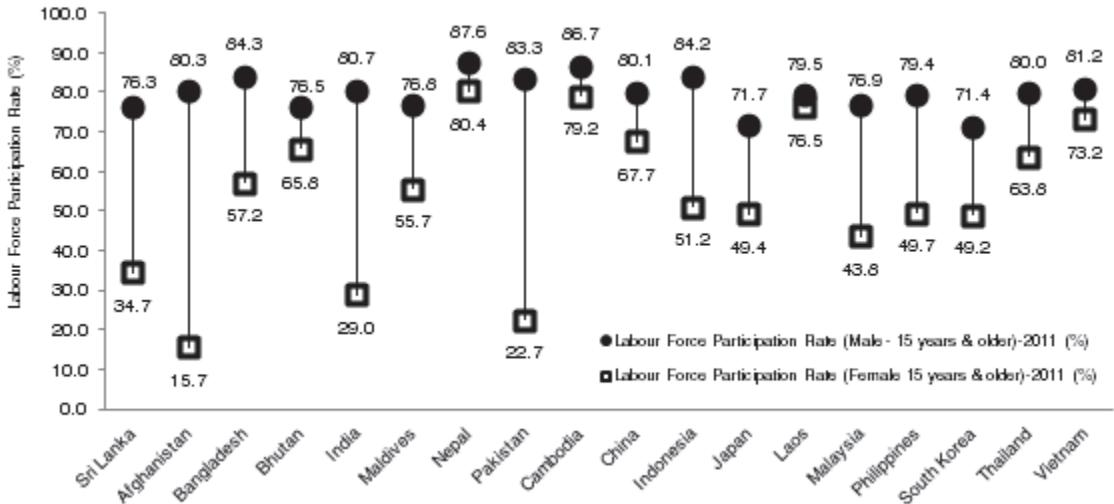


Figure 12.5
Population with at Least Secondary Education for Select Asian Countries



Source: Based on data from UNDP, *Human Development Report 2013*.

Figure 12.6
Labour Force Participation Rate by Sex for Select Asian Countries



Source: Based on data from UNDP, *Human Development Report 2013*.

12.4 MDGs: Way Forward for Sri Lanka

The following section examines a few priority areas that require further policy attention as the discussion at the global level moves to the priorities for a post-2015 development agenda.

12.4.1 Poverty Reduction

Sri Lanka achieved the MDG target of halving poverty at the national level, seven years before

2015. The incidence of poverty at the national level declined from 26.1 in 1990/91 to 8.9 per cent in 2009/10 (Table 12.1). It is estimated to have fallen further to 6.7 per cent in 2012/13. The urban and rural sectors have also achieved the target before 2015; while the urban sector achieved the target as early as 2000, the rural sector achieved it around 2008. The latest estimates based on Household Income and Expenditure Survey (HIES) 2012/13 suggest that even the estate sector is on track to achieve the target before 2015.

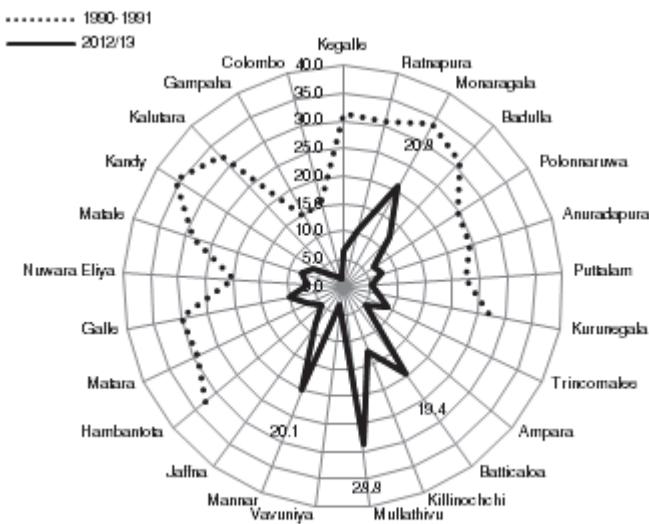
Table 12.1
Comparison of Poverty Incidence, 1990/91 to 2009/10

Poverty Line	Percentage of Population below Poverty Lines				
	1990/91	1995/96	2002	2006/07	2009/10
US\$ 1.25 (2005 PPP) a day ^a	15.0	16.3	14.0	7.0	4.1
National Poverty line ^b	26.1	28.8	22.7	15.2	8.9
US\$ 2 (2005 PPP) a day ^a	48.4	45.1	38.9	28.3	23.0
	Percentage of Population				
% between US\$ 2 and US\$ 1.25 a day ^a	33.3	28.8	24.9	21.3	18.9

Note: US\$ 1.25 (2005 PPP) a day and national poverty line measure extreme poverty. The incidence of poverty estimated based on US\$ 1.25 a day per person is around a half of the poverty incidence measured using the national poverty line, although some argue that it underestimates poverty in Sri Lanka.

