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**The Socioeconomic
Dimensions of
Poverty in Sri Lanka
and Policy
Implications**

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EXECUTIVE SUMMARY

This paper is one of a series to identify and appraise possible interventions to alleviate poverty in Sri Lanka and the implications for the program of the U.S. Agency for International Development in that country. The study examines the nature and the extent of poverty in Sri Lanka and suggests alternative policies to address the problem.

No great effort was devoted to define a poverty line or to discuss methodology in any detail, since these aspects of the problem are well known. In Sri Lanka, in particular, numerous authors have concentrated on methodological considerations to such an extent that poverty alleviation policies have played second fiddle to such activities. This paper tries to readdress this balance by concentrating on mapping the socioeconomic characteristics of the poor and examining policy alternatives.

Has poverty increased over the past decade? The conflicting evidence available gives no clear indication. The most recent estimates done for the World Bank suggest that from 1978 to 1987 all-island poverty rose from 22.3 percent to 27.4 percent of the population. There is some evidence to suggest that income distribution worsened over this period, especially with the elimination of food subsidies for poor groups. This conclusion must be tempered by uncertainty over data, price series, and methodological problems.

There is general agreement that the poor are concentrated among landless laborers; smallholders; urban, unskilled, informal-sector workers; and unskilled estate workers. However, few studies in the literature identify vulnerable groups by these sorts of socioeconomic characteristics and most concentrate on identifying the poor by decile and geographic location (estate, urban, or rural). The poor are a heterogeneous lot. What helps one may hurt another. Thus an increase in the price of rice may help the marginal farmer with a small marketable surplus, but hurt the casual laborer, who must purchase his rice. Such heterogeneity makes targeting of the poor difficult if not impossible. We need to know much more about those who fall below the poverty line to target with precision policy measures toward the poor.

The poor have smaller than average household sizes and contain slightly more young people than the island average. Ethnicity does not appear to be a major determinant of poverty, with the exception of the Indian Tamils on the estates. The poor have lower levels of education than the nonpoor to the extent that anyone who has achieved 'O' level or more is almost certain to be above the poverty level. Most authors argue that unemployment and poverty are closely linked, but this study finds that conclusion unproven.

Poverty has been identified across the socioeconomic spectrum in Sri Lanka, with the largest group being the landless laborers. However, if a very restricted definition of poverty is used — that by Sahn for the ultra-poor — then pockets of extreme poverty are more prevalent in the urban than the rural areas. We conclude that no amount of provocation of the ultra-poor to self-drive themselves out of poverty will work, since their circumstances are too desperate for them to have the energy and vigor to do this. But the ultra-poor are a small group (5 to 8 percent of the population) compared with the large numbers of poor identified when poverty lines are set at higher levels. Direct grants are probably the main solution for the ultra-poor and should not be too onerous on the exchequer since there are relatively few ultra-poor.

The next group of poor can be helped more to help themselves. For example, the provision of small-scale training facilities at the village level plus modest payments for attendance could start this process, and aspects of the revised Janasaviya program seem to appreciate this point. But, no amount of training will help on the supply side if the demand for skills is lacking. Thus a reexamination of Sri Lanka's macro development strategy is also required.

SECTION ONE

INTRODUCTION

This study is one of a series to identify and appraise possible interventions in poverty alleviation in Sri Lanka and their implications for the Sri Lanka program of the U.S. Agency for International Development. The other studies in the series have looked at poverty, malnutrition, and health (Khan, 1989), the nature of the employment problem in different segments of the labor market (Kannapan and Nelson, 1989), and a third study is to focus on opportunities for low-cost housing. The present study is designed to provide specific insights into the nature of the poverty problem, its contextual relationships, and possible policy interventions.

The macroeconomic backdrop to the study is well known from government documents and the work of the World Bank and will, therefore, not be repeated here. Poverty in Sri Lanka poses a most urgent political problem to the government as well as the donor community. Its alleviation ranks first among the priorities of the Government elected to office in early 1989, as instanced by its ambitious poverty alleviation program, *Janasaviya* — literally, "strength of the people." There is considerable skepticism about the program, but donors, and in particular the World Bank as well as USAID, acknowledge that special efforts are required to address the problem of poverty.

The measurement of poverty lines, the identification of the poor, and the medium-term tendencies are all difficult to establish with certainty. Some estimates put the number of poor at over 50 percent of the population, while others estimate the ultra-poor to be of the order of 3 to 8 percent depending on geographical region. The interest in and attempts to measure poverty in Sri Lanka, among both national and international scholars, have been extremely high as a glance at the attached bibliography attests. However, this widespread interest and the plethora of documents do not make the analyst's job easier, particularly as the documents are often contradictory and the further one delves into the problem the more difficult understanding becomes. In particular, the necessary information to understand the different sorts of poverties by socioeconomic group is generally absent.

OBJECTIVES OF STUDY

1. To identify the socioeconomic characteristics of the poor using secondary sources and discuss whether this has changed over the late 1970s to mid-1980s.
2. In the light of an overall strategy to bring about growth with equity, to identify specific policies to ameliorate poverty in the medium term.
3. To identify the most promising potential USAID interventions to help alleviate poverty over the medium term.

OUTLINE OF STUDY

The study is organized as follows. Section Two looks at how poverty has been measured in Sri Lanka. It presents a number of different authors' definitions and their findings, and suggests what an appropriate poverty measure could be. This is followed by a discussion of the underlying data. Section Three uses existing studies to map the socioeconomic characteristics of the poor. This is done in turn by socioeconomic groups, nutritional status, employment characteristics, the demographics of poverty, and poverty by educational level. The section ends with an impressionistic commentary on what has happened to poverty since the last survey of 1986/87 was taken. Section Four provides an overview of the main causes of rural poverty and is followed by a section that documents the major government policy responses to poverty over the past two decades. Section Six examines a number of possible alternative strategies and policies that could potentially ameliorate poverty before ending with some suggestions on possible areas of assistance for USAID and other donors. Section Seven presents some concluding remarks. Two short appendices are added. The first relates current concerns on the environment with poverty, and a second presents the fiercely contested argument that Sri Lanka's high scores on many social indicators were achieved at great cost in terms of economic progress.

SECTION TWO

MEASUREMENT OF POVERTY

THE VARIOUS POVERTY MEASURES USED¹

It is not the purpose of this section to go into great detail on the concept and measurement of poverty lines. The poverty literature in Sri Lanka has covered these in great detail, and good accounts can be found in Kahn (1989) or Alailima (1988). There is no objective way in which a poverty line can be set (see the discussion below on poverty and nutrition). The most common methodology is to set a line based on nutrition standards, by calculating the expenditure or income that a household or individual requires to satisfy their nutrition requirements. Since 60 to 70 percent of a poor families' expenditure is allocated to food, this shows that an attempt to base a poverty line on food consumption is a reasonable approach. Of course, people are poor because they lack not only food but decent housing, clothing, and access to education, health services, and so forth. Methodologies to estimate poverty lines to include such items are discussed in the literature (see for example Hopkins and Van Der Hoeven, 1983).

How then should a poverty line be set?² As there is no objective way in which poverty lines can be set (and a glance at Table 1 shows the many efforts that have been made for Sri Lanka), the only way is to try and achieve a consensus on what is a poverty line. While this line may be justified by the numbers of poor below an income necessary to purchase basic needs, or simply be a reasonable figure given by a politician, consensus must be obtained. It is worth repeating that there is no objective or technically undisputed way to set a poverty line.

What does the Sri Lankan literature say about poverty? Most studies in Sri Lanka have used the concept of absolute poverty, in which a fixed poverty line was used to delineate the poor. The minimum subsistence level or minimum nutritional requirement to be physically efficient has been usually used to fix poverty income lines. The earliest endeavor to quantify absolute poverty, according to Alailima (1988), was reported in the Social Services Commission Report in 1947 and followed the approach used by the celebrated Beveridge Report (1942). A subsistence level was derived by estimating the cost of minimum living for individuals. The numbers in poverty were not quantified and the Commission simply noted that there was a large proportion of the population living below the poverty line. The Dudley Seers International Labor Organization (ILO) report of 1971 estimated the minimum amount of money required for nutritional adequacy to be somewhere within the income group Rs.100-200, depending on the household size and cost of living in the area. It was noted that "quite a large fraction of households are in this twilight zone (35 percent) and some below it (8 percent)," but the report concluded that "in judging these figures one must bear in mind Ceylon's free education and health services, its social security and its food subsidies programme."

¹ This review section has drawn liberally from Alailima's Ph.D. thesis which she kindly made available for our study.

² Thanks to R. Kanbur for discussion on this.

TABLE 1
PERCENTAGE OF POPULATION IN POVERTY (1969/70-1986/87)

Year	Source	Urban	Rural	Estate	All Island
1. 1969/70	Bhalla (1985) Table 16a	4.9	12.8	11.1	11.2
2. 1973	Kahn (1989) Table 3.1	-	-	-	16.7
3.	Anand (1985) Table 4.1	22.7	31.6	8.1	27.6
4. 1978/79	Gunaratne (1985) Table 15	19.4	25.0	7.6	22.3
5.	Kahn (1989) Table 3.1	-	-	-	11.8
6.	Gunaratne (1989)	16.0	22.7	5.9	19.5
7.	Anand (1985) Table 4.1	24.4	23.8	8.9	22.7
8. 1980/81	Bhalla (1985) Table 16a	16.9	25.9	25.0	24.1
9.	LFSE - 1980/81	51.5	50.9	42.7	50.5
10.	Kahn (1989) Table 3.1	-	-	-	39.2
11. 1981/82	Gunaratne (1985) Table 15	17.7	26.1	12.3	23.6
12.	Anand (1985) Table 4.1	19.6	23.2	13.8	21.9
13. 1985/86	Kahn (1989) Table 3.1	-	-	-	28.6
14.	LFSE - 1985/86	27.6	45.7	5.7	39.4
15. 1986/87	Gunaratne (1989)	12.3	32.4	5.9	27.4

POVERTY LINE PRICES
Rs. per month

REMARKS

1. N/A	1969/70	Equivalent poverty line using derived average price changes.
2. 26.50 (per capita 1973 income)		Minimum Cost Bundle Method.
3. N/A	1973	Equivalent poverty line using derived average price changes.
4. 70.00 (per capita monthly food expenditure)	1978/79	Used the average per capita monthly food expenditure of the bottom 40 percent households and ranked, to derive the poverty line.
5. 50.80 (per capita income)	1978/79	Minimum Cost Bundle Method.
6. N/A	1978/79	Households having food expenditures below a level required to meet nutritional requirements.

TABLE 1 -- Continued

POVERTY LINE PRICES Rs. per month		REMARKS
7. N/A	1978/79	Equivalent poverty line derived using average price changes.
8. N/A	1980/81	Equivalent poverty line derived using average price changes.
9. 1466 for urban 1101 for rural 845 for estate (per household	1980/81	Monthly income required to purchase minimum nutritional income) requirements and other basic needs.
10. 110.00 (per capita income)	1980/81	Minimum Cost Bundle Method.
11. N/A	1980/81	Equivalent poverty line derived using average price changes.
12. N/A	1981/82	Equivalent poverty line derived using average price changes.
13. 175.00 (per capita income)	1985/86	Minimum Cost Bundle Method.
14. 1920 for urban 1610 for rural 1451 for estate (per household income)	1985/86	Monthly income required to purchase minimum nutritional requirements and other basic needs.
15. N/A	1986/87	Households having food expenditures below a level required to meet nutritional requirements.

Note: In Minimum Cost Bundle Method income required to buy minimum consumption bundle is considered.

