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Income Poverty in Sri Lanka: Beyond Traditional 'Poor' and 'Non-Poor' Classification

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Income poverty in Sri Lanka, which is measured by the official poverty line, has declined significantly over time. However, this line, which broadly defines the poverty status as the 'poor' and 'non-poor', does not address the huge disparities within each of these two groups. This paper classifies the poverty status in Sri Lanka into four categories – the 'extreme poor', 'poor', 'vulnerable non-poor' and 'non-poor'. It is found that 0.2 per cent of the households fall into the 'extreme poor' category while 16.3 per cent are in the 'vulnerable non-poor' group – they are more likely to fall back into poverty due to small shocks. Therefore, poverty reduction strategies, which target the broadly classified 'poor group', may not be sufficient and appropriate to lift those in the 'extreme poor' group out of poverty. Additional safety-net programmes are necessary to ensure the well-being of the 'vulnerable non-poor'.

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Introduction

Despite poverty being a global issue, its impact on low- and middle-income economies is more consequential than on advanced economies. Poverty is a complex economic and social phenomenon which is even difficult to define due to its multidimensional nature. While income poverty remains as a unidimensional measurement of this phenomenon, it is still important because most poverty-reduction strategies rely on income poverty thresholds. A monetary approach, which has a quantitative and well-defined threshold to identify the 'poor' and 'non-poor', provides the conceptual background to measure income poverty in Sri Lanka. As defined in the monetary approach, income poverty refers to not having or not being able to afford a certain minimum degree of necessities (both food and non-food) that are required to achieve at least a specific minimal standard of living. The threshold that is used to identify the 'poor' and 'non-poor' under this approach is technically known as the poverty line which is determined by the Department of Census and Statistics of Sri Lanka. The poverty line indicates the minimum expenditure required by a person per month to achieve an acceptable standard of living. The official poverty line in Sri Lanka was calculated in 2002 for the first time and then deflated using the Colombo Consumer Price Index in order to capture the price changes. According to the Official Poverty Line in August 2017, a person should be able to spend at least Sri Lankan Rs4,305 (S$37.50) per month in order to be not in poverty.

The poverty line-based classification of people into the 'poor' and the 'non-poor' ignores the huge disparities within each group. Specifically, sections of the 'non-poor' might be just above the poverty line and they might fall back into poverty due to any small shock. Thus, it is crucial to take into account disparities within the groups of the 'poor' and the 'non-poor' in order to implement more-realistic policies towards poverty reduction. This article has, therefore, identified four types of poverty status in Sri Lanka based on the Household Income and Expenditure Survey (HIES) data. In addition, the paper will discuss recent trends in poverty in Sri Lanka.

