Poverty Briefs

Overview of Poverty
in Sri Lanka - 2013

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Overview of Poverty in Sri Lanka - 2013

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1)   **Poverty Briefs :** these are aimed at a specialist as a well non-specialist audience and are written in an informal and informative style.

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Foreword

The Centre for Poverty Analysis first published an Overview of Poverty in Sri Lanka by Shakeela Jabbar and Dinushka Senanayake of the Poverty Information Knowledge Management Programme (PIK) of the Centre for Poverty Analysis in 2004. Ten years on, CEPA felt the need for a more current and updated version of the brief.

In the Overview of Poverty in Sri Lanka - 2013, CEPA looks at the different approaches used to define, measure and monitor poverty – both monetary and non-monetary. The brief examines the methods used in Sri Lanka and discusses the methods of measuring poverty in Sri Lanka at national, district, provincial and sectoral levels. The brief also looks at factors such as education, health, living conditions and gender development that have a bearing on the poverty levels of different socio economic groups.

This second version of the brief has been updated by Ishara Rathnayake. The author is grateful to Romeshun Kulasabanathan and Geetha Mayadunne for their input.

The views and opinions expressed in this brief are those of the authors and do not necessarily reflect those of the Centre for Poverty Analysis.

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Contents

1.   Approaches to the estimation of poverty

It is well recognised that there is no single approach or indicator for describing and measuring poverty which captures all dimensions of this complex phenomenon. There are four mainstream approaches which are used to define, measure, and monitor poverty. They are the monetary approach, capability approach, social exclusion approach and the participatory approach. The monetary approach is well-known and has been used extensively although its limitations are evident. The adoption of other non monetary approaches (capability approach, social exclusion approach and the participatory approach) are more recent.

The monetary approach concentrates on the economic dimensions of deprivation such as income and expenditure. The capability approach focuses on basic deprivation of education health, environment and empowerment. The social exclusion approach addresses participation or inclusion of individuals in mainstream society. The participatory approach is based on the perceptions of people and hence is "subjective".

Poverty is usually viewed as either a form of absolute or relative deprivation. "Absolute poverty is perceived as subsistence below the minimum requirements for physical well-being" (Chronic Poverty Research Centre, 2001). Absolute poverty is most commonly measured with respect to the ability of a household to afford a minimum set of consumption requirements. Relative poverty is taken as income or consumption levels that are below a particular fraction of the national average. In other words, relative poverty "is determined by an individual's or household's deprivation (or lack of well-being) in comparison to its position relative to others in society" (Gunewardena 2004). An analysis of relative poverty, therefore, focuses on income inequality. Amartya Sen (1999) notes that relative deprivation in terms of incomes can yield absolute deprivation in terms of capabilities depending on a person's ability to convert income into well-being, which in turn is based on, for example, health status, age, gender, and differences in social or ecological environment.

2.   Monetary approach and measurements

Measurement of poverty in Sri Lanka is mostly calculated using monetary measures. The monetary approach defines poverty as a shortfall in consumption or income in relation to a poverty line, and focuses on measures of income and expenditure. According to this approach, poverty is referred to as not having or being unable to afford certain minimum necessities required for an acceptable level of wellbeing (Alailima 2007). This approach uses quantitative methods of data collection and analysis, and both absolute and relative measurements, with relative poverty lines being more common in developed countries and absolute poverty lines being used in developing countries.

Absolute and relative poverty

The absolute poverty line is based on a standard amount of goods/ services which households require to meet their basic needs. The generally accepted measure of long term income status and living standards in developing countries is consumption/ expenditure as income data is prone to under-estimation in surveys. The derivation of the poverty line in Sri Lanka has varied over the years and lacked an officially accepted poverty line. The major change in poverty research came in June 2004, with the release of the official national poverty line using consumption data in 2002 computed by the Department of Census and Statistics (DCS). The poverty line was based on the Cost of Basic Needs Method (CBN)[1] . For other survey years, the poverty lines are obtained by updating the official poverty line of 2002 with CCPI for inflation (DCS 2004). The poverty measures which are widely used in the monetary approach are Foster-Greer-Thorbecke (FGT) measures of poverty that measures magnitude/ incidence, depth and severity of poverty. The value of the official poverty line (OPL) of Sri Lanka was Rs. 3,028 (real total expenditure per person per month) for the 2009/10 survey period.