TABLE 2
PERCENTAGE OF HOUSEHOLDS IN POVERTY (1969/70-1985/86)

Year	Source	Urban	Rural	Estate	All Island
1. 1973	Kahn (1989) Table 3.1	-	-	-	18.5
2. 1978/79	Kahn (1989) Table 3.1	-	-	-	12.5
3.	Gunaratne (1985) Table 15	15.8	21.2	6.0	18.5
4. 1980/81	Kahn (1989) Table 3.1	-	-	-	34.8
5.	LFSE - 1980/81	58.0	58.7	55.7	57.3
6. 1981/82	Kahn (1989) Table 3.1	-	-	-	12.2
7.	Gunaratne (1985) Table 15	14.6	22.4	10.0	20.1
8. 1985/86	LFSE - 1985/86	32.7	51.1	9.9	44.7
9.	Kahn (1989) Table 3.1	-	-	-	25.1

POVERTY LINE PRICES
Rs. per month

REMARKS

1. 26.50 (per capita income)	1973	Minimum Cost Bundle Method.
2. 50.80 (per capita income)	1978/79	Minimum Cost Bundle Method.
3. 70.00 (per capita expenditure)	1978/79	Used average per capita monthly food expenditure of the bottom 40% are ranked.
4. 110.00 (per capita income)	1980/81	Minimum Cost Bundle Method.
5. 1466 for urban 1101 for rural 845 for estate (for household income)	1980/81	Monthly income required to purchase minimum nutritional requirements and other basic needs.
6. 112.00 (per capita income)	1981/82	Minimum Cost Bundle Method.
7. N/A	1981/82	Equivalent poverty line derived using average price changes.

TABLE 2 -- Continued

POVERTY LINE PRICES Rs. per month	REMARKS
8. 1920 for urban 1610 for rural 1451 for estate (per household income)	1985/86 Monthly income required to purchase minimum nutritional requirements and other basic needs.
9. 175.00 (per capita income)	1985/86 Minimum Cost Bundle Method.

More comprehensive assessments were done by Alailima (1978) and the Marga Institute (1978). They used an average minimum intake of 2200 calories per person per day — the average minimum recommended by the Medical Research Institute — to derive poverty lines for 1969/70 and 1973 respectively. Alailima, using per capita calorie consumption data from the 1969/70 survey by the Department of Census and Statistics (DCS), estimated that those in urban areas with monthly household incomes less than Rs.200 and those in rural areas with monthly incomes less than Rs.150 could not meet their minimum calorie needs, while all those in estate areas attained the norm. Using calorie consumption data from the 1973 survey done by the Central Bank of Ceylon (CB), the Marga study calculated that spending units with Rs.100-200 per month achieved marginally adequate intakes. They took the average per capita income of Rs.36.5 per month for this group as an all-island poverty line. Alailima concluded that 18 percent of the population was in poverty in 1969/70 while the Marga study found that 24 percent of the population in 1973 was in poverty. Using a derived food consumption basket for 1977, since no consumption survey was available for that year, Alailima further estimated that 38 percent of the population was not satisfying its minimum nutrition requirements. Nevertheless, the different methods used to estimate poverty in 1970 and 1977 probably account for part of the substantial increase in estimated poverty between these two years.

Visaria (1979) recorded a much higher incidence of poverty using the same 1969/70 data. He assessed the poverty population on the basis of a norm of 2220 calories per capita per day and 2750 calories per adult equivalent. He obtained, unsurprisingly, higher estimates for those in poverty of around 52 percent for 1969/70.

Sahn (1985), using the FAO/WHO (1973) recommended daily calorie allowances, found that 45 percent of the population did not achieve this level in 1980/81. However, since this standard assumes that there is no stunting of growth in the population, he felt that it overstated the real needs and preferred to work with a categorization in terms of the "ultra-poor" and the "nutritionally-at-risk." The ultra-poor were defined as those who achieved less than 80 percent of their calorie needs but were spending more than 80 percent of their expenditure on food. The nutritionally-at-risk were those who satisfied less than 80 percent of their calorie needs but spent less than 80 percent of their expenditure on food (Table 3). Using the ultra-poor definition unsurprisingly gave substantially lower estimates of poverty of 8.1, 3.7, and 3.8 percent for urban, rural, and estate areas respectively. What was surprising was that extreme poverty or malnutrition showed up more in the urban area; this is contrary to many of the estimates of poverty given in Tables 1 and 2 and suggests that more analysis should be done about the depth of poverty below the poverty lines.

TABLE 3
ACHIEVEMENT OF CALORIE ADEQUACY BY
HOUSEHOLDS, 1980/1981 (PERCENT)

	Urban	Rural	Estate
Less than 100% of Requirement	49.0	42.9	32.6
Less than 80% of Requirement	24.5	20.4	13.3
- ultra-poor	8.1	3.7	3.8
- nutritionally-at-risk	16.4	16.7	9.5

Source: Sahn (1985) Table 2.13

Bhalla (1985), Anand and Harris (1985), and Gunaratne (1985) used the average per capita monthly food expenditure of the bottom 40 percent of households ranked according to per capita food expenditure to derive a poverty line for 1978/79 of Rs. 69; equivalent poverty lines were then obtained for the periods 1969/70 and 1980/81; 1973, 1978/79 and 1981/82; and 1978/79 and 1981/82, using three different intersectoral price indices. Table 1 gives the estimates of poverty these three authors obtained for the period 1969/70 to 1981/82. Their results show that most poverty is in the rural areas, followed by the estate and urban areas. Over 1978/79 to 1981/82 the authors, except Anand, showed slightly increased poverty. Anand showed slightly reduced poverty. From this contradiction it is evident that different degrees of poverty incidence have been arrived at according to the various ranking and other criteria used. Even within the same study, the use of different price indices can give different estimates for the same year, despite using the same data base.

Kahn (1989) did a detailed study on nutrition, health and poverty for USAID. He estimated a poverty line using a minimum cost bundle method and showed that poverty increased sharply from 1978/79 to 1985/86 (from 11.8 percent of the population to 28.6 percent). His low figure for 1978/79 (others such as Gunaratne (1985 and 1988) or Alailima (1988) were giving figures of 19.5, 22.3, or 35.4 percent) was probably due to price estimation difficulties and inconsistencies. The last estimate obtained was from Gunaratne (1989) for The World Bank; he estimated the number of households having food expenditure below a level required to meet nutritional allowances,³ and is the first to have presented results using the 1986/87 Socio-Economic Survey (SES). He showed (Table 1) that poverty increased from 19.5 percent of the population in 1978/79 to 27.4 percent by 1986/87. Most of this increase was in the rural and estate sectors while urban poverty decreased.

Has poverty increased over the past decade? The conflicting evidence of Tables 1 and 2 does not tell us. Over 1978 to 1987, GNP per capita grew at 3.3 percent a year,⁴ but according to Gunaratne (1989) all-island poverty rose from 22.3 percent to 27.4 percent of the population. To obtain such a result in the face of such high

³ Full details are not yet available on how he made his estimates.

⁴ Calculation based on deflated GNP figures and population estimates in Kannappan and Nelson (1989).

income per capita growth suggests that the distribution of income worsened considerably over the period 1978 to 1987. There is some evidence that the income distribution did worsen over the period, especially with the elimination of food subsidies for poor groups. Nevertheless, substantial worsening of income distribution must have occurred for poverty to have increased at the rate it seems to have done on the basis of Gunaratne's figures.⁵ In conclusion, poverty apparently increased over the decade 1978-1987, or at least was not reduced by much if at all. This conclusion must be tempered by uncertainty over data, price series, and methodological problems.

ASSESSMENT OF EXISTING DATA SOURCES AND THEIR VALUE IN DEVELOPING A TAXONOMY OF POVERTY

As seen, an accurate assessment of the magnitude and incidence of poverty is hampered by the lack of good quality data. While differences in concepts and definitions cloud the issue, data that is often poor in quality and deficient in coverage compound the situation. In this section a closer look is taken at the data available for poverty studies in Sri Lanka.

Poverty is a dynamic variable, and the study of dynamic processes on the basis of cross sectional studies has inherent dangers. Poverty studies in Sri Lanka have depended substantially on data from the Consumer Finance Surveys conducted by the Central Bank of Ceylon, and the Socio-Economic Surveys carried out by the Department of Census and Statistics. These were for the years 1953, 1963, 1973, 1978/79, and 1981/82 by the CB, and 1969/70, 1980/81, and 1985/86 by the DCS. It is inevitable that, over time, coverage and accuracy would have substantially improved. But lack of comparability, differences in definitions and timing of surveys, underreporting of incomes, overreporting of expenditures, inaccurate price indices, all present the investigator with many problems. Thus it should come as no surprise that, while there is broad agreement on the magnitude of the problem, estimates of poverty vary, sometimes widely. This has resulted in the current uncertainty on trends in poverty.

It has been said of poverty that it has many faces — like beauty it is easily recognizable when seen but difficult to quantify (Orshansky, 1969). Consequently, definitions, measurements, and solutions depend on the particular facet of poverty being studied. Studies in Sri Lanka have generally emphasized the concept of absolute poverty, and used either the income or nutritional approach to estimate numbers living in poverty. The income approach defines the poverty line in terms of the income required to buy a minimum consumption bundle, though the composition of this minimum bundle, presumably consisting of basic requirements for bare survival, is rarely made clear. The usual approach is to calculate the minimum income required for a particular year, and make adjustments for the period under study, using some appropriate index. How this index is calculated is also often not made clear.

⁵ There is reason to suspect that the growth rate figures used by Guneratne are incorrect because of faulty GNP deflators. Also, according to Alailima (1988), the studies by Bhalla, Anand, Harris and the earlier 1985 study by Guneratne suffer from two major weaknesses. First, using a poverty line based on the average expenditure on food consumption of the lowest 40 percent of households to determine poverty will generally identify a number around 20 percent of the population as being in poverty; these are very nearly the results for the years closest to 1978/79. Second, these studies used average price changes for the entire population to determine the poverty lines for the years 1969/70, 1973, 1980/81 and 1981/82, despite the fact that Bhalla's estimates show that price changes for the lower quintiles were substantially greater than for the higher quintiles.

In the nutritional approach, discussed above, an average per capita intake of 2250 calories or 2500 calories per adult equivalent, is used to delineate the cutoff point for poverty. The arbitrariness in determining the minimum income of the calorie cutoff point is acknowledged. To overcome this problem, the concept of relative poverty is used.⁶ A standard measure is to examine the ratio between the average income of the top to the bottom of the decile income distribution. In a sense, a poverty line that looks at the bottom 30 or 40 percent is a measure of relative poverty. Only two such studies, namely those of Visaria (1981) and Alailima (1988), resort to this approach. But, while the concept of absolute poverty emphasizes the dynamic aspects, the concept of relative poverty assumes that the poor will always be with us.

The CB surveys collect information on the basis of spending units, and per capita estimates are made on the basis of the size of the spending units. The DCS does so on the basis of households. While it is sometimes assumed that the two units of measurement are interchangeable, this need not be so. Again, there is no consensus in the literature on whether the household or the per capita estimate is the better indicator of poverty. Lipton (1983) argues in favor of using per capita estimates because family size differences can obscure whether individuals within a family are poor or not. And a fixed poverty line based on an assumed average household size might record some large households to be over the poverty limit while an individual line might include each individual to be in poverty. On the other hand, Alailima (1988) suggests that per capita estimates overlook the economies of scale in household expenditures, and that in any case government policy programs are directed at households and thus analysis in terms of households proves more useful.

It has been clearly shown that, in making comparisons, the representativeness of the years under study should be kept in mind. The possibility of underestimating or overestimating the movements in the magnitude of poverty exists. Fields (1988), for example, asserts that in comparing the survey estimates of 1969/70 and 1980/81, due regard must be given to the fact that 1970 was an unusually good year for the economy while 1980/81 was an exceptionally poor one.

