



# POLICYINSIGHTS

INSTITUTE OF POLICY STUDIES OF SRI LANKA

## ADDRESSING PERSISTENT INCOME INEQUALITY IN SRI LANKA

*From the IPS flagship publication 'Sri Lanka: State of the Economy 2018 Report'*



26.1 per cent in 1990/1991 to 4.1 per cent in 2016 which is a notable achievement, income inequality has remained more or less unchanged for the last 3-4 decades.

and eradicate extreme poverty. Any attempt to weaken or neglect the agriculture sector, will affect the lives of many families depending on agriculture and related activities, especially the poor.

Most of the poor are largely rural based, which includes those in the estate sector as well. As explained above, a majority of them rely on agriculture for their livelihood. Although the agricultural sector shows relatively slow growth and its contribution to gross domestic product (GDP) is less than 8 per cent, around 30 per cent of the employed population in the country are still engaged in agriculture. This fact cannot be and should not be ignored when developing strategies to reduce poverty

### Regional Variations in Income Inequality

Around 64 per cent of the households in the estate sector are among the four poorest national household income deciles, or among the poorest 40 per cent of households in the country. This also shows that 64 per cent of households in the estate sector receive a household income of less than Rs. 36,445 per month. The corresponding percentages for rural and urban sectors

Inequalities are also closely connected to the environmental goals of the Sustainable Development Agenda 2030, as the costs associated with environmental degradation are unequally distributed, affecting mostly the poorer segments of the society. The destruction of land or water ecosystems significantly affects the communities depending on these resources. The poor also suffer from the adverse effects of climate change. Inequalities can also create vicious circles of political instability and conflict. Studies have further shown that growing inequality leads to an increased fragility of growth, effectively lessening the speed and durability of economic development.

Persistent income inequality in Sri Lanka is a major issue which needs the urgent attention of the planners and policy makers. Although Sri Lanka has managed to reduce income poverty from

### Household income share after 1990/91

OF POOREST



20%



<5%

OF RICHEST



20%



>50%

Household income share remained at

are 41.1 and 25.5, respectively. Meanwhile, 20.1 per cent of households in the estate sector receive a total household income of less than Rs. 15,322 per month.

The share of household income in the richest 20 per cent of households in 2016 is highest in the Puttalam district (52.6 per cent) followed by the Colombo district (52.3 per cent), when the household income distribution within each district is compared using the 'Household Income Deciles' of each district. The share is lowest in the Killinochchi district (41.4 per cent). The share of household income of the richest 20 per cent of households has increased in 2016 compared to 2012/2013 in Jaffna, Anuradhapura, Polonnaruwa, Batticaloa, Mannar and Puttalam.

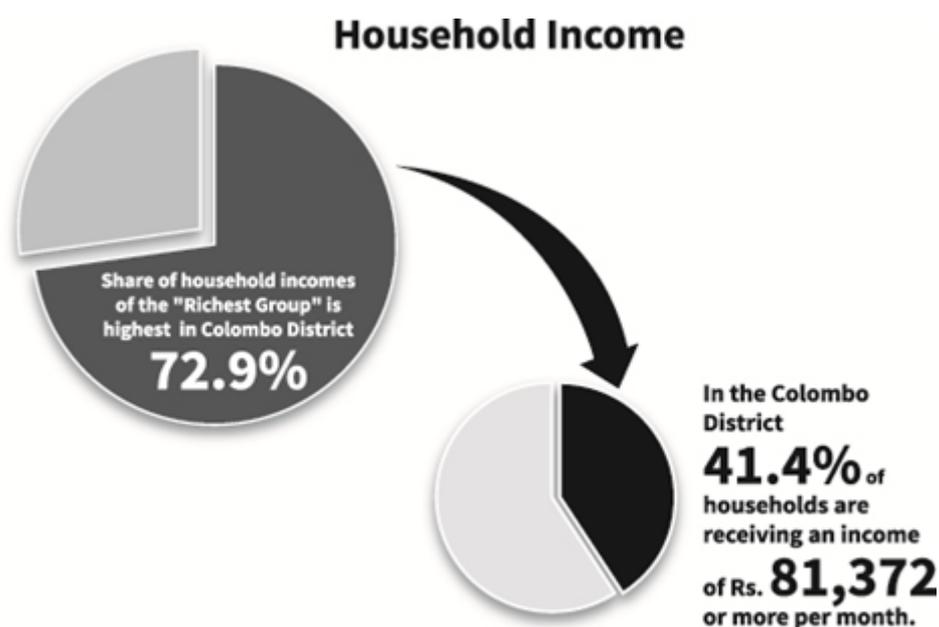
The highest reduction in the share of household income of the richest 20 per cent of households in 2016 compared to 2012/2013 are to be found in the Killinochchi district (reduced by 12.2 percentage points), followed by the Monaragala district (reduced by 10.1 percentage points). The highest increase in the share of household income of the poorest 40 per cent of households is also observed in the Killinochchi district (increased by 4.5 percentage points) and the Monaragala district (increased by 3.6 percentage points).

Households receiving a monthly income of Rs. 81,372 or more are in the richest 20 per cent in the National Household Income Deciles (NHIDs) scale and are considered the 'richest group'. Those households receiving less than Rs. 30,000 in the poorest 40 per cent in the NHIDs scale are considered the 'poorest group'. The share of household income of the richest group is highest in the Colombo district (72.9 per cent); 41.4 per cent of households in this district are receiving an income of Rs. 81,372 or more per month. The Killinochchi district has the lowest share of the household income for the 'richest group' (9.7 per cent) and only 2.9 per cent of households fall into this group.

## Way Forward

To handle the problem of persistent income inequality, more detailed and

in-depth analysis is needed to understand the root causes for the prevailing situation. Income inequality in Sri Lanka needs to be addressed early, to prevent any undesirable consequences in the future, as Sri Lanka has already suffered a number of times due to imbalances in opportunities and wide gaps in income levels and as well as in living standards, between the rich and poor. Priority action needs to be taken on the following:



★ Households receiving a monthly income of Rs. 81,372 or more, which is the lower limit for richest 20% at national level considered the 'Richest Group'.

Ensure access to quality equitable education to all children, regardless of their family income, where they live, their gender or ethnicity or whether they are differently abled. This will help them to develop the skills needed to improve their livelihoods, and thereby to move out of poverty. This can also ensure that the benefits of economic growth are fairly distributed and thereby help reduce income inequality.

Well-designed labour market policies can also help to reduce income inequality; relatively high minimum wages can narrow the distribution of labour income. However, such minimum wages should not impose excessive costs on business, which could dampen its inequality reducing effect. As the female labour force participation is very low in Sri Lanka, encouraging more

women to participate in the labour force can also help in improving their family income and living conditions.

*This Policy Insight is based on the comprehensive chapter on "Addressing Persistent Income Inequality in Sri Lanka" in the 'Sri Lanka: State of the Economy 2018 Report' - the flagship publication of the Institute of Policy Studies of Sri Lanka (IPS). The complete report can be purchased from the publications section of the IPS, located at 100/20, Independence Avenue, Colombo 7. For more information, contact the Publications Unit on 0112143107/ 0112143100.*



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