Although the majority of studies on poverty in Sri Lanka focus on absolute poverty, the importance of relative poverty in the Sri Lankan context, is fast gaining recognition. Relative poverty refers to income or consumption levels that are below a given percentage of the national average. Probably the most relevant measures of relative poverty (based on available data) in Sri Lanka are the following.

- Gini co-efficient
- Income per capita by income deciles
- Expenditure per household by expenditure deciles

Although the Gini co-efficient conventionally measures income inequality rather than poverty *per se*, it is considered a fair proxy measure of relative poverty. It is a number between zero and one that measures the degree of inequality in the distribution of income in a given society. The coefficient would register zero (0.0 = minimum inequality) for a society in which each member received exactly the same income and it would register a coefficient of one (1.0 = maximum inequality) if one member got all the income and the rest got nothing. Sri Lanka has shown an increase in inequality, measured by the Gini co-efficient for household income from 0.43 to 0.48 during the period 1980/81-2002. However, there was a significant drop in inequality measured by household expenditure at national level from 0.41 to 0.39 during the period 2006/07-2009/10.

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[1] A food poverty line is calculated by an estimate of the cost of the food bundle, which satisfies a person's minimum caloric requirements. To that is added a non-food component, which estimates the allowance for basic necessities such as housing, clothing, transport etc. This method is superior to other methods such as Food Energy Intake Method (FEI) and Direct Calorie Intake Method (DCI) (Gunewardena 2005).

Income per capita by decile is used to measure relative inequality by calculating the share of income received by the lowest two deciles as a percentage of income received by the highest decile. The same method applies for calculating relative poverty using expenditure (both food and non food) deciles. In 2009/2010 period the lowest two deciles (poorest 20 percent) earned only 4.5 percent of the total income, while the highest decile earned 39.5 percent of the total income. Furthermore, in 2009/10 the lowest four deciles (earned 13.3 percent of total income) earnings amounted to just 34 percent of the highest decile which also emphasises that relative poverty is considerably high in Sri Lanka.

Hence, in Sri Lanka 20 percent of the households receiving a higher income earn little more than half of the (54.1 percent) of the total income while the other 80 percent of households earn the other half of the total income (Table 1). It is also noteworthy to state that in Sri Lanka the first 6 household deciles or lower income households receiving 60 percent of the total income spent more than 50 percent of their total income for food and drink on average (DCS 2011).

Table 1: Income Distribution by Decile - 1980/81-2009/10
(Total household income by per capita income decile (percent)

Decile	1980/81	1985/86	1990/91	1995/96	2002	2006/2007	2009/2010
Lowest	3.5	2.4	1.9	2.1	1.7	1.6	1.6
Second	5.3	3.8	3.3	3.5	3.1	2.9	2.9
Third	5.9	4.5	4.3	4.4	4.1	3.9	3.9
Fourth	6.7	5.3	5.3	5.3	5.0	4.8	4.9
Fifth	8.0	6.2	6.4	6.4	6.0	5.8	6.0
Sixth	8.6	6.9	7.5	7.4	7.3	7.1	7.1
Seventh	9.4	8.3	9.2	9.0	8.8	8.5	8.7
Eighth	10.9	10.0	10.8	11.4	11.2	10.8	10.8
Ninth	13.8	13.5	14.8	15.6	15.4	14.6	14.6
Highest	27.4	38.8	36.5	34.8	37.4	40.1	39.5
Lowest 40 percent	21.4	16	14.8	15.3	13.9	13.2	13.3
Top 20 percent	41.2	52.3	31.3	50.4	52.8	54.7	54.1

Sources: Department of Census and Statistics, various years

It is not easy to come to any firm conclusions regarding trends in the relative position of the poor in the income distribution structure in Sri Lanka. However, looking only at the terminal years of the data, one can say that the relative position of the poor has deteriorated in the last four decades.

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[2] A decile is 10 percent of the total population of 100 percent.
[3] Lowest four deciles could also be defined as the poorest 40 percent of the total households.