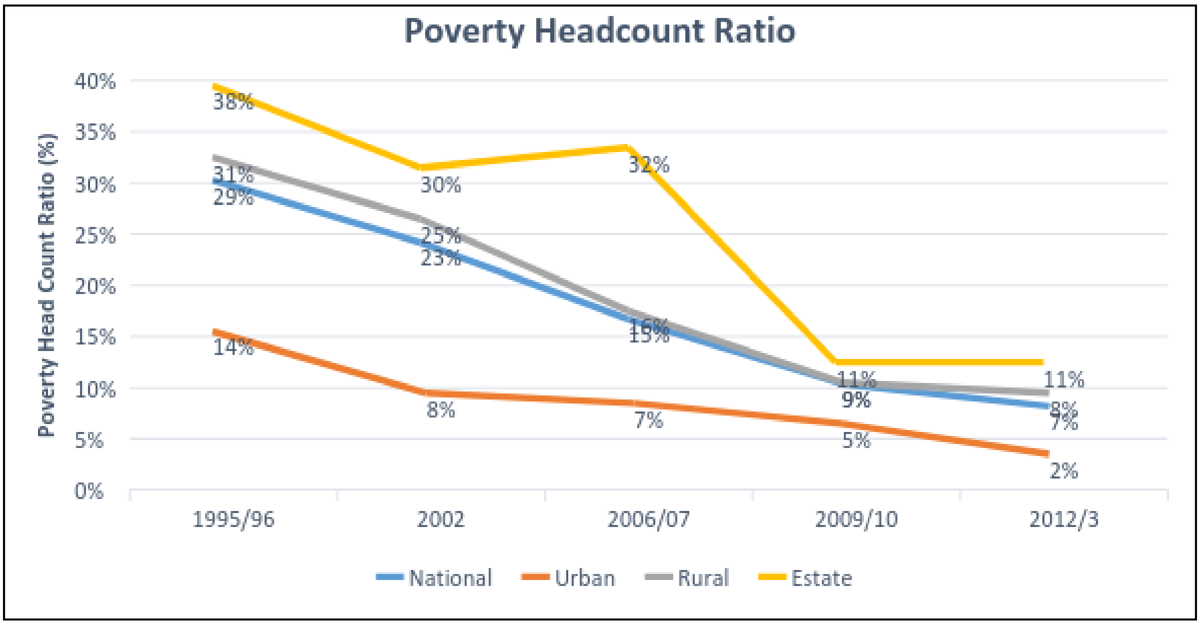
Recent Poverty Trends in Sri Lanka

The poverty incidence in Sri Lanka declined considerably during the last two decades. As Figure 1 depicts, the Poverty Headcount Index decreased dramatically from 26.1 per cent in

1990/91 to 6.7 per cent in the 2012/13 survey year. The downward trend in the poverty figures is more substantial after the 2006/07 survey years, and poverty index in the rural and estate[2] sectors fell to 9 per cent and 11 per cent respectively by 2009/10. In fact, the apparent drop in the estate-sector poverty in Sri Lanka during the period between 2006 and 2010 was mainly due to a hike in tea prices between 2006 and 2009. This resulted in higher profit margins in the tea industry which benefited the estate workers, too, in the form of increased earnings. Consequently, the real wages of estate workers rose while those of the rural and urban workers remained stagnant.

The conclusion of the civil war and the access to national identity cards allowed for greater mobility and economic opportunities for the estate Tamil population. However, the estate-sector poverty level (10.9 per cent) is still well above both the national level (6.7 per cent) and urban sector (2.1 per cent), which is indicative of the growing regional economic disparities.

<u>Figure 1</u>: Poverty Headcount Ratio of Sri Lanka



Source: Created by author based on HIES data from Department of Census and Statistics, Sri Lanka

This regional variation in poverty levels is stark at the provincial and district levels. The Western Province, where the economic activities are concentrated, recorded the lowest

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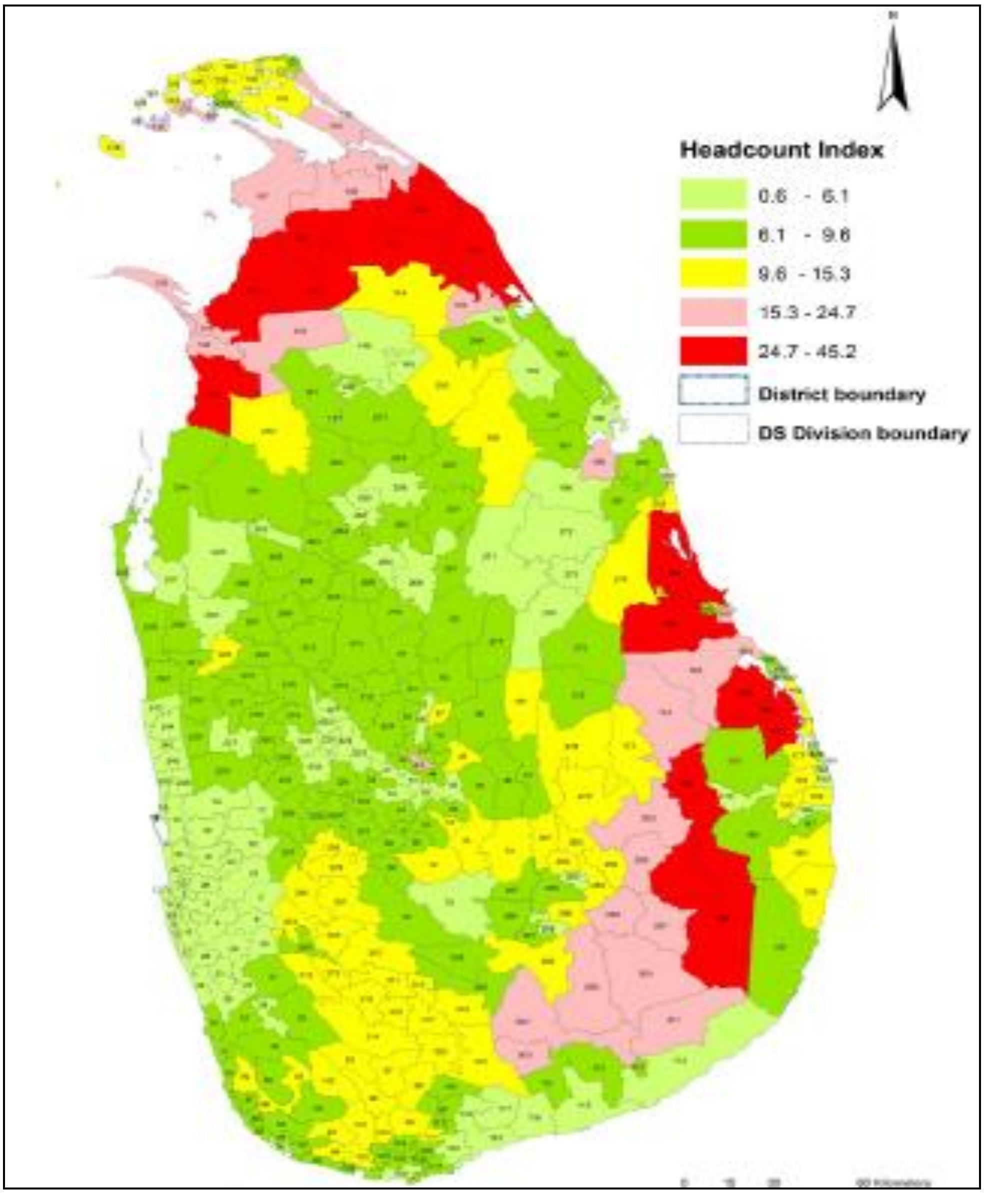
2 The estate sector consists of all plantations which are 20 acres or more in extent and with 10 or more resident labourers.