Judgement of the overall representativeness of the sample surveys in question and the quality of the data have been made on the basis of tests of internal and external consistency, using data from census and food balance sheets. Edirisinghe (1987), Anand and Harris (1985), and Khan (1989) have all checked survey data with national income estimates. While Edirisinghe and Anand and Harris express general satisfaction with such checks of external consistency, Khan reports that survey estimates of both income and expenditure were lower than the national mean, and that such underestimation was greatest for the 1985/86 survey. Furthermore, Alailima (1988) comments that national income estimates themselves are often dependent on survey estimates. Even the accuracy of census data ranges from about 95 percent in the United States to 50 percent or less for some of the developing countries, and the components of food balance sheets can carry error ranges anywhere from about 15 to 100 percent (Jogaratnom and Poleman (1969).

All surveys seriously underreport income, and this is indicated by reported expenditures exceeding reported incomes over most income groups, except perhaps the highest. Khan (1989) reports that for the 1973 and 1980/81 surveys, mean expenditures exceeded mean incomes by 30 percent, a divergence which he considers high enough to raise serious questions regarding data quality. Mean incomes by income class are reported to show the same divergences, with the expenditure for the poorest group as much as 20 times that of income! In recent years, such discrepancies have widened,

⁶ As Alailima (1988) comments, to devise a standard relative to what is acceptable to a community also involves a large number of assumptions.

perhaps due to the implementation of targeted income transfer programs. It is also clear that such underreporting can vary by sectors. Thus the degree of such underreporting is expected to be much less for the estate sector, due to the resident labor force.

It is argued that expenditure, and food expenditure at that, should be used rather than incomes as a more reliable welfare indicator. But Khan (1989) shows that expenditure is subject to similar biases, since it is spread out over time and over different items. In addition, expenditure information is more likely to suffer from memory lapses than income. Korale and Premesaline (1989) describe underreporting of food expenditure in the 1985/86 survey, and suggest that the decline in food expenditures from 65 percent to 54 percent over a five-year period casts doubts on the validity of the data.

It is widely acknowledged that commonly used deflators, namely the implicit GDP deflator or the Colombo Consumers Price Index, grossly underestimate price increases (see Fields, 1986 or Alailima, 1988). Some attempts have been made to construct new indices, but these cannot be evaluated because the basis of their construction is not known.

The official rate of growth in per capita incomes has been questioned.⁷ Similarly, the rates of growth in living standards have been contested. While this may affect the growth versus distribution debate, it has more serious implications for a proper understanding of the causal mechanisms of poverty. Using one index, one concludes that real wages have increased. Using another, real wages are estimated to have decreased. Thus while Anand and Harris conclude that living standards improved over the period 1973 to 1981/82, Khan on the basis of incomes adjusted for underreporting asserts that the conclusion reached by Anand and Harris is invalid, and that, if anything, living standards dropped.

At a different level, a study of the policy responses of the government and their impact is hampered by a lack of reliable production data, especially for the agricultural sector. The DCS and the Department of Agriculture both collect agricultural statistics and these are often contradictory. Production estimates are often made on the basis of per capita consumption. Or production data are based on estimates of area and yield at the village level by different sets of officers. The variations and contradictions reflect the subjective judgments of the officers concerned. Estimates of paddy production based on crop cutting samples are not likely to be seriously affected, but the likelihood of errors creeping in cannot be ruled out (Jogarathnam and Poleman, 1969).

The above, therefore, throws into question the reliability of surveys and the poverty estimates based upon them. In particular, the representativeness and accuracy of the Labor Force and Socio-Economic Surveys of 1985/1986 must be reassessed in view of the unsettled conditions under which it was carried out.

⁷ Fields (1986) in his argument cited later in this paper argues that growth rates were less than 1 per cent per capita per year over the 1970s in real terms compared with the official estimates of around 3 percent.

SECTION THREE

SOCIOECONOMIC CHARACTERISTICS OF POVERTY IN SRI LANKA

In this section, existing surveys, villages studies (for example, the MARGA study), and qualitative assessments will be used to build a picture of who the poor are and whether different groups are being affected either seasonally or over a number of years. The analysis will attempt to map changes from around 1977/78 to the present, and poverty will be analyzed under a number of headings.

POVERTY BY SOCIOECONOMIC GROUPS

There is general agreement that the poor are concentrated among landless laborers; smallholders; urban, unskilled, informal-sector workers; and unskilled estate workers. However, few studies in the literature identify vulnerable groups by these sorts of socioeconomic characteristics and most concentrate on identifying the poor by decile and geographic location (estate, urban, or rural). Consequently, it has been, and continues to be, difficult to hone policy measures directed with precision toward the poor. Recent analyses that go some of the way to identify the poor by socioeconomic groups are the study of six villages by the Marga Institute (Marga, 1981), which identifies the poor in relation to their specific activities, and the study by Alailima (1988). The former study is informative but suffers from not being nationwide. The latter study is wide ranging and comprehensive in many respects, covers the whole nation, looks at socioeconomic poverty groups in terms of occupational groups, and adopts an interesting and useful approach through closely observing the habits of poor people in different environments.⁸

Using the 1969/70 Socio-Economic Survey, Alailima (1978) found that 88 percent of the low income receivers in the bottom 35 percent of households belonged to 10 occupation groups.⁹ These then fell into two major groups — (1) landless laborers in rural areas and estates and in small-scale industry, particularly textile, wood product, and food-crop hired laborers; and (2) small farmers cultivating food crops mainly with family laborer. The Marga study of 1978 broadly supported this but also identified the significance of female income earners in estate areas. Alailima also states in her study that households at the lower end of the income scale had a very much smaller-than-average household size and a higher dependency ratio. Visaria (1979) found that the highest incidence of poverty measured in terms of inadequate calorie intake per adult equivalent was among the Sinhalese in rural and estate areas and among Indian Tamils in urban areas.¹⁰ Sahn (1985) found that, for 1981/82, nutritional standards were low across a wide spectrum of households where the main income earner was an agricultural or husbandry worker, a laborer, a cultivator, or a farmer.

Alailima (1988) examined the characteristics of poor households by occupation and income earner over time. She found that just six occupational groups — agricultural

⁸ And this is why much of the material presented here has drawn heavily from Alailima (1989). She used a poverty line defined as the cutoff for the bottom 40 percent of the population classified according to household income to be poor.

⁹ Evidence drawn from Korale (1989).

¹⁰ These are only around 2-3 percent of the population in urban areas.

and animal husbandry workers, farmers, labor (not elsewhere categorized), construction workers, spinners and weavers, domestics, and those without occupation — accounted for 83 percent of the poor income receivers in 1969/70 and 72 percent in 1981/82. In this period all these groups, with the exception of farmers, had an increasing proportion of their members coming within the group of poor income receivers, suggesting that in relative terms these occupational groups were falling behind. On the other hand, farmers began moving out of the poverty category during this period, indicating more favorable income performance; but in 1981/82, 39 percent still remained among the poor. Among the less significant categories, miners, stenographers/typists, tailors/dressmakers, and salesmen showed increasing representation among poor income receivers, while food and beverage processors, working proprietors, and protective service workers had a fairly steady proportion of their members in the poor group.

When looking at geographical regions and occupational status, Alailima (1989) found that agricultural and animal husbandry workers (which include the landless and marginal smallholders) and other laborers were the most significant categories of poor income receivers in urban, rural, and estate sectors. The urban poor had a more diversified range of occupations with steno/typists, domestics, tailors, and construction workers poorer in 1981/82 than in 1969/70. The rural sector showed a sharp fall in the proportion of cultivators and farmers (although they still constituted 15 percent of the poor income receivers in 1982); the representation of miners, food and beverage processors, tailors and office staff among poor rural income receivers among the poor also increased.

In the estate sector, workers are dependent on work provided in the estate due to lack of mobility, no access to land, and poor educational status. They are particularly vulnerable to changes in world market prices for tea, rubber, and coconut. Although minimum security is provided since basic requirements can be obtained from the management on credit, it is the number of days of work offered each month and the wage rate negotiated in the Wage Board that determines the income status of estate households.

Poverty in the rural sector is characterized by insecurity due to wage incomes varying through the season, and the casual nature of the work available. In the first half of the 1970s, income earning opportunities in the village (as elsewhere in the economy) did not expand at the same rate as the work force. The main market for labor outside the village (except in areas adjacent to towns) has been the estates in the Wet Zone. However, recently, movement from villages to estates has been small due to ethnic rivalry and suspicions.

Income receivers without occupation are largely pensioners. The problems associated with old age are more prevalent on estates and in urban areas. In the rural sector, property and assets, though small, provide the aged some independent means and they fare less badly.

For 1978/79, Alailima analyzed data on income from all sources available and found that most of the poor derive 15-25 percent of their income from sources other than their main occupation. The real value of income received for the main occupation improved for agricultural workers, farmers, and laborers (not elsewhere counted) between 1973 and 1978/79; but all categories suffered significant declines in real incomes between 1978/79 and 1981/82. Farmers' income declined by as much as 67 percent over this period, so their movement out of the poverty group, noted above, arose through an increase in other income sources. Income-in-kind contributed almost as much to total income as income from their main occupation in 1979 (Table 4), so that a change in the valuation given to home-consumed food as a result of increased market prices during this period would have had a substantial impact on total income. If the improvement in the relative income position of farmers was due to a change in the valuation of their income-in-kind, their movement out of poverty might have been more apparent than real. In other words, their real incomes may not have improved.

For seven of the nine main categories of poor income receivers, 75-80 percent of income came from their main occupation, with transfers from government making a significant contribution to their total income (Table 4). Income receivers without occupation relied mainly on local transfers (42 percent), pensions (21 percent), and transfers from government (15 percent). Transfers from abroad are insignificant for poor income receivers.

TABLE 4
DISTRIBUTION OF INCOME OF POOR INCOME RECEIVERS
FROM MAIN OCCUPATION BY SOURCE, 1978/79 (PERCENT)

	Main Occu- pation	Sub Occu- pations	Rent Govt.	Trans- fers	Other Local	Income in kind	Other Sources	Total
1. Agriculture & Animal Husbandry	79	4	2	6	3	5	1	100
2. Farmers & Cultivators	28	13	8	14	9	24	4	100
3. Labor n.e.c.	76	2	3	9	4	4	2	100
4. Salesmen etc.	81	2	3	6	4	3	1	100
5. Working Pro- prietors (wholesale & retail)	80	2	3	7	3	4	1	100
6. Spinners & Weavers	80	2	2	7	5	5	1	100
7. Carpenters, Bricklayers Construction Workers	72	3	3	10	3	5	4	100
8. Domestics	84	1	1	4	5	2	3	100
9. Income Receivers without Occupation	-	-	8	15	42	8	27 ^a	100

Note: (a) 21 percent is from pensions.

Source. Central Bank of Ceylon (1983) Part II Tables 4.328 - 4.406 (cited in Alailima, 1988).

POVERTY AND NUTRITION¹¹

In numerical terms, the most serious nutritional problem in the world (as in Sri Lanka) is that of protein energy undernutrition. Of all the leading nutritional deficiency diseases, this is the most difficult to manage, because it cannot be cured through the usual food fortification programs for combating other deficiency diseases, such as goitre or nutritional anemia. The cure is an elevation of the daily intake of protein itself up to levels, or cutoffs, deemed satisfactory. There is no agreement as to what these cutoffs should be because of the variation in climatic, genetic, demographic, occupational, and physiological characteristics within a country. Consequently, economists have been unable to agree upon income cutoffs that correspond to adequate nutritional levels.