3.   Non–monetary approaches and measurements

It is clear that there is a need to move towards methods with a broader view of poverty which include social, human and political dimensions such as empowerment and vulnerability. In Sri Lanka there is no clear body of literature on poverty measurement within the capability approach. Further there is no consensus about appropriate dimensions, indicators and methods of aggregation to be adopted.

The measures which have gained universal recognition are the United Nations Development Programme's (UNDP) Human Development Index (HDI), Human Poverty Index (HPI) and Millennium Development Goals (MDGs). These measurements of poverty have been adopted in Sri Lanka. Both the HPI and HDI focus on absolute poverty. Sri Lanka adopts the standard HDI, which focuses attention on levels of achievement. However, the HPI is modified by the inclusion of certain indicators, which best capture human poverty in the Sri Lankan context which concentrates on deprivation and shortfalls (UNDP 2013). The indicators used in the compilation of monetary and human poverty indices for Sri Lanka are given in Table 2.

Table 2: Indicators for the Measurement of Poverty

Monetary measures	Non-Monetary measures	
CBN method	HDI indicators*	HPI indicators*
· Income/ consumption	· life expectancy · adult literacy rate · real GDP per capita	· percent of population dying before age 40 · adult illiteracy rate · inability to obtain safe drinking water · households with no toilet facilities · proportion of child births outside formal medical institutions · proportion of children not immunised · proportion of pregnant women not immunised · proportion of population without access to electricity

*Source: UNDP-Sri Lanka 1998

There have been attempts to compute composite indicators of multidimensional poverty using data from surveys conducted in Sri Lanka. Siddhisena and Jayathilaka (2004) used seven factors such as nutrition, primary education, health care, sanitation,

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[4] Child mortality, nutrition, years of school, children enrolled, cooking fuel, toilet, water, electricity, floor and assets.

safe water, housing quality and income to compute the composite index and observed that the ranking order of Districts were different when composite indices were used compared to the Head Count Index based on the income based poverty line. The Multidimensional Poverty Headcount (MPI) calculated by the Institute of Policy Studies (UNDP 2012) using three dimensions (health, education and living condition) and ten indicators revealed that income poverty was considerably higher than multidimensional poverty in all the Districts. The observation was true for urban and rural areas. For the estate sector, both were the same at 11.4 percent.

Attempts have been made at CEPA through a few research studies to compute a composite indicators of multidimensional poverty. Mayadunne and Romeshun (2011) explored possibilities of estimating multidimensional poverty in a selected urban area in the city of Colombo. The study was very much exploratory, in the sense that the objective was to examine the feasibility of constructing multidimensional indices using a composite indicator calculated for 14 dimensions using data from a very small sample of households (20) that were above the official poverty line. The results revealed that based on a calculated uni-dimensional composite index and selected thresholds about 30 percent of households could be below the deprivation threshold indicating a possible under estimation of urban poverty when calculated using a monetary poverty line.

Sanjeewanie *et al.* (2012) attempted to compare Samurdhi recipient households with Samurdhi non recipient households in relation to deprivation in multiple dimensions, to better understand the nature of poverty of the Samurdhi target group using data from a pilot survey in the Badulla District in 2010. The analysis focused on the multiple dimensions of income, household assets and shelter, quality of employment, empowerment, dignity, physical safety, and psychological and subjective wellbeing. The evidence suggests that poor households are deprived on a number of dimensions, not just in the income dimension. The dimensions of importance were income, basic needs, quality of employment, dignity and respect, and psychological and subjective wellbeing.

Poverty measurement using the social exclusion approach in Sri Lanka adopts a "groups" approach, i.e. it is argued that this or that group is socially excluded. The participatory approach is used to identify dimensions that can be used for constructing multidimensional indicators of poverty, and identifying the dynamic processes of poverty (Gunewardena 2005). This approach to measuring poverty argues that poverty and ill-being must be defined by 'the poor'. In the "Perceptions of the Poor" (ADB 2001) study, poverty was defined in terms of lack of something: lack of employment, sufficient income, infrastructure, housing, land, water and food. The definition of poverty further differed based on the person's location. In Hambantota, poverty was defined as poor economic conditions, not having a house, a job, water for drinking and for cultivation, and crops being damaged by animals. In Trincomalee, on the other hand, poverty was defined as having no food, clothes, employment and freedom. In the conflict-affected North and East many aspects of poverty were linked to the armed conflict and its consequences. Therefore, in addition to the material dimension, the lack

of freedom (for mobility and to earn a living) was also pointed out as a condition of poverty.