poverty headcount index (1.5 per cent) while Uva province has the highest headcount index (13.5 per cent) as of the 2012/13 survey data. Similarly, striking poverty rates still persist in several 'poverty pockets' such as Mullaitivu (28.8 per cent), Moneragala (20.8 per cent), Batticaloa (19.4 per cent) and Badulla (12.3 per cent). This is largely due to the lack of economic opportunities and the dis-connectivity with economic centres.

<u>Figure 2</u>: Distribution of Poverty Headcount Index by DS Division – 2012/13

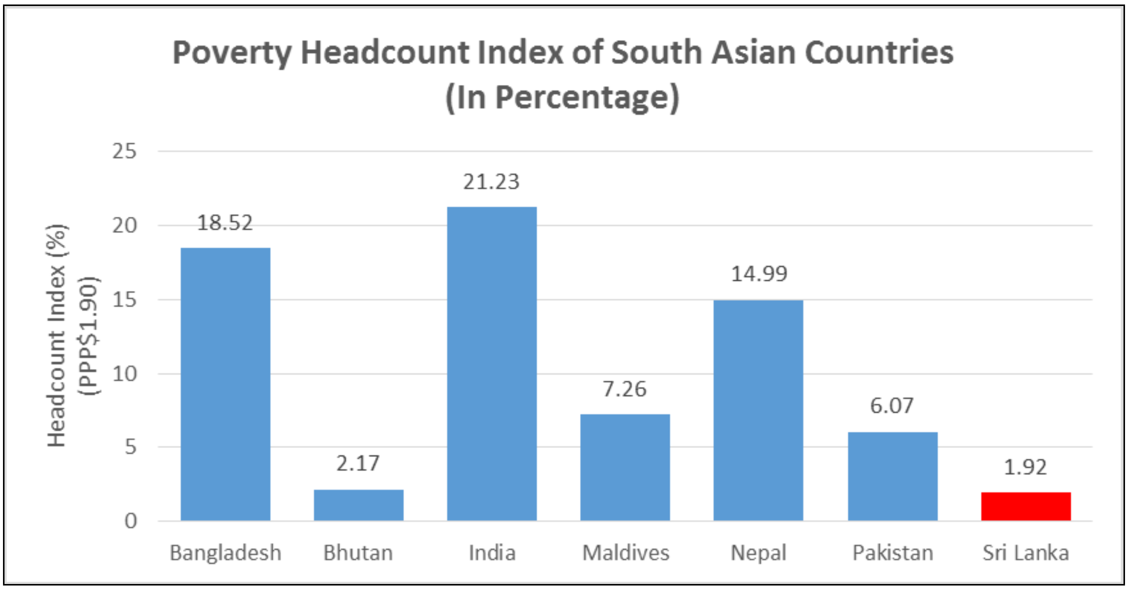


Source: Department of Census and Statistics, Sri Lanka

Despite regional disparities in poverty incidence, Sri Lanka accounts for the lowest poverty rate in the South Asia region. On the basis of the US$1.90 (S$2.56) [purchasing power parity] poverty line, only 1.92 per cent of people are poor in Sri Lanka while headcount indices for