In Sri Lanka, information available on poverty is derived from the large (island-wide), cross-sectional surveys carried out separately by the DCS and the CB every five years or so. The same surveys also yield data on dietary intakes. Two or three separate cross-sectional surveys have also been undertaken that provide data on anthropometric indicators but which, unfortunately, do not relate to underlying socioeconomic factors such as income. The first (island-wide) study that attempted to relate income to dietary patterns and nutrient intakes was the 1969/70 Socio-Economic Survey (Special Report) published by the DCS. This study reported that the bottom 43 percent of households (in terms of per capita income) had an average daily per capita intake of calories less than the recommended allowance of 2200 calories. It did not, however, say whether this estimate was "efficient," or, in other words, if the average energy intake level of the poor was, in statistical terms, significantly lower than the levels of the other income groups.

The socioeconomic survey reports published since that time (by either the DCS or the CB) do not all address the per capita, income-nutrient relationship directly; thus it is not possible to build a continuous longitudinal picture since 1969/70. That this exercise has not been done is remarkable, given that all it takes is some additional processing, analysis, and interpretation of the raw data. The two main surveys deficient in this respect are the 1973 and 1985/86 surveys undertaken by the CB and DCS respectively. This deficiency needs to be corrected if the impact of economic liberalization on nutrition is to be assessed.

Kahn (1989) noted, using 2500 calories per AEU per day as the cutoff, that the proportion of calorie-deficit households in 1969/70 was around 22 percent. If the same cutoff is applied to the 1978/79 survey data (CB), the proportion is around 38 percent. By the same criterion, the proportion of calorie-deficit households in the 1981/82 survey (CB) is also around 38 percent (Khan, 1989). Because of gaps in the data between 1969/70 and 1978/79, it is not possible to say if this worsening of the nutritional situation is directly attributable to the 1977 economic liberalization. Nevertheless, the results broadly suggest that the prevalence of malnutrition increased substantially after the economic liberalization of 1977.

Alailima (1989) noted that per capita daily calorie consumption data for 1979, 1981, and 1982, whether the population is ranked by household income or per capita expenditure (Table 5), show that the consumption level of the poor has fallen to a very low level — well below the recommended minimum. The nonpoor, on the other hand, have shown major improvements in their daily calorie consumption in 1979 and 1982, with a slight dip in 1981.

¹¹ Thanks to Seneka Abeyratne of USAID, Colombo for providing a first draft of this section.

TABLE 5
NUTRITIONAL CONTENT OF PER CAPITA
DAILY CONSUMPTION SELECTED YEARS

		Ranked by Total Household Income Group		Ranked by Per Capita Expenditure
		Calories	Proteins (gms)	Calories
1969/70	Poor	2064	47	2024
	Nonpoor	2352	56	2925
1973	Poor	2072	n.a.	n.a.
	Nonpoor	2141	n.a.	n.a.
1978/79	Poor	1834	41	1710
	Nonpoor	2574	60	2692
1980/81	Poor	n.a.	n.a.	1640
	Nonpoor	n.a.	n.a.	2639
1981/82	Poor	1865	40	1635
	Nonpoor	2700	62	2711

Source: Alailima (1988) Table 9.13.

Most households in the bottom three deciles (the bottom 20 to 30 percent) were unable to recover from the impact of price changes that occurred during 1979/80, while about 70 percent of other households improved their calorie consumption from the relative deterioration seen in 1980/81 (Edirisinghe, 1987). The consumption of the lowest decile fell as low as 1181 calories per person per day in 1981/82 (lower than in 1973 for this group) (Alailima, 1985). There was a reduction in quantities consumed of the staple foods (rice, wheat flour, bread, sugar, and coconut) for spending units in the lowest quintile between 1978/79 and 1981/82 (Central Bank of Ceylon, 1986 Report, Table 6.16). In contrast, the highest 40 percent of the population achieved higher consumption levels in 1982 than they had in 1979 or 1970.

The 1986/87 survey data (CB) are yet to be published in full. These data are critical for determining whether poverty and malnutrition continued to worsen in the mid- to late-1980s.

For the national planner, protecting the poor against the adverse short-term effects of macroeconomic reforms designed to promote development of the economy in the long run is a difficult task. Cuts in consumption benefits release resources for investment, and an overall increase in the price level occurs as subsidies are eliminated. Thus, an increase in the prevalence of malnutrition and poverty in the short run is almost an inevitable consequence of Sri Lanka's current development model. A safety net — an income supplement, consisting of cash or a staple food basket or a combination of both such as food stamps in Sri Lanka — is a device that governments use to ensure that the problem of hunger is minimized. In order to ensure that the size of this safety net is correct, the planner needs to have correct figures on the size of the nutritionally vulnerable group (or groups). However, it is here that difficulties start. Defining the

right cutoff (whether it be an anthropometric index or a recommended nutrient allowance) is one part of the problem. The other is to estimate the target groups accurately on the basis of that standard. The lack of an agreed standard and the fact that some groups may be protein deficient and others calorie deficient and that these deficiencies occur at different times during the year all lead to the conclusion that there are different sets of poverties and, consequently, targeting to reduce malnutrition is very difficult.

POVERTY AND UNEMPLOYMENT

The International Labor Organization standard definition of the unemployed is those who have been actively seeking work in the week preceding the survey, have not worked for more than one hour, and are aged between 15 and 65. With such a restricted definition, one might expect the unemployed to consist of few very poor people simply because they have to perform some sort of activity, however menial and unproductive, in order to scratch a living. If this is accepted, then poverty is largely related to underemployment where the poor toil for long hours but cannot satisfy their minimal basic needs.¹² The fact that poverty is concentrated in the rural and estate sectors attests to this thesis that underemployment is the major issue, and not unemployment per se. Yet most authors (such as Alailima, 1988; Richards and Gooneratne, 1980; Korale, 1988; and Fields, 1986) emphasize the strong relation between unemployment and poverty. Korale (1988) notes that unemployment has been a critical issue during the past two decades. The Labor Force and Socio-Economic Surveys have consistently shown the overall rate of unemployment to be high, ranging from around 17 percent in 1971 (population census) to 14 percent in 1985 (Labor Force Survey). Some doubt has been expressed on the comparability of the definitions used over time (see Nelson, 1989) and, if justified, is probably why the aforementioned authors stress the relation between unemployment and poverty. There does not appear to be a well-documented account of this and it is something worth investigating further.

Despite seeming inconsistencies in the data, one can assert that there has been a wide variation in the unemployment rate among geographical areas with the bulk of the unemployed located in the more densely populated Wet Zone region. The unemployed are largely young with as many as 75 percent of the unemployed less than 30 years of age. The majority of the unemployed, according to Korale (1989), have been first-time job seekers who have sought employment after completing their education, and lacked any job experience. All this points to unemployed youths waiting to find jobs while, more than likely, supported by (and increasing the burden of) their families. Richards and Gooneratne (1980) refute this view. They note that the male poor have higher unemployment rates, proportionately more are young, and, whatever their level of education, the poor have greater difficulty in finding employment. Female unemployment is distinguished by a greater age and education spread between income groups, and female unemployment probably does not weigh most heavily on the poor.

Alailima (1988) also concludes that poverty in urban and rural areas is closely related to increasing unemployment (her data are reproduced in Table 6) as well as declining real incomes of income receivers in these households. She finds that unemployment rates are high and have increased for the poor in urban and rural areas while for the nonpoor they have decreased between 1969/70 and 1980/81. In the estate sector, unemployment rates have fallen for both groups to very low levels, and poverty is related more to underemployment and very low incomes per income receiver.

¹² See Hopkins, 1983, for a discussion of this issue.

TABLE 6
UNEMPLOYMENT RATES FOR THE POOR AND
NONPOOR OVER 10 YEARS OF AGE BY SECTOR,
FOR 1969/70 AND 1980/81

	Poor		Nonpoor		All	
	1969/70	1980/81	1969/70	1980/81	1969/70	1980/81
Urban	18.2	20.7	17.3	17.2	17.4	18.1
Rural	11.3	14.5	15.9	13.1	14.3	13.7
Estate	8.7	6.2	9.1	4.4	8.9	5.0
All Island	11.2	14.5	15.4	13.0	13.9	13.5

Note: The definition of unemployment used by Alailima makes it about 4 percent less than given in the 1971 and 1981 Censuses in each year.

Source: Alailima (1988) who used Department of Census & Statistics Special Tabulations of 1974 and 1983.

THE DEMOGRAPHICS OF POVERTY

As well as economic activity, poverty is a function of such demographic factors as the number of income earners in the household, and their age, ethnic background, sex, and location. In order to analyze these demographic characteristics Alailima (1988) used a poverty line that broadly delineates an equivalent group of income receivers and investigates the characteristics of this group. The poverty line was chosen so that the percent of income receivers below it was the same over the four survey periods chosen for the analysis during 1969 to 1981. The poverty line in 1981/82 was chosen to be Rs.700 per capita. Thus households with all income earners below this sum were deemed to be poor in her analysis, parts of which are reported here.

Between 1970 and 1982 the major change that occurred in the sectoral distribution of the total population was the decline in the estate population, both in absolute terms and as a percentage of the total population, mainly due to repatriation to India. Between 1973 and 1979, there was also a movement out of rural areas with the proportion in rural areas falling from 72 percent to 69 percent; this trend was reversed between 1979, and 1982. There were minor changes in the proportion of the population that was poor and in their location. The poor in urban areas climbed from 3 percent of the total population in 1970 to 6 percent by 1979, but fell back to 4 percent in 1982, while the proportion living in rural areas went from 27 to 26 to 30 percent in the same period. The estate poor, however, declined steadily from 5 to 3 percent of the population.

According to Lipton (1983), historically, poor households tended to be small, but he argues that now poverty is strongly linked to (big) household size. This is not so in Sri Lanka, where poor households tend to be smaller-sized than nonpoor households (Table 7), averaging 4.1 persons per household in 1981/82 compared with the nonpoor's 5.6. Further, the trend is toward smaller family size. Rural areas tend to have larger

families than either estate or urban-located families, which have, on average, more or less the same size family.

TABLE 7
AVERAGE SIZE OF POOR AND NONPOOR HOUSEHOLDS
1970-1982

	1969/70 ^a		1973 ^b		1978/79 ^b		1981/82 ^b	
	Poor	Non-Poor	Poor	Non-Poor	Poor	Non-Poor	Poor	Non-Poor
Urban	4.8	6.7	3.9	6.0	3.5	5.4	n.a.	n.a.
Rural	5.0	6.6	4.4	6.5	4.1	5.9	n.a.	n.a.
Estate	4.4	6.6	4.0	6.7	3.6	5.7	n.a.	n.a.
All Island	4.9	6.8	4.3	6.4	4.0	5.7	4.1	5.6

Notes: n.a. not available.

a. Household b. Spending Unit

Source: Alailima, Table 6.4 (1988).

The age structure of the population changed over the decade of the 1970s (Table 8), with the proportion of those under 13 years falling from 39 percent in 1970 to 34 percent by 1981, and those aged between 14-55 years increasing from 52 to 57 percent. The trend was the same for the poor as well as the nonpoor with the poor tending to have slightly more young people aged 0 to 13 than the nonpoor.

The ethnic composition of poor income receivers (Table 9) also changed over this period, as a result of the government's policy of repatriating the stateless Indian Tamil estate workers. The proportion of Indian Tamil income receivers among the poor declined steadily between 1973 and 1981/82, even as the proportion of the poor in the estate sector declined. The low-country Sinhalese, Ceylon Tamils and other (minority) groups had higher incomes per income receiver in 1981/82 than the Kandyan Sinhalese and the Indian Tamils. Kandyan Sinhalese income receivers suffered the sharpest decline between 1973 and 1981/82.

The Indian Tamils remained concentrated in the estates — in 1973, 86 percent were in the estate sector and represented 79 percent of the total population; in 1982 the figures were 77 and 78 percent respectively. This, together with the traditionally low per capita incomes in the estates sector, resulted in Indian Tamil income receivers being the worst-off ethnic group in both 1973 and 1981/82.