Source: a. World Bank, PovcalNet; b. DCS, HIES, various years.

Figure 12.7
District-wise Poverty Incidence, 1990/91 and 2012/13



Source: DCS, "Household Income and Expenditure Survey", 1990/91 and 2012/13.

The most recent estimates of poverty based on HIES 2012/13 at national, urban, rural and estate sectors are 6.7, 2.1, 7.6, and 10.9 per cent, respectively. Sri Lanka's faster pace of economic growth in recent years that has delivered better infrastructure services to rural areas, increased agricultural activity in former conflict-affected regions, a steady growth in remittance earnings where a large majority of migrants originate from poorer households, higher tourist arrivals with related direct and indirect employment opportunities, etc., might explain the improvements in poverty levels.

Despite the considerable success in reducing poverty, there are regional disparities still which need to be addressed. For example, a comparison of poverty incidence between 1990/91 and 2012/13 indicates that certain districts are still lagging behind - e.g., Moneragala has seen an increase from 14.5 per cent in 2009/10 to 20.8 per cent in 2012/13. The other districts with relatively high levels of poverty in 2012/13 are Mullativu (28.8 per cent), Mannar (20.1 per cent) and Batticaloa (19.4 per cent). However, poverty in Jaffna has declined from 16.1 per cent in 2009/10, to 8.3 per cent in 2012/13.³

Persisting income inequality is also a cause for concern. The Gini coefficients for household expenditure have increased from 0.34 in 1990/91 to 0.40 in 2012, showing that inequality has increased (Table 12.2). One of the reasons for this is that the income levels of richer groups are increasing at a faster rate than those in the poorer groups, thus raising income/expenditure inequality gradually over time. The other reason for persisting inequality is the existing disparities across regions and across different socio-economic groups.

Table 12.2
Share of Household Income of Poorest and the Richest, 1990/91 to 2009/10

National Household Income Quintile Group	Share of Household Income (%)					
	2012/13	2009/10	2006/07	2002	1995/96	1990/91
Poorest 20%	4.5	4.5	4.5	4.8	4.8	4.2
Richest 20%	52.9	54.1	54.7	52.8	54.5	51.3
	Gini Coefficient					
Gini coefficient of household expenditure	0.40	0.39	0.41	0.41	0.36	0.34

Source: DCS, "Household Income and Expenditure Survey", 1990/91 to 2012/13.

³ Poverty figures for districts in the Northern and Eastern Provinces are not available for 1990/91 as the surveys were not conducted in those provinces due to the on-going conflict.

As Sri Lanka aims to reduce poverty further to 2.3 per cent by 2016 and to 2 per cent by 2020,⁴ it may be necessary to focus attention on targeted interventions through current welfare programmes, identifying the poorest and most vulnerable groups throughout the country, so that the most in need are helped out of poverty.

12.4.2 Employment-to-Population

The 'employment-to-population ratio' is a new MDG indicator, which captures the proportion of a country's working age population (15 years and above) that is employed. The ratio typically falls between 50 and 75 per cent. In the case of Sri Lanka, the ratio for males stood at 72.8 per cent in 2012 which indicates that a considerably large proportion of working age males in Sri Lanka are employed. However, the corresponding ratio for females is only 30.9 per cent, which is very low, obviously due to the low FLFP rate in the country.

The low FLFP is despite rapid enhancements in female education across the country, where it has remained unchanged over the past 2-3 decades. Higher education achievements of females relative to males may also be contributing to this. For instance, there are more girls continuing in secondary and tertiary education in Sri Lanka than boys. Some of the educated females may also not be looking for work owing to childcare responsibilities. Low FLFP, especially those with higher levels of education, is clearly a loss to the country's economy as well as a loss of income to their own households.⁵

With Sri Lanka's ageing demographics, suitable strategies to increase the FLFP is vital. The generation of productive and decent employment opportunities, policies to allow flexible working hours, opportunities to work from home, especially in IT and communication related fields, etc., may

encourage more females to enter the labour force. In addition, the provision of suitable day care centres for children with qualified and experienced staff may also encourage more women to enter and remain in employment.