India, Bangladesh, and Nepal are 21.23 per cent, 18.52 per cent and 14.9 per cent respectively. The relatively low poverty figure in Sri Lanka is mainly due to its improved education and health status compared to its South Asian counterparts.

<u>Figure 3</u>: Poverty Status of South Asian Countries



Source: Created by author based on the PavcalNet of World Bank

Beyond the 'Poor' and 'Non-Poor' Classification

The poverty trends, based on the traditional dichotomy, that is, the 'poor' and 'non-poor', do not reflect the vulnerability quotient of the 'non-poor' and the level of deprivation among the 'poor'. Hence, this paper identifies four types of poverty status which allow policy makers to formulate more-specific policy options towards poverty reduction. The classification of four types is as follows.

i. **Extreme Poor**: If the household's monthly expenditure is less than or equal to half of official poverty line (OPL).[3] (HH expenditure $\leq 0.5OPl$)

[3] The used official poverty line is Sri Lankan Rs3,624 [S$31.60] (HIES, 2012/13). However, the official poverty line for the household was calculated by multiplying the official poverty line by the size of each household.

ii. **Poor**: If the household's monthly expenditure lies between half of the official poverty line and the official poverty line. ($0.5OPL <$ HH expenditure $\leq OPL$)

iii. **Vulnerable Non-Poor**: If the household's monthly expenditure lies between the official poverty line and 1.5 times the official poverty line. ($OPL <$ HH expenditure $\leq 1.5OPL$)

iv. **Non-Poor**: If the household's monthly expenditure is higher than 1.5 times the official poverty line. (HH expenditure $> 1.5\ OPL$)

These four types of poverty status were calculated based on the HIES (2012/13) data. The results reveal that 0.2 per cent of households fall in the 'extreme poor' category – their monthly expenditure is less than half of the poverty line while 6.0 per cent of households fell in the 'poor' group. In fact, there are significant differences between these two groups in terms of their well-being and living standards due to differences in their purchasing power. Hence, the identification of the 'extreme poor' is crucial as they require special attention compared to the 'poor' in order for them to move out of poverty. Apart from the 'extreme poor' and the 'poor', the 'vulnerable non-poor', whose incomes are just above the poverty line, should also carefully be considered.

Table 1: Multifaceted Poverty in Sri Lanka

Types of Poverty	Percentage of Households
Extreme Poor	0.2 per cent
Poor	6.0 per cent
Vulnerable Non-Poor	16.3 per cent
Non-Poor	77.5 per cent

Source: Calculated by author based on the HIES (2012/13) of the Department of Census and Statistics of Sri Lanka

As Table 1 indicates, 16.3 per cent households are recognised as 'vulnerable non-poor' while 77.5 per cent households are viewed as genuinely 'non-poor'. The 'vulnerable non-poor' households have a higher risk of falling back towards poverty due to any micro-level (chronic disease, unemployment, etc.) or macro-level (inflation, imposition of taxes, etc.) shocks and natural disasters such as droughts, floods and tsunami. Consequently, it is necessary to take them into account while preparing poverty reduction strategies. Otherwise, the existing poverty rates might unexpectedly increase due to the descending movement of the 'vulnerable non-poor' which erodes their living standards.

In conclusion, income poverty in Sri Lanka has been declining significantly, despite the prevalence of several pockets with striking poverty rates. The broad classification of the households as 'poor' and 'non-poor' essentially ignores two vulnerable groups – the 'extremely poor' and the 'vulnerable non-poor', two groups that merit special attention. The calculation based on the HIES (2012/13) emphasises that 0.2 per cent of households are extremely poor while 16.3 per cent are more likely to be falling back into poverty due to small shocks. Thus, poverty reduction strategies which target the broadly classified 'poor group' may not be sufficient and appropriate to lift the 'extreme poor' above the poverty line. Additional safety-net programmes are necessary to ensure the well-being of the 'vulnerable non-poor'.

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