TABLE 8
AGE DISTRIBUTION OF POOR AND NONPOOR POPULATION
 1969/70, 1973, 1978/79, 1981/82

Population Age Distribution (%)

	0-13	14-55	Over 55	Total
1969/70				
Poor	42	48	9	100
Non Poor	38	53	9	100
All	39	52	9	100
1973				
Poor	40	51	9	100
Non Poor	38	54	8	100
All	39	53	8	100
1978/79				
Poor	37	54	9	100
Non Poor	33	58	9	100
All	34	57	9	100
1981/82				
Poor	37	54	9	100
Non Poor	32	59	9	100
All	34	57	9	100

Sources: Taken from Table 6.5 Alailima (1988) who used Department of
 Census & Statistics (1974) Special Tabulations
 Central Bank of Ceylon (1974) Part II Table M.9
 Central Bank of Ceylon (1983) Part II Table 2.6
 Central Bank of Ceylon (1984) Part II Table 5.410

TABLE 9
DISTRIBUTION OF INCOME RECEIVERS AND AVERAGE
MONTHLY INCOME BY ETHNIC GROUP, 1973 AND 1981/82

	Distribution of Income Receivers(%)				Average Income of Poor Income Receivers (Rs.)			1973- 1981/82
	1973 Poor	Non- poor	1981/82 Poor	Non- poor	1973	1981/82	1981/82 (at 1973 prices)	Real Change %
Kandyan Sinhalese	12	14	14	14	104	383	82	- 21
Low country Sinhalese	16	24	20	25	101	397	85	- 16
Ceylon Tamils	5	6	5	5	102	426	91	- 11
Indian Tamils	14	2	10	1	89	361	78	- 12
Others	2	5	2	4	113	420	90	- 20
Total	49	51	51	49	99	390	84	- 15

Notes: Income data by ethnic composition was only available for 1973 and 1981/82.

Source: Table 6.7 Alailima (1988) who used
Central Bank of Ceylon (1974) Part II pages 140-42.
Central Bank of Ceylon (1984) Part II Tables 5.74-5.94.

Nevertheless, ethnicity does not appear to be a major determinant of poverty as the Kandyan Sinhalese, the low-country Sinhalese, and Ceylon Tamils are fairly evenly represented among poor and nonpoor income receivers, especially in 1981/82. Only the Indian Tamils are disproportionately represented among the poor due to their concentration on the estates.

In terms of poverty and sex, an increasing proportion of income receivers are female (Table 10). Starting with 40 percent in 1970, the proportion of poor income receivers who were female increased to 41 percent in 1973 and 44 percent in 1979 but fell back to 40 percent by 1982. Among the nonpoor however, there has been a steady improvement in the proportion of female income receivers from 9 percent in 1970 to 15 percent in 1982, indicating that females, though still a small percentage of wage earners, are making steady inroads into better-paid jobs.

TABLE 10
INCOME RECEIVER BY SEX AND REAL MONTHLY
INCOME, 1969/70, 1973, 1978/79, 1981/82

	1969/70		1973		1978/79		1981/82	
	Poor	Non-Poor	Poor	Non-Poor Percent	Poor	Non-Poor	Poor	Non-Poor
Sex Distribution %								
Male	60	91	59	90	56	83	60	85
Female	40	9	41	10	44	17	40	15
Real Income (Rs.)								
Male	59	na	64	na	54	na	52	na
Female	48	na	44	na	43	na	41	na

Sources: Table 6.8 Alailima who used
Department of Census & Statistics (1974) Vol.II page 18
Central Bank of Ceylon (1974) Part II pages 96-97.
Central Bank of Ceylon (1983) Part II Tables 4.21, 4.22
Central Bank of Ceylon (1984) Part II Table 5.7.

The much higher proportion of female income receivers among the poor compared with female non poor is due to the higher ratio of female workers on estates, who come into the poverty group because of their relatively low wages. The real incomes of poor female income receivers have remained two-thirds of that of male income receivers between 1970 and 1982, except in 1973.

POVERTY AND EDUCATION

The improvement in formal educational levels that took place during the 1970s and 1980s is reflected in the improved educational levels of poor income receivers (Alailima, 1988). Between 1970 and 1982 the proportion with no schooling or only primary education fell from 79 percent to 65 percent, while those with secondary schooling together with those who had passed their GCE 'O' level examination increased from 21 percent to 35 percent (Table 11).

TABLE 11
 POOR INCOME RECEIVERS BY EDUCATIONAL ATTAINMENT AND
 REAL MONTHLY INCOME, 1969/70-1981/82

Poor Income Receivers	Distribution of Average Real Income (Rs.)								1969/70-1981/82 % change
	1969/1970	1973	1978/1979	1981/1982	1969/1970	1973	1978/1978	1981/1982	
No schooling	30	33	25	23	50	55	46	43	-14
Primary	49	46	38	42	57	58	60	47	-18
Secondary	19	18	30	27	57	60	51	50	-12
Passed 'O' Level	2	3	6	7	57	62	53	53	-7
Passed 'A' Level	-	-	1	1	63	77	51	63	-
Degree	-	-	-	-	-	-	59	70	-
Total	100	100	100	100	55	57	51	48	-13

Sources: Department of Census & Statistics (1974) Vol. II pp. 22-24
 Central Bank of Ceylon (1974) Part II Table I.23
 Central Bank of Ceylon (1983) Part II Table 4.45
 Central Bank of Ceylon (1984) Part II Tables 5.42-5.49
 (Reproduced from Alailima(1988))

However, the increase in educational attainment did not bring with it an increase in real income for the poor (Table 11). Income receivers with secondary schooling in 1982 were earning in real terms what their counterparts with no schooling were earning in 1970. Between 1970-1973 all educational categories improved their real income, but thereafter those with no schooling, primary, and secondary education suffered real income declines. Only those with GCE 'A' Level qualifications managed to recover (by 1982) the real income they earned in 1970. The primary-school educated suffered an 18 percent decline in real incomes and a narrowing of differentials with those who had no schooling.

The decline in real incomes was probably associated with the lack of productive employment for the secondary school educated throughout the 1970-1982 period and led to the systematic upgrading of qualifications for jobs.

Lack of education and poverty are closely associated to the extent that those who succeed in passing 'O' levels and higher are practically assured of avoiding poverty. Evidence for this is in Alailima (Table 11 above) and is backed up for later years by Korale (1989) who used the 1985/86 socioeconomic survey (Table 12). In that table persons are ranked according to their per capita income, allocated to deciles and the average educational attainment is recorded. Surprising is that the percentage of people in the lowest decile who have passed 1-4 grades is larger than those with no schooling. This is probably a statistical quirk — a small sampling error for example — since all other figures confirm the general conclusion expressed earlier in this paragraph. Unfortunately, a similar table that measures skill acquisition or ability against income decile is not available but it is most likely that the same result would hold namely, the higher the level of skill acquired the higher the income.

TABLE 12
DISTRIBUTION OF PERSONS BY EDUCATIONAL ATTAINMENT
BY PER CAPITA INCOME DECILES - 1985/86 (PERCENT)

Per cap. Deciles	No Schooling	Passed 1-4 grade	5-9 grade	GCE'O'	GCE'A'	Degree	Post- Grad
1	14.5	15.1	10.2	5.1	2.3	0.6	0.8
2	14.6	14.1	10.3	4.2	3.3	1.9	1.7
3	13.1	12.2	10.3	5.4	3.6	1.5	0.0
4	11.4	11.9	10.6	7.1	4.8	1.1	0.8
5	11.0	11.1	10.7	7.3	5.2	0.4	3.3
6	10.2	9.7	10.3	7.9	7.0	2.3	1.2
7	8.4	8.4	10.6	10.7	9.5	3.4	1.1
8	7.5	7.1	10.0	13.0	13.8	7.2	8.5
9	5.5	5.7	9.2	19.0	21.4	25.5	9.2
10	4.0	4.8	8.0	20.3	29.6	56.1	73.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Korale (1988)

QUALITATIVE ASSESSMENT OF POVERTY FROM 1987 TO THE PRESENT

The poor are a heterogeneous lot. What helps one may hurt another. Thus an increase in the price of rice may help the marginal farmer with a small marketable surplus, but hurt the casual laborer, who must purchase his rice. So we need to know much more about those who fall below the poverty line.

It was estimated that about 6 million people lived in poverty in 1985/86, of whom nearly 5 million were in the rural sector, 900,000 in the urban sector, and about 50,000 in the estate sector (Dept. of Census and Statistics, 1987). It was also estimated that about 5.1 million were in employment while about 840,000 were unemployed, of whom 567,000 were in the rural sector, 236,000 in the urban sector, and about 35,000 in the estate sector. Of those employed, about 1.7 million were estimated to be below the poverty households. The figures for the rural and estate sectors were 52 percent and 5 percent, respectively. While, as indicated elsewhere, the database is not all that satisfactory, the above figures provide some rough orders of magnitude. The figures for the estate sector are, however, highly suspect. They indicate drastic falls in numbers living in poverty, from about 440,000 in 1980/81 to about 53,000 in 1985/86.

What has happened to poverty since 1986/87, the date of the last socioeconomic survey?¹³ Clearly such an assessment has to be of a qualitative and impressionistic nature. The years since 1983 have seen an escalation of ethnic violence in the north

¹³ Only preliminary figures are so far available and these were cited in Table 1.

and east, and an associated breakdown of the civil administration since about 1985. Violence erupted in the deep south with the arrival of the Indian Peace Keeping Force in 1987 and engulfed several other parts of the country through 1988 and 1989. The violence appears to have abated in areas outside of the north and east. Under these circumstances, the quality and coverage of any data collected since 1983 leaves much to be desired.

Arguably, the macroeconomic picture serves as an appropriate backdrop to recent developments in respect to poverty. Political violence and social unrest have helped to keep growth, exports, and foreign investments low. Budget deficits have increased and the balance of payments continues to deteriorate. Although the relationship between macroeconomic indicators and poverty in Sri Lanka is not entirely clear and is worthy of further research,¹⁴ it is felt that the worsening social and economic conditions have affected the poor adversely. Fiscal and budgetary deficits have intensified inflationary pressures, and when budgetary deficits are financed from expansionary sources, it is the poor who bear the greatest burden (see Central Bank of Ceylon, 1988). In the process of raising revenues and cutting expenditures, the likelihood of social welfare measures being curtailed cannot be discounted. Thus, for instance, the real value of food stamps targeted at the poor continues to fall, while a ceiling has had to be placed on the number of beneficiaries and the value of benefits.

Given this background, one does not expect any improvements in the poverty situation after 1987 and, from the evidence cited earlier, it appears that recent events have aggravated an already worsening situation. In other words, an acceleration in the incidence of poverty since 1977, significant reductions in the food intake of the poorest when food rationing was replaced by food stamps, increased unemployment and underemployment, and falling real agricultural wages.

In recent years poverty probably has been most affected by three factors: civil strife, climatic changes, and price escalations. To take civil strife first, there was or must have been substantial drop in production, both agricultural and other, in the north and east because of the collapse of the civil administration and disruption of supplies, especially of agricultural inputs, and services such as transportation, marketing, and electricity. The large-scale displacement of people will have compounded the situation. It is not only the landless laborers and marginal farmers who have been hardest hit. Even those operating viable units, especially the market gardeners, artisans, and petty traders, are likely to have been driven into poverty. The curtailment of all fishing activity has affected not only the fishermen of the north and east, but also the migrant fishermen of the west and south. The spread of political turmoil to the south, beginning from about July 1987, is likely to have had similar repercussions.