12.4.3 Under-Nutrition of Children under 5 Years

Sri Lanka's high proportion of underweight children is a vital concern. Although the country is 'on track' to achieve the target of halving the proportion by 2015, the proportion of underweight children in all three sectors (urban, rural and estates) is high. The Demographic and Health Survey 2006/07 carried out by the DCS, shows that more than 20 per cent of the children under five years of age at national level, and around 30 per cent in the estate sector are underweight. Studies indicate that the continuity of a life cycle of malnutrition and intergenerational transmission are the major causes of childhood malnutrition among poorer socio-economic groups.⁶ This is rather puzzling as Sri Lanka has done well in most other health indicators.

At present, the government is carrying out a number of interventions to address this issue. The National Nutrition Policy of Sri Lanka (2010), which covers not only the underweight children but all aspects related the problems of nutrition, is expected to address most of the issues on malnutrition and under-nutrition in Sri Lanka. However, it would be necessary to have properly targeted interventions, to achieve the goal of halving the proportion of underweight children under 5 years by 2015, especially in regions where under-nutrition is high. Districts such as Batticaloa, Kandy, Moneragala, Nuwara Eliya, Polonnaruwa, Trincomalee and the estate sector where under-nutrition is high, may need special attention. Lack of information on this indicator after 2006/07 is also a major concern, as

⁴ Department of National Planning (2013), *Mahinda Chinthana: Vision for the Future*, Ministry of Finance and Planning, Colombo.

⁵ Discussed in detail in Chapter 5 on "Demographic Challenges of an Ageing Asia".

⁶ Jayawardena, P., (2012), "Socio-economic Determinants and Inequalities in Childhood Malnutrition in Sri Lanka", *Well-being and Social Policy*, Vol. 8, No. 1.

it is not possible to monitor the progress and effectiveness of interventions since then.

12.5 Post-2015 Development Agenda

As previously noted, Sri Lanka has already met many of its MDG targets well before 2015 in key areas covering poverty, education, health, environment, etc. There is, however, an unfinished agenda which also holds lessons going beyond 2015. Some of the key lessons from Sri Lanka's experience when designing goals and targets for the post-2015 agenda are as follows:⁷

- build the post-2015 development agenda on the current MDGs and targets, considering progress made towards MDGs and completing 'unfinished business';
- take into account the initial conditions as well as the achievement in absolute terms, in order to assess progress made during the period specified;
- ensure that future goals are achieved not only at the national level, but also at the sub-national level, across regions and income groups;
- while ensuring access to services, the post-2015 agenda should look beyond 'access' to services (or coverage) and take into account the 'quality' of services as well;
- incorporate emerging issues of importance into the post-2015 agenda, such as climate change, demographic changes (e.g., ageing), governance, and emerging health issues such as non-communicable diseases that are pertinent to Sri Lanka.

There are many examples where some of the above suggestions apply. For example, while Sri Lanka has seen successful outcomes in achieving all three targets related to universal primary education, the quality of primary education needs to be further improved, as success in secondary education requires a strong foundation in the primary level.

Besides better quality of education and education outcomes at primary level, attention must also focus on secondary and tertiary levels.

As Sri Lanka aims to develop a knowledge-based economy, ensuring adequate education in science and technology, with special emphasis on subject areas essential to meet the requirements of a knowledge economy, is vital. This will involve expediting the development of schools and facilities across the country. At present, only 27.2 per cent of the schools in Sri Lanka have grades up to 13. Moreover, only 7.6 per cent of the total number of schools in Sri Lanka has a science stream up to Grade 13. Under the 'Thousand Secondary School Development Project' of the Ministry of Education, at least three schools with all facilities are to be developed in each Divisional Secretary (DS) division in Sri Lanka, which is a welcome policy measure.

Besides improving facilities in less developed regions, qualified/skilled teachers must be made available. The latter is currently inadequate, especially to teach subjects such as languages, mathematics, science and information technology. In order to fulfil the above objectives, it is essential to minimize the unequal distribution of qualified and skilled teachers across regions and ensure that quality teachers are recruited at all times. Students must also be taught skills that will help them to get suitable jobs. Increasingly, some of the skills required are non-cognitive skills, such as team work, leadership, problem solving, etc. Having already achieved universal primary education, Sri Lanka has to adopt a policy of 'quality education for all'.⁸

Similarly, an ageing population is an area requiring policy attention on multiple fronts in the coming decades. Increasing longevity and falling fertility is leading to a rapidly ageing population in Sri Lanka.

⁷ Tilakaratna, G., (2014), "From MDGs to Post-MDGs: Some Lessons from Sri Lanka", available at <http://post2015.org/2014/05/08/from-mdgs-to-post-mdgs-some-lessons-from-sri-lanka/>

⁸ Discussed in detail in Chapter 8 on "Learning from Asian Best Practices in School Education".

The expectation of life at birth (based on available estimates for the period 2000-2002) was 68.8 years for males and 77.2 years for females. The population aged 60 years and above increased from 7.9 per cent in 1991 to 12.3 per cent in 2012. Projections show that the percentage is expected to increase to 20.7 per cent in 2031 and to 24.8 per cent in 2041.⁹

To effectively manage population ageing, the national health care system has to be developed to deliver necessary health care services to the growing older population. In addition, owing to the geographical mobility of young people to urban areas or migration to other countries, the potential family support system to elderly which still prevails in Sri Lankan society will become seriously curtailed over time. This will impact elderly females more, as they will on average live around eight years more than males. The policies to handle an increasing ageing population may require labour market reforms to encourage greater participation of older persons in productive work. This will not only help labour market conditions, but also reduce the burden of the elderly on the working age population. Otherwise, the active population will have to carry the burden of financing the pensions and other social welfare payments to a rapidly increasing elderly population. It is also necessary for the people of all ages to maintain a healthy life throughout, so that they will be able to lead a healthy life when they grow old, so that the cost on health care for elderly could be minimized. This is pertinent in view of changing lifestyle and food habits that is also related to the rising incidence of NCDs in Sri Lanka.

Climate and environment related threats are also increasing and posing new development challenges as countries strive for higher economic growth. Sri

Lanka has seen its total forest cover (excluding savannah forest cover), deplete from 33.8 per cent of the total land area in 1992 to 26.6 per cent in 2010.¹⁰ Sri Lanka is also seeing an increase in its carbon dioxide emissions whether measured in total, per capita or GDP terms.

The environment is also impacted through growing energy demand. In Sri Lanka the demand for electricity is increasing rapidly, rising from 1,516 MWs in 2003 to 2,163 MW in 2012. It has been estimated that the demand will increase by 6.7 per cent annually in the next 20 years.¹¹ Sri Lanka is increasingly relying on thermal power plants to meet its energy requirements. At present, only around 6.2 per cent of energy is generated through renewable sources (excluding hydro). Although the initial investment cost is high for most renewable energy sources, the return on the investment will be high in terms of minimizing adverse impacts on the environment.

Sri Lanka is also experiencing greater environment hazards from water pollution. Water scarcity in the midst of climatic changes, growing population demands, etc., places additional stress on natural resources. The demand for water is rising to meet the requirements for safe drinking water, sanitation, energy, agriculture and other uses. At the same time, over-exploitation and pollution arising from domestic, industrial, and agriculture usage constrains supply, owing to industrial waste, use of chemicals in agriculture and other types of water contamination. These have serious health repercussions, as already evident from high incidences of chronic kidney disease in certain areas of Sri Lanka due to water polluted with cadmium and arsenic sourced through fertilizers or agro-chemicals. Thus, as these threats to human health, the environment and ecosystem gather pace,

⁹ De Silva, W.I. (2012), "The Age Structure Transition and Demographic Dividend: An Opportunity for Rapid Economic Take-off in Sri Lanka", *Sri Lanka Journal of Advanced Social Studies*, Vol. 2, No. 1.

¹⁰ <http://www.forestdept.gov.lk/web/>.

¹¹ Department of National Planning (2013), *Mahinda Chinthana: Vision for the Future*, Ministry of Finance and Planning, Colombo.

new policies and regulations will need to be developed, implemented and monitored.¹²

Thus, in defining the future global development framework, country-specific experiences implementing policies and monitoring progress of

MDG targets, identifying better ways of setting indicators and goals, and exploring new issues critical for sustainable development outcomes must form the basis of a post-2015 agenda.

¹² Discussed in detail in Chapter 6 on "Environmental Outcomes of Asia Economic Rise".