4.   Demographics

According to the population and housing census carried out in 2011, Sri Lanka has an estimated population of 20.3 million. The average annual population growth rate between 2001 and 2012 is at 0.7 percent indicating that the population in Sri Lanka is growing but at a lower rate. The Western Province is home to 28.8 percent of the total population while only 5.2 percent of the total population lives in the Northern Province. More than 39 percent of the population in the Western province live in the districts of Colombo and Gampaha.

Colombo District records the highest population density of 3,438 persons per square km, which is more than ten times the national level of 323 persons per sq. km. The lowest densities are recorded in Mullaitivu with 38 persons per sq. km. Sri Lanka records a crude birth rate of 17.6 per 1000 people and total fertility rate of 2.3 births per women (DHS 2009). According to the population and housing census carried out in 2001, 82 percent of the total population is Sinhalese, 4 percent Sri Lankan Tamils (this figure is low because the entire population from the North and East are not included), 5 percent Indian Tamils and 8 percent Sri Lankan Moors.
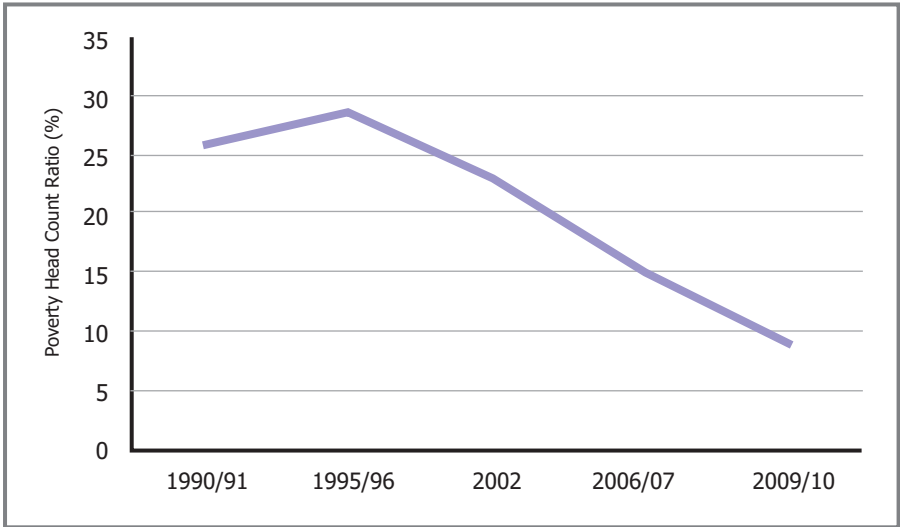
Sri Lanka's population is ageing fast and it is estimated that 25 percent of the population will be over 60 years of age as Sri Lanka enters the 2040's (World Bank 2008). The share of elderly population over 60 years old is expected to increase from 12.5 percent to 16.7 percent in 2021. Ageing is an outcome of Sri Lanka's policy of family planning, decreasing fertility levels and increasing life expectancy. Sri Lanka is currently experiencing a demographic bonus, with a larger (67 percent) working age (15-64) population in comparison with children and the elderly and needs to make use of the opportunity to improve growth and wellbeing.

5.   Poverty levels

5.1 National
Sri Lanka has been and continues to be of great interest to development researchers due to its outlier position within "the lower middle income countries" category as its performance in human and social indicators are on par with developed nations. Furthermore, this success story does not hold for consumption poverty, irrespective of it being measured in its absolute or relative form.