Second, in the short-run, weather changes are likely to be much more important than technological change. Crop failures, especially those associated with floods and drought, have important implications for poverty. Some evidence from India indicates that variations in the incidence of poverty between a good year and a bad year can be as high as 50 percent. Drought conditions in 1987 and 1988 affected large parts of the Dry Zone and the hardest hit would have been those dependent on rainfed farming. Floods in mid-1988 affected the southwestern coastal lowlands and the Ratnapura District. While drought and flood relief operation may have helped to alleviate the situation somewhat, the effect of seasonal crop failure is well known — it drives those affected into penury.

Third, inflation has both positive and negative effects on the poor. Net purchasers of food such as the landless and marginal farmers accounting for about 40 percent of

¹⁴ For example, subsistence farmers may be largely unaffected by macroeconomic phenomena.

the rural poor are adversely affected. Official statistics indicate an acceleration of the inflation rate between 1986 and 1989 (Department of National Planning, 1989). For wage labor, the relationship between wages and prices is crucial. Using rice prices to deflate wages, Khan (1986) reported a consistent declining trend in real daily wages for the years 1983 to 1986. Considering the price increases in rice, sugar, milk powder, and wheat flour during the later part of 1989, the situation has undoubtedly deteriorated even further. There is no evidence to show that falling real wages have been offset by increasing employment. Finally, if we look at the nutrition and health situation in the country, the general impression is of a deteriorating situation. This affects the urban slum dwellers, the estate labor, the new settlers in the Mahaweli irrigation schemes, the Dry Zone rainfed farmers, and people caught up in conflict areas, particularly in the north and east. Increased morbidity rates, increased anemia among pregnant women, and low birth weight of babies are reported. It is surprising that infant mortality rates appear to continue to fall. How this can happen in the face of rising poverty is puzzling and must mean that infants survive, but at a lower level of well-being. Eventually, this will undoubtedly have a negative impact on infant survival rates even if this has not so far been revealed by the data.

SECTION FOUR

LONG-TERM CAUSES OF RURAL POVERTY

Poverty occurs under varying conditions and is a multifaceted, dynamic variable "capable of instantaneous cyclical and secular changes" (Mellor, 1986). Griffin (1978) attributes poverty to unequal ownership of land and other productive assets, allocative mechanisms which discriminate in favor of the owners of wealth, and a pattern of capital accumulation and technical innovation which is biased against labor. Characteristics associated with poverty which may lead to or intensify poverty are the pressure of population on resources, unemployment and underemployment, poor nutrition, poor health, illiteracy, unfavorable price-wage relationships, seasonality of production, an inhospitable physical environment, natural and man-made disasters, civil strife, wars, and so forth.

The poverty problem in Sri Lanka has attracted considerable attention in recent years, but there has perhaps been a preoccupation with the definition and measurement of poverty, and less, much less, on its determinants. While information on the magnitude, incidence, and location of poverty are important in the efforts to mitigate the incidence of poverty, one may well echo Paul Streeten (1982) when he says that the proportion of "the GNP earned by the bottom 40 percent and the Gini coefficient are just as inadequate and, by themselves, misleading measures of what we are getting at when we try to reduce inequality, as GNP is an inadequate measure of productive capacity. . . . Some of the most important obstacles to the eradication of poverty and the promotion of greater equality lie in areas in which measurement is still very difficult or perhaps impossible."

Poverty estimates for Sri Lanka vary anywhere from about 10 percent of the population to over 50 percent. Even the interpretation of poverty trends is inconclusive because of different criteria used to rank and define poverty, as we noted in earlier sections. Within the same study, the use of different price indices can give different estimates for the same year, despite using the same database. The accuracy of the database has also come into question, as discussed earlier. Nevertheless the broad picture that emerges appears to find general acceptance: that substantial sections of the population live in poverty, with a heavy concentration in the rural areas, and with landless and small farmers being most seriously affected. We now take a closer look at some of the factors that may cause or intensify poverty in the rural area.

Given the high concentration of the poor in the rural sector, estimated at about 75 percent of all people living in poverty or about 5.9 million people in absolute terms (Korale and Fernando, 1986), attention in the rest of this section will be given to some of the major characteristics of rural poverty. Evidence cited here has shown that the largest group of people below the poverty line are the landless and near-landless. Thus factors such as the physical environment, the type of farming system, tenancy and its terms and conditions, security of titles to land, fragmentation, and so forth, all help cause or exacerbate poverty. Each is looked at in more detail.

LANDLESSNESS

Accurate information on the number of landless and their temporal and spatial distribution is not available. A recent study quoting the Population Census of 1971 and the Central Bank's Land and Labor Use Survey of 1975 estimated the rural landless to be 200,000 persons and 330,000 persons, respectively. According to the Census of

Agriculture 1982, 11.2 percent of the land operators did not own any land. If, as an ARTEP report estimates, those reporting home gardens only are also counted among the landless, the proportion increases to 51 percent of all operators (ILO/ARTEP, 1986). The report considers this an underestimate of the landless, as those who neither own nor operate land were not included. According to the Socio-Economic Survey of 1980/81, 53 percent of the agricultural and animal husbandry workers did not own any land (ILO/ARTEP, 1986). This category alone would account for about 40 percent of the rural poor.

FARM SIZE

The size distribution of holdings together with the type of farming practiced affects to an important degree the levels of employment and incomes of farm families. If the size of the farm becomes too small to support a family, assuming modern techniques and average management and average family size, poverty moves in unless off-farm employment is readily available.

Information on the size distribution of agricultural holdings is available from various agricultural censuses, the most recent of which was conducted in 1982 (DCS, 1985). About 43 percent of the holdings are under one acre in size. Another 22 percent range from one to two acres. Earlier studies have shown that farm holdings under two acres in extent cannot be considered viable (Fields, 1986), and unless farm earnings can be supplemented with off-farm employment, operators of holdings under two acres must be counted as poor (Jogaratham and Schickele, 1970).

The lack of comparable data makes it difficult to map developments over time in great detail. However, the number of holdings under one acre increased from 36 percent in 1962 to 46 percent in 1973, but declined to 42 percent by 1982. The average size of holdings under one acre and from one to two acres increased marginally from 0.33 acres to 0.37 acres, and from 1.26 acres to 1.27 acres, respectively, over the period 1973 to 1982. On the other hand, the average size of holdings in the two to three acre category fell slightly from 2.26 acres to 2.23 acres. The distribution of holdings by agroclimatic zones and districts is available only from the 1973 Census of Agriculture (DCS, 1975). It reported that the incidence of holdings under one acre in the Wet Zone and in Jaffna, Batticaloa, and Ampara in the Dry Zone was over 50 percent of all holdings. It is most likely that operators of such holdings fall below the poverty line.

PATTERNS OF FARMING

In discussing patterns of farming, it is useful to distinguish between the two major agroclimatic zones, namely the Wet and Dry Zones. A third Zone called the Intermediate Zone is also identified but is not of major importance. As Mellor (1986) commented, differences in agroclimatic conditions result in considerable variability in the initial conditions of poverty. Those initial conditions interact with new technology and price changes to further increase variability in the incidence of poverty. Neither the incidence of poverty nor the means of its reduction can be understood without reference to these underlying agroclimatic conditions.

About 42 percent of all holdings are in the Dry Zone. However, 63 percent of the homegardens are located in the Wet Zone. If, as indicated earlier, operators of homegardens are included among the landless, then the bulk of the landless and thus the poor are in the Wet Zone. If however, homegardens are excluded, then 75 percent of the balance of holdings is in the Dry Zone and subject to the vagaries of

the Dry Zone climate. If these farmers do not have access to irrigation, then even those farmers operating relatively large farms of about five acres or more can face poverty (Jogaratnam and Schikele, 1970).

Agricultural land is classified into lowland, highland, and homegarden and typically a traditional farm consisted of all three components. With increasing pressure of population on land, this pattern appears to be breaking down and smallholdings may now be of the single or two-component type rather than the three-component type. It is estimated that about 40 percent of smallholdings are of the single-component homegarden type. Homegardens by definition are subsistent in character. Lowlands, by and large, are under paddy. Another 10 percent operate only highlands. If single-component homegardens are excluded, then the large majority of farms are of the two- or three-component type and about 67 percent of such holdings are estimated to have a paddy component. This has implications for policy options since these are the farmers most affected by seasonality and weather fluctuations.

TENURIAL RELATIONSHIPS

The limitations imposed by the small size of a holding can be further exacerbated by the distribution of operational holdings between landlords and tenants. Tenancy in Sri Lanka is confined by and large to the paddy sector. Data available from the 1946 and 1962 Census of Agriculture indicate that about 30 percent of the paddy land was cultivated by share croppers. Data for 1977 do not show much change (Ministry of Agriculture and Lands, 1977). Tenancy appears to be a major problem in the central south and southwestern parts of the country where the pressure of population on lands is also greatest. It is not tenancy itself but the terms and conditions under which it operates that have implications for income distribution and welfare. High rentals with insecurity of tenure are the main problems associated with tenancy. Nevertheless, though in other countries of South Asia tenancy is associated with poverty, the evidence from Sri Lanka is inconclusive (Goonetilleke, 1979).

FRAGMENTATION OF HOLDINGS

This has led to many small and unviable land holdings. Fragmentation continues as the prevailing customs of inheritance together with population pressure lead to even further subdivision. The lack of data prevents any conclusions being drawn on the impact of parcelization on productivity or its relationship to size of holdings. However, fragmentation leading to rotation of land among several owners and finally to landlessness is all part of a vicious cycle leading to poverty.

TITLES TO LAND

The lack of clear titles to land is another problem that small farmers are faced with. The undesirable socioeconomic consequences are well known and are not dealt with in detail here (Land Commission, 1985). For example, it is estimated that over 80 percent of land is owned by the state, which in turn gives the parcels out via grants, leases, or land permits. However, the lack of clear title to the land is not normally acceptable to lending institutions. The Land Commissions of 1935, 1957, and 1985 have all commented on the seriousness of the problem. It limits access to credit and undermines attempts to raise productivity. But there is little information on numbers involved and how many of the poor are faced with this problem.

ACCESS TO IRRIGATION

The constraints imposed by small size and climatic variability can be mitigated to a considerable extent if there is access to irrigation facilities. Irrigation in Sri Lanka is synonymous with paddy cultivation and successive governments have given priority to expanding the area irrigated in pursuing the goal of self-sufficiency in rice. It is estimated that about 35 percent of the area under rice is covered by major irrigation schemes, and of this 90 percent is in the Dry Zone. Another 27 percent is served by minor irrigation schemes, of which 60 percent is in the Dry Zone. The balance is entirely rainfed of which, again, 60 percent is in the Dry Zone.

Within the Dry Zone there is marked variability in the availability of irrigation facilities. The more favored districts in this regard are Polonnaruwa, Anuradhapura, Ampara, and Hambantota. The standard allotment of land in the major irrigation schemes have varied from 5 acres of lowland and 3 acres of highland in the earliest schemes, through 3 acres of lowland and 2 acres of highland, to about 2.5 acres in recent settlements in the Mahaweli areas. Despite legal impediments, it has been shown that subdivision, renting, and outright sales have been widespread, and that these practices are to be seen even in the newly developed Mahaweli settlement schemes. Such practices have been associated with marginalization, increasing income disparities, and impoverishment of the peasantry (Jogarathnam 1975, Shamugaratnam 1980, Samaranayake 1982).

The mere availability of assured irrigation facilities does not ensure that maximum use is made of the facility. Cropping intensities even under major irrigation schemes are relatively low (ILO/ARTEP, 1986). Low cropping intensities are explained by numerous factors, some of the more important being poor delivery systems, overuse of irrigation water, encroachment and unauthorized extensions of command land area, nonadherence to cultivation schedules, and overdependence on rice.

Despite these problems, there is general agreement that the irrigation schemes have helped poor settlers, with some estimates putting this at over 100,000 allottees benefitting.