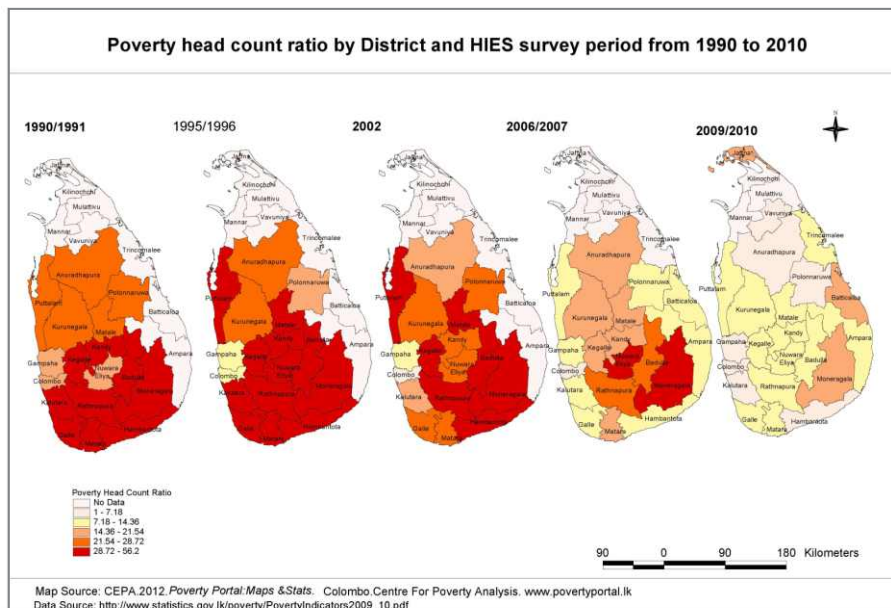**Figure 1: National Poverty Trends**

Sri Lanka, however, shows a declining trend in poverty levels during the periods of 1995/96 - 2009/10. According to the official poverty line released by the DCS, the incidence of poverty in 1995/96 was 28.8 percent, and it declined to 22.7 percent in 2002. This has further declined to 15.2 percent reported in 2006/07 to 8.9 percent in 2009/10 (Figure 1).

5.2 District and Provincial Poverty

The provincial poverty level shows the highest Head Count Index of 14.8 percent in the Eastern province followed by Uva province (13.7 percent) in 2009/10. When compared, it is evident that poverty incidence declined in all the provinces from 1990/91 to 2009/10 except for the Eastern province. The Sabaragamuwa, North Central and Central provinces record a declined poverty level by more than 50 percent from 2006/07-2009/10. Although only 3 percent of the households in the Western province are poor, when it comes to absolute numbers it has the largest number of poor as one third of the total population reside in this Province.

Figure 2: Poverty Head Count Index by District

Poverty head count ratio by District and HIES survey period from 1990 to 2010

1990/1991   1995/1996   2002   2006/2007   2009/2010

Poverty Head Count Ratio
No Data
1 - 7.18
7.18 - 14.36
14.36 - 21.54
21.54 - 28.72
28.72 - 56.2

90   0   90   180 Kilometers

Map Source: CEPA.2012.*Poverty Portal:Maps &Stats.* Colombo.Centre For Poverty Analysis. www.povertyportal.lk
Data Source: http://www.statistics.gov.lk/poverty/PovertyIndicators2009_10.pdf

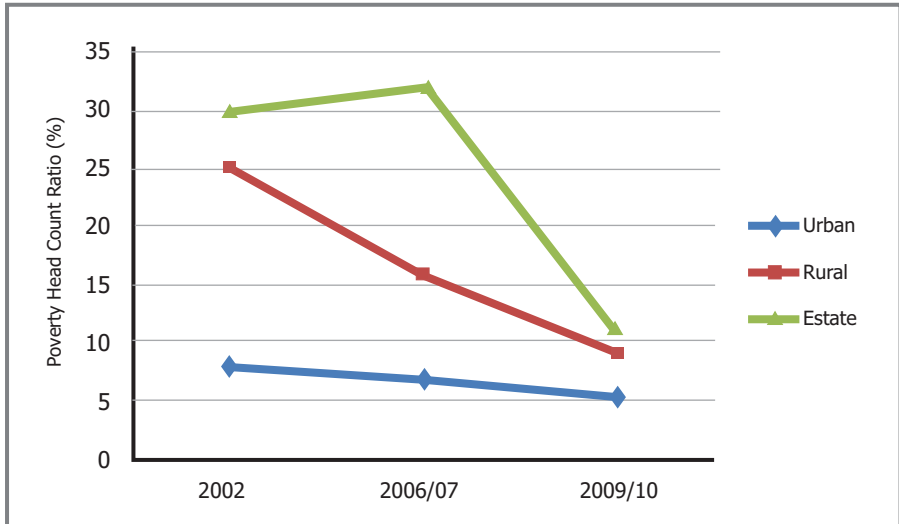*Source:* Department of Census and Statistics, various years

When districts are compared, the highest (20.3 percent) Head Count Index (the percentage of population below the official poverty line) was reported from Batticaloa district and the lowest (2.3 percent) was reported from Vavuniya district in the 2009/10 period. According to Figure 2, the district poverty levels range from 3.6 percent in Colombo to 14.5 percent in Moneragala in 2009/10. All the districts show a significant reduction in poverty level since 2006/07. The highest decline (77.6 percent) in poverty was reported from Nuwara Eliya district since 2006/07. Hambantota district showed a 60 percent drop of poverty during 2002-2006/07 while reporting a 46 percent drop since 2006/07. Badulla, Moneragala and Ratnapura which were the poorest districts in 2006/07 also show around 50 percent reduction of poverty. Moneragala district is the poorest among districts other than the Northern and Eastern districts. All the districts except Nuwara Eliya show a decreasing trend in poverty levels since 2002.

5.3 Sectoral poverty
All three sectors show a reduction in poverty level from 2006/07-2009/10 (Figure 3). The highest reduction is recorded in the estate sector during the same period although an increased level of poverty was observed during 2002-2006/07. However, poverty in Sri Lanka is still mainly a rural phenomenon. In Sri Lanka the biggest contribution (80 percent) comes from the rural sector, reflecting its highest population share. Therefore

the sharp drop of rural sector poverty reported since 2002 is the main contributor for the drop of poverty at national level.

Figure 3: Poverty Head Count Index by Sector

Nanayakkara (2013) in an attempt to identify poorer groups in Sri Lanka using HIES 2009/2010 data has shown that nearly one fourth (23.6%) of the people in "income poverty" are living in households headed by "non agricultural labourers and similar workers" followed by "skilled agricultural, forestry and fishery workers (19.4%). People in the same socio economic groups are among the highest in "multidimensional poverty" following a similar pattern.

6.   Socio economic conditions

6.1 Education

Sri Lanka's high achievement in human and social development can be attributed to its long standing egalitarian approach to social welfare. Universal free education has led to a primary net enrolment ratio of 90.3 percent. The adult literacy rate is on the increase with 92.2 percent of the population being literate, 93.5 percent of males and 91.1 percent of females (DCS 2011). However, disparities are observed among sectors and districts.

The estate sector lags behind with the net primary school enrolment rate of 94.6 percent compared to the urban and rural sectors (Table 3). The highest enrolment rates are recorded in Hambantota (100 percent) and Galle (99.3 percent) and the lowest is

recorded in Matara. The literacy rate for 15-24 years in all sectors and districts increased during the 2003-2006/07 period. The literacy rate is lowest for persons aged 15 to 24 years, in the Ratnapura (91.6 percent) and Puttalam (92.7 percent) districts.

Table 4:
Literacy and primary enrolment rates in Sri Lanka by sector, 2006/07

Sector/District	Primary enrolment rate	Literacy rate 15-24 years old
Urban	97.4	95.7
Rural	97.6	96.6
Estate	94.6	83.9

Source: Institute of Policy Studies 2010

Figure 4:
Literacy and primary enrolment rates in Sri Lanka by district, 2006/07
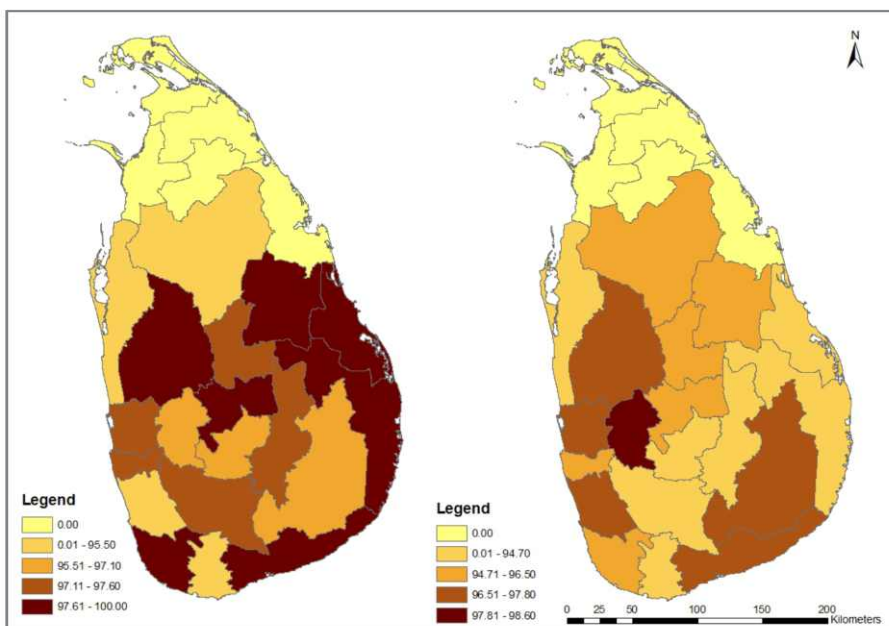
Source: Institute of Policy Studies 2010

6.2 Health
Heavy government expenditure and allocation to health care in the past has resulted in a high life expectancy of 74.9 years and a remarkable improvement in child mortality rates for children under five; 17 per 1000 live births in 2010 as opposed to 133 in 1966.

The child immunisation rate is also impressive at 97 percent. There is a decline in maternal mortality rate and an improvement in the number of births attended by skilled health personnel from 75 percent in 1980 to 98.6 percent in 2006 (Institute of Policy Studies 2010).

Whilst basic healthcare is satisfactory, Sri Lanka's achievement in preventive healthcare is less impressive and one of the major causes of poverty[5]. In addition, the provision of healthcare varies greatly across districts and even across villages within a district. It should also be noted that the national estimates of healthcare exclude the Northern and Eastern provinces, where health achievements are expected to be lower than the rest of the country.

6.3 Living conditions
Sri Lanka records a remarkable improvement in terms of living standards. According to the DCS 2011, 87.7 percent of total households have access to safe drinking water, 83 percent have improved sanitation facilities and 85.3 percent have access to electricity. However, in terms of safe drinking water the Uva and Sabaragamuwa provinces perform worse as 30.1 percent to 29.6 percent do not have access to safe drinking water. Jaffna and Batticaloa show higher percentages of households without toilet facilities.

With regard to acquiring knowledge and seeking information using new technologies, Sri Lanka depicts a sharp improvement. This is clearly evident due to an increase in usage of radio and television. Computer literacy surveys conducted by the DCS show that computers are becoming a household item mainly in the urban sector. The percentage of households having personal computers has increased from 3.8 percent in 2004 to 8.2 percent in 2006/07. The disparities between the urban sector and the other sectors and among provinces are significant. While 17.8 percent of urban households own a computer, only 6.9 percent and 1.1 percent own computers in the rural and estate sectors respectively. Although 8.2 percent of households have computers (in 2006/07) only 2.4 percent of them use internet facilities and 2.3 percent use e-mail facilities in Sri Lanka.

6.4 Gender development
Sri Lanka has a mixed performance with regard to gender development. Female literacy rates are high and school enrolment rates are higher than for males although regional disparities prevail. However, overall female participation in the labour market is low compared to male participation, even though the female unemployment rate is declining with a large number of women engaged in economic activities in the informal sector including in casual wage employment. Furthermore, women constitute the majority among the vulnerable groups including agriculture wage labourers, low-paid piece rate workers and unpaid family workers, female-headed households in low income families, victims of gender-based violence and women affected by the armed conflict including war widows (Schokman 2012).

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[5] Household interviews carried in 17 districts to gather data for Sri Lankan Report on Community Food Security Profiling, 2002 (unpublished report)

The Human Development Report 1995 introduced two measures of human development that highlight the status of women. First, the Gender-related Development Index (GDI) considers the inequality in achievement between women and men. The second measure, Gender Empowerment Measure (GEM) is a measure of agency, which evaluates progress in advancing women's standing in political and economic forums. Due to various conceptual and methodical limitations of the above indexes, the Gender Inequality Index (GII) was introduced in 2010. It measures the inequality between genders in three dimensions, women's reproductive health status, their empowerment and labour market participation relative to male participation (UNDP 2012).

Sri Lanka has a GII value of 0.419, ranking it 74 out of 146 countries in the 2011 index. Sri Lanka ranked above India and Pakistan and further above the average value for South Asia, which is 0.601. According to the UNDP (2012), the lowest GII value is recorded in Hambantota at 0.474, followed by Anuradhapura and Gampaha. The GII is highest in Batticaloa at 0.807, followed by Puttalam (Table 4). The high GII in Batticaloa is due to zero representation of women in Parliament and a low labour force participation rate of 24.4 percent. Both the maternal mortality ratio and adolescent fertility rate in Batticaloa are also high compared to other districts.

Figure 5: Gender Inequality Index by District 2011
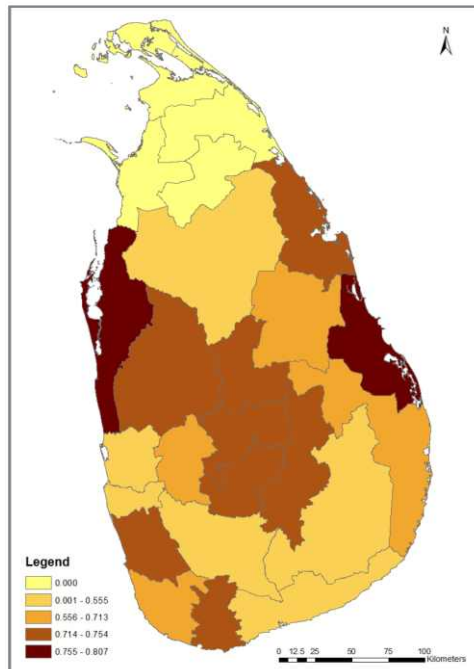
Source: UNDP Sri Lanka, 2012

7.   Sri Lanka's economic performance

Sri Lanka is a lower-middle income country with a per capita income of US$ 2,923 in 2012. The Gross Domestic Product (GDP) growth rate in 2012 was 6.4 percent, a decline from a high 8.2 percent in 2011. The ending of the 30 year old civil war in 2009 and the subsequent peaceful environment have contributed to an increase in investor confidence, expansion of infrastructure facilities and renewed economic activities in the North and East; while favourable macro economic conditions have also contributed to this growth.   The strong growth performance has contributed to the reduction of unemployment which was reported as 4.0 percent in 2012 (Central Bank, 2012).

8.   Summary

Poverty in Sri Lanka has declined from 30.4 percent in 1990 to 8.9 percent in 2010. However, approximately 1.8 million people are still below the poverty line and a large proportion of them are just above the poverty line and are at a risk of becoming poor due to economic and other shocks (Nanayakkara 2013). There is a substantial regional variation in poverty levels and the Eastern province has the highest share of the poor. Sectorally, the rural community is the most prone to poverty although the estate sector records a higher level of poverty. A majority of the people in the income poor and multi-dimensionally poor categories are from households headed by "non agricultural labourers and similar workers".

Since independence, Sri Lanka has averaged a GDP growth rate of about five percent despite the war in the North and East. The end of the war in 2009 contributed to greater business confidence in Sri Lanka, and coupled with the investments by both government and other sectors, was able to achieve an eight percent growth in 2010 and 2011. This continued economic growth has contributed to significant progress in poverty reduction in Sri Lanka. Sri Lanka's relatively higher levels of achievement in education, health and living conditions, in comparison to other countries, have also contributed to the decline in poverty levels.   In comparison to other developing nations, Sri Lanka fares well with regard to gender development. Although female participation in employment has increased over the years, the mean income earned by women is lower than men resulting in lower well-being amongst female headed households.

There are increasing efforts at measuring poverty from a multi-dimensional perspective. In addition to income, a number of factors have been used for this analysis and they include health, education, water, electricity, housing quality, employment, empowerment, dignity and psychological and subjective wellbeing. The assessment of poverty from these studies is mixed and is seen to be dependent on the indicators and methods used in the respective studies.

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