ACCESS TO AGRICULTURAL CREDIT

Farmers at or near subsistence level have little capacity for channeling additional resources into their farms. Sri Lanka has a long history of government-sponsored credit schemes designed to provide cheap and easy credit to farmers and wean them away from noninstitutional sources which are generally considered exploitative. Credit schemes on the whole have been directed towards the paddy sector and, from 1967 onwards, to a lesser extent to field crops. The plantation crop sector has been ignored.

Government efforts to reach out to the small farmer, among whom are included large numbers of poor, do not appear to have been successful. It is estimated that institutional sources accounted for about 25 percent of loans to small farmers in 1969, and that the tightening of lending criteria in mid-1978 increased the reliance of small farmers on the money market sector (Sanderatne, 1977). More recent data indicate that, under the New Comprehensive Rural Credit Scheme, only 41,390 borrowers benefitted in Maha 1986/87 and 20,813 in Yala 1987. About 75 percent of crop loans in 1987/88 were for paddy cultivation and of the total of 102,055 acres for which credit was granted, 78 percent was in major irrigation schemes. During Yala 1988, 80 percent of the 33,177 acres financed was under major irrigation schemes (Central Bank of Ceylon, 1988). The small farms involved and the high concentration on paddy (and that too in the major irrigation schemes) should be noted. One can only conclude that poor farmers are most likely to be beyond the pale of the institutionalized credit schemes.

PLANTATION AGRICULTURE

The discussion so far has drawn attention to the domestic food sector with emphasis on paddy, and therefore by implication the Dry Zone. Two other important subsectors in agriculture that deserve attention are the estate subsector and the smallholding subsector, both devoted to export crops and located in the Wet Zone.

The Estate Sector

The characteristics of the estate sector are well known (see, for example, ILO/ARTEP, 1986). Estate labor dependent entirely on wage earnings forms by far the largest occupational group. Their problem is one of low remuneration per day and insufficient number of work days per year. Given an initial condition of poverty, their condition has worsened due to a steady erosion of real wages (ILO/ARTEP, 1984).

The Smallholdings Sector

While physical conditions are much more favorable and encourage the cultivation of a wide variety of crops, both annual and perennial, the pressure of population on land would appear to more than offset this advantage. This sector probably supports a major proportion of the landless and near landless. The village expansion schemes launched by the government probably have had the greatest impact here. One estimate places the number benefitting at about 300,000 persons, but adds the rider that the allotments were mainly small homestead plots (Alailima, 1988).

While most smallholdings in the Wet Zone are likely to have a paddy component, they are unlikely to produce enough to meet their own requirements. The bulk of such deficit farmers are estimated to be concentrated in the southwestern coastal lowlands (Moore, 1980). Sources of cash income arise primarily through tree crops, the more important of which are tea, rubber, and coconut. The evidence shows extremely low productivity and labor absorption in these small holdings (ILO/ARTEP, 1984) and the operators of such smallholdings must be counted among the poor.

THE URBAN AREA

There is little information available on the urban poor, made up primarily of casual labor, living in congested surroundings, and having little or no access to any productive assets. The more restricted definition used by Sahn (see Section Two) showed that the ultra-poor, although less numerous than the numbers most observers consider to be poor, were concentrated in the urban areas. Their plight is so desperate that only a combination of economic growth to stimulate employment opportunities and direct targeting is likely to work. But, if that policy is seen to be successful, it is likely to encourage rural to urban migration which in turn could exacerbate the poverty situation in the cities.

SECTION FIVE

THE POLICY RESPONSE OF THE GOVERNMENT TO POVERTY

Government policy programs have had multiple objectives that have not always been directed at the alleviation of poverty. While policy goals have been specified in terms of achieving self-sufficiency in rice, earning and saving foreign exchange, rehabilitating the plantation sector, and addressing problems of unemployment, it is only in recent years that poverty as a major problem has attracted attention. This is not to say the poor were bypassed. Many programs, especially those concerned with social welfare, may have had spill-over benefits, while others may have had adverse consequences, and some which sought to reach the poor directly may not have had the desired effects. In the paragraphs that follow the major policy programs that have affected the rural sector and in particular the agricultural sector are outlined, followed by a brief discussion on how they affected the poor.

The policy of aided land development, irrigation, and settlement in the Dry Zone. This policy, enunciated in the 1930s and embodied in the Land Development Ordinance of 1935, continues to be pursued. It can be expected to diminish in importance as potential irrigable lands become exhausted. Since those eligible for selection as settlers were confined mainly to the landless, it can be expected that the poor benefitted to some degree from this program. As noted previously, unconfirmed estimates place the number of beneficiaries at about 100,000 over the period 1930-1980. But this effort has not been without problems. Since land development and settlement require heavy capital investment, there have been relatively small numbers involved and, as indicated earlier, there has been a lack of sustained development and a tendency for interregional and intraregional disparities to widen.

Tenancy reform aimed at benefitting sharecroppers, generally considered to be among the deprived, was sought through the Paddy Lands Act of 1958 and the Agrarian Services Act of 1978. The objective was to regulate the terms and conditions of tenancy agreements. As is well known, the actual implementation of these policy measures ran into problems leading to unforeseen developments such as large-scale eviction of tenants, thus adversely affecting the poor (Alailima, 1988, Wickremasekera, 1985).

A land reform program with a potential for benefitting the poor was enacted in two phases, in 1972 and 1974. All private and publicly owned land exceeding 50 acres was vested in the state with an estimated million acres, or about 20 percent of all cultivable land, taken over. About 66 percent of the acreage under tea, 31 percent under rubber, 10 percent under coconuts, and the balance under other crops were appropriated. Paddy lands were practically unaffected, with less than 25,000 acres under paddy being taken over. The land reform exercise turned out to be a transfer of ownership from private and public lands to the state so that an opportunity for a radical redistribution of land was not realized nor was a major increase in productivity achieved (Alailima 1988, Wickremasekera 1988).

The District Integrated Rural Development Programmes (IRDP), which initially began in the Kurunegala District in 1978, now cover 20 districts. They depend substantially on foreign funding and were designed to cover so-called backward districts not benefitting from the Accelerated Mahaweli Development Programme. One of the objectives was to prevent any major regional disparities from emerging. They cover a wide range of investment activities in different sectors and were expected to benefit the poor through the creation of additional employment opportunities. The evidence to date suggests that investment is spread out too thinly to be of much benefit and expectations in terms of employment creation have not been realized. Moreover, in Sri Lanka, as

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in India, they have reflected a big-farmer bias so that the beneficiaries of investment activity, in terms of rural infrastructure, have been the not-so-poor farmers.

Food subsidies to consumers have been an important element of the government's social welfare policies. First introduced during the Second World War, they were continued until 1978 and covered the entire population. The food subsidy was operated through a ration scheme and the quantity and subsidy offered underwent changes over the years. Rice was the major item and the quantity of the rice ration varied from 2 - 4 pounds per person, per week. During certain periods, the distribution of up to two pounds was free. The general consensus is that the rice subsidy in particular benefitted the neediest and contributed to a lessening of income disparities (CB 1983, Gavan and Chandrasekera 1979, Visaria 1979).

However, the food subsidy scheme imposed severe strains on the government budget and, in 1978, the ration was restricted to households with incomes of less than Rs. 300/- a month. In September 1979 it was replaced by the Food Stamps Scheme (FSS). The eligibility for food stamps depends on total household income. Households with incomes less than Rs. 3600/- a year were issued food stamps worth Rs. 15/- a month for each member over 12 years of age. Children under 12 received stamps worth Rs. 25/- and from 8 - 12, stamps worth Rs. 20/-. Stamps could be used to purchase a basket of commodities with rice being the single most important item purchased. Each household was also given kerosene stamps worth Rs. 9.50 a month (subsequently increased to Rs. 20/-) and these could also be used to buy food items. Although large reductions in the numbers covered were expected over time, the numbers remained more or less the same. There was thus a freeze on new issues of stamps in March 1980 and a ceiling was placed on the total nominal value of food stamps. No provision was made to maintain the real value of food stamps.

The major objective of the FSS was to protect the level of consumption of the vulnerable or at-risk groups. As with any such scheme, leakages occurred. Edirisinghe (1987), in an excellent and exhaustive study of the FSS, comments that while a substantial proportion of the intended beneficiaries received transfers, about 30 percent of the households in the poor half of the population did not appear to have received as much of the transfer benefits as a similar percentage in the upper half of the population. He concludes that attempts to limit transfers to the most needy have been only partially successful.

The FSS will soon be replaced by the *Janasaviya* or Poverty Alleviation Programme, the lead project of the new government that took office in January, 1989. Originally an ambitious and expensive and impractical scheme, designed to cover 1.9 million families, economic reality has caused a reassessment. *Janasaviya* is now a significantly smaller scheme, covering up to 200,000 families. The first of several phases was recently introduced but exact details of the program remain unclear. The income cutoff point for participants is set at Rs. 700/- per month, per family. Each beneficiary family will have access to a pool of resources valued at Rs. 2500/- a month during a 24-month period. This amount is divided into two components, with Rs. 1042/- going into a compulsory savings account to be used as a guarantee or collateral for credit under a special credit scheme. The monthly savings accumulate to Rs. 25,000/- in two years. The balance Rs. 1458/- a month is for consumption from a basket stocked at the local cooperative store. The family has to offer a minimum of 24 days labor on a productive activity, with nonparticipants losing the *Janasaviya* benefits.

The beneficiaries are to be selected on the basis of community participation rather than the original idea of self-evaluation. It is hoped that this procedure will cut down on leakages. The *Janasaviya* program in its new and revised form represents a dynamic attempt at poverty alleviation in that a part of the resources transferred is for investment. However, much will depend on how effectively the government can prevent erosion of benefits through inflation, leakages, and poor coverage of the deprived.

Even more importantly, much depends on how much of a burden even the reduced scheme puts on the treasury. Little information is available on the incentives and opportunities offered for investment and the nature of the income-generating projects to be developed in order to rid beneficiaries of poverty.

SECTION SIX

ALTERNATIVE POLICIES TO ALLEVIATE POVERTY

It is generally accepted that faster growth is the way to reduce absolute poverty. We now look briefly at why Sri Lanka has not grown more rapidly, and then at what the broad macro strategy of the country should be. We then turn to possible policies or strategies that are focused more specifically on poverty, and discuss the implications of their adoption. Finally, we discuss the role USAID can play in helping improve the equity of the policy environment.

SOME DEBATES ON THE SRI LANKA EXPERIENCE

The Sri Lankan Conundrum

Why has a resource-rich country with a relatively highly educated, healthy, well-fed population not followed the rapid economic development path of other Asian economies? The often-cited PQLI¹⁵ index puts Sri Lanka at the level of much richer countries in terms of social indicator achievements when it has a much lower GNP per capita. For example, Morris (1989) ranked Sri Lanka nearly as high as Austria in terms of the PQLI living standards indicator in 1985, though its GNP per capita was \$US314 and \$US10,933 respectively.

Bhalla and Glewwe (1986) argue¹⁶ that neither the improvement in living standards nor the 2 percent a year per capita growth rate during the 1960-1978 period of poverty-focused social policy measures were exceptional in comparison with other developing countries. In contrast, they argue, during the later period of more indirect growth-promoting policies, from 1977 to 1984, growth more than doubled to an average rate of 4.3 percent per capita annually, expenditure inequality did not significantly change, the consumption expenditures of the population, and the poor, generally increased, and several of the living standard indicators showed improvement.¹⁷

That high levels of literacy and easy access to medical services have not led Sri Lanka to economic take-off raises the question whether the conventional wisdom that increasing the quality of human resources is enough in itself to ensure progress¹⁸. One response is that social conditions in Sri Lanka were not as good as they seemed.

¹⁵ A weighted index of life expectancy at birth, literacy, and infant mortality.

¹⁶ See Appendix II.

¹⁷ Fields (1986) goes even further and suggests that very little growth took place during the 1970s when adjustments are made to the national accounts for distortions in exchange rates and to take account of actual expenditures on baskets of commodities. He estimates that real growth per capita only averaged around 1 percent a year over that period!

¹⁸ One of the present authors proposes that the basic needs approach to development should emphasize the conditions necessary to translate human resource development into private sector development and its associated entrepreneurial activities (see Hopkins and Van Der Hoeven, 1983).

Bhalla and Glewwe argue, for example, that the initial conditions of many social indicators in 1960 were already high, and that successive Sri Lankan governments failed to capitalise on them. Fields notes that in the early 1980s living standards still remained low. The average rural household had five members and most of them lived in two or three rooms in cadjan-thatched houses with mud walls. Half obtained their drinking water from rivers, canals, and tanks. Only 7 percent had permanent toilets; 37 percent had temporary toilet facilities and 56 percent had no toilets at all. Kerosene and firewood were used for cooking and lighting purposes, as most of these households lacked electricity. About 65 percent of household income was spent on food and there was a significant gap between family members' actual caloric consumption and the recommended daily requirement of 2200 calories. Sahn (1985) (citing Martens) found that two-thirds of rural people (estate and non-estate) consumed fewer than 2200 calories, with half consuming fewer than 1950 calories. The typical rural family had enough cash income to sustain themselves without risk of starvation but not enough to keep out of financial jeopardy or avoid caloric deficiencies. There was a good chance that they would have to borrow at exorbitant rates of interest at some time in their lives and would end up in perpetual indebtedness as a result.

Why was Sri Lanka's growth so low during the 1970s? A commonly held view (Fields again) is that heavy social welfare expenditures on free or subsidized rice, free education, and health clinics channeled too large a fraction of Sri Lanka's resources toward current consumption and too little toward investment and growth. Further, the investment that was made was inefficient and misdirected. Without going into detail, it is felt that the \$US2 billion that went to the Mahaweli project (of which \$US1 billion was from foreign aid donors) only marginally helped poor groups and had few backward or forward linkages. Undoubtedly, too, the ethnic tensions resulting in serious outbreaks of violence and a redirection of the government's scarce resources to the police and army undermined most attempts at productive investment. Foreign investors have been, and continue to be, reluctant to commit long-term investment in a country of uncertain calm. In particular, the fledgling tourist industry with much growth potential suffered from the many outbreaks of violence, especially as these are widely reported in the foreign press. Added to this, the rise in oil prices and the worsening terms of trade for tea, rubber, and coconuts in the 1970s had direct negative effects on development.

There is also the suspicion that the heavy involvement of the state in social and economic policy has led to a general air of resignation; Sri Lankans expect the state to sort out most of their difficulties. Misplaced investment, inappropriate skill formation, and a sluggish public sector have all contributed their part to the low growth. The lack of entrepreneurial spirit is obvious, particularly in comparison to Sri Lanka's fast growing neighbors: Singapore, Malaysia, Thailand, and even India.

Arguably, therefore, the resolution of the poverty problem in Sri Lanka is not entirely a question of better-directed poverty alleviation schemes to the most in need. Given that almost half the people in the country are in poverty no emergency scheme will make more than a slight dent in the problem. The solution to Sri Lanka's problems must therefore lie in the realm of overall development strategy.

ISSUES OF GROWTH STRATEGY

The economic theories of development economists such as Arthur Lewis (hire rural labor until its marginal productivity is zero), Harris and Todaro (rural development is the solution to urban unemployment), and Michael Lipton (too much urban bias in development economics) are not overly useful in helping decide upon what next for Sri Lanka. They conclude that unskilled labor can largely be absorbed in the rural sector

through **labor-intensive rural development**. Yet, as Fields remarks, rural workers in Sri Lanka face severely constrained choices. The average-sized landholding in Sri Lanka is too small for an average-sized family to make a decent living. Nor can the rural estates offer much hope for substantially more employment creation at higher wages, given the need for productivity enhancements in order to compete in international markets.

Sri Lanka's apparent surplus of unskilled labor would lead conventional economists to suggest **labor-intensive production for the export market**. And this can work to a certain extent, as shown in Sri Lanka's fast-growing textile sector. However, comparative advantage is not fixed, at least as far as human resources are concerned. Human resources can be developed to increase comparative advantage as physical-resource-poor Japan has amply demonstrated.

Irma Adelman (1989) argues against **export-led industrialization** on the basis of historic evidence, since it leads in the early stages to increased income distribution disparities. She argues that industrialization occurs at the expense of agriculture and services since labor-intensive industries have unskilled-employment elasticities of about 2.5, whereas agriculture has unskilled-employment elasticities of roughly 3.5, and services of 4 or 5.¹⁹ This leads her to suggest **agricultural-led industrialization**. She avoids recommending that Sri Lanka rely entirely on agriculture and continues her argument to press for labor-intensive, consumer-goods-producing industries and agrobased industries.

There is no quick fix to Sri Lanka's problems and, therefore, it would be desirable for more thinking on what the broad strategy should be. For example could a balanced growth, human-resource-centered strategy work for Sri Lanka? Neither rural development alone nor industrialization alone will bring about the transformation that Sri Lanka requires. The rural sector cannot be ignored. However, a **broad-based strategy** that concentrated on industrialization in both rural and urban areas while liberalizing markets and improving human resources through appropriate skill development could well project Sri Lanka's economy on a fast track growth path. The markets according to this scheme would be both internal and external, and neither one would receive preferential treatment. Steps have already been taken in this direction, as instanced by a recent ministerial declaration that the government's role will be to "facilitate rather than regulate industrial development."²⁰

Many questions remain and this report is not the place to reflect upon them. For example, should Sri Lanka follow an agriculture-demand-led industrialization path rather than export-led industrialization as Adelman has argued? Will the IMF/World Bank adjustment strategy succeed? Will price hikes and reduced subsidies help the poor, given that they are net food buyers? Will the private sector absorb those newly unemployed because of public expenditure reductions? What should the government's investment strategy be in order to capitalise on Sri Lanka's comparative advantage? What types of skill development should be followed, and who should do it -- the public or the private sector? In sum, what macro strategy and policies should be followed that will bring growth and reduction in poverty?

¹⁹ She ignores the fact that industry tends to have growth rates of 8-18 percent while agriculture rarely exceeds 4 percent.

²⁰ Industry Minister Ranil Wickremesinghe quoted in the *Far Eastern Economic Review*, January 18, 1990.

ANTIPOVERTY POLICIES

It is clear that poverty is widespread. The available evidence indicates that the absolute numbers in poverty have grown. This has occurred despite large investments in a wide variety of programs that either directly or indirectly sought to improve welfare and reduce poverty. What then can be done to make a dent on poverty?

Demery and Addison (1987) broadly group antipoverty policies into the following categories:

- Increasing access of the poor to productive assets;
- Raising the return on the poor's assets;
- Improving employment opportunities;
- Ensuring access to education and health; and
- Supplementing resources with transfers.

Access to Productive Assets

Assets may include land, credit, public utilities, equipment, tools, education, and training. Land constitutes the most important productive asset in the rural economy. Reference was made earlier to the fact that about 80 percent of cultivable land is owned by the state. Land reform legislation brought one million acres within its control. Based on the fact that productive efficiency on large estates is much higher than on smallholdings, it has been argued that the break-up of the estates in the plantation sector is not feasible (Fields, 1986). Even if feasible, and experience in Kenya in respect to tea smallholdings suggests that smallholdings can be highly efficient, political considerations would rule out any large-scale redistribution. On the other hand, large rain-fed areas in the Dry Zone could be brought under cultivation, but unfortunately the technology does not exist for its intensive exploitation.

The provision of credit is considered to be an important means of endowing income-generating assets to those without assets. Agricultural credit schemes in Sri Lanka have had little success, as indicated earlier, in meeting the needs of the poor. Since they are largely crop-oriented, they cannot meet the needs of the landless. The Grameen Bank of Bangladesh is cited as a successful experiment in extending credit to the poor, but even it does not appear to have been too successful in reaching out to the landless (Rizwanul Islam and Eddy Lee, 1986). The Grameen Bank's activities and the way it functions may have some useful lessons. It lends for rural, noncrop activities and to those owning 0.5 acres or less. The Bank workers go to the villages, taking Bank services to the villagers' doorstep. The Bank program includes a training component and recovery rates are said to be high (Ahmed and Hossain, 1985). But given that the ultra-poor are in a desperate plight -- a female rural landless worker, for example, who has lost her husband and has children to bring up -- credit is not likely to be the means toward a solution. In this case, direct targeted relief is probably the only answer. The provision of credit assumes dynamism and the willingness to take risks, as well as opportunity. The ultra-poor are not likely to be in this category.

Raising Return on Assets

The number of people owning land in excess of one to two acres, but still living in poverty, are not known, but are sizable. They need access to complementary inputs. The technology is available for paddy, tea and rubber, but much more research in respect to other field and tree crops is required to increase yields. The spread of the new high-yielding varieties has been rapid in the case of paddy, moderate in rubber, and poor in tea. But yield potentials are nowhere being realized, and Sri Lanka lags far behind countries similarly placed such as South India, Kenya, and Malaysia (Wickremasekera (1980), Jogaratnam and Kunasingham, 1983). The modern varieties are known to be neutral to scale but the package of associated practices, such as extension, fertilizer distribution, and product support prices, are biased against the small farmer. A major overhaul of the input delivery system to ensure access to the poorer farmers is required.

Employment Expansion

Employment expansion and a rise in real wages through labor-intensive processes will undoubtedly play an important role in poverty alleviation. Attention has been drawn to the potential for increasing cropping intensities, crop diversification, intensification of work processes such as transplanting and weeding in rice, replantings in the estate sector, and so forth. These have been discussed for several years now and campaigns launched at various times to promote such activities, but no breakthroughs are in sight. The constraints to the widespread adoption of these practices need study.

Attention has been also focused in recent years on special employment creation schemes (SECS) and public works programs (PWP) targeted at the poor. There is no consensus on the impact of such schemes. While they can contribute to poverty alleviation, there is no evidence that they can be organized on the scale required to confront poverty. Rather, they only reinforce the need to confront poverty on as wide a front as possible. It is not the serious intention of these programs that is at stake; rather the sheer magnitude of poverty may call them into question. The depth of these programs, across classes and regions, would have to go beyond the tip of the iceberg (Muqtada, 1989).

SECS are generally focused around self-employment projects that reportedly are heavily dependent on credit and training and skill development for promoting entrepreneurship. It has also been found that in wage-based employment schemes other than PWP, training is the major component. Such programs also point out the need to target the neediest. The evidence accruing from the region is that the eligibility criterion is almost invariably violated and that a substantial percentage of the beneficiaries are not the poor (Senanayake et al., 1989).

The question of employment creation is not easily addressed and, again, not an area that can be taken up in depth in this paper. Areas regarding further investigation include such things as the conditions under which small and medium-term businesses can grow and flourish, the impact of public retrenchment on employment, the role that privatization of parastatals could have in increasing efficiency and employment, the flexibility of labor and wage practices, and so forth.

Access to Education and Health

This access is widespread in Sri Lanka, although the recent closure of universities has and will contribute to major constraints on the economy. The suspicion remains, however, that education has not led to the creation of a skilled and entrepreneurial class. The feeling is that even the educated await the state to take the lead. The

lack of a myriad of services that one finds among, for example, the Chinese of the Malay Peninsular, is remarkable. A major review of education and skill training is required to examine why the system is not working.

Income Transfers

Attention has already been drawn to the food stamps scheme and the *Janasaviya* poverty alleviation program that will soon replace the food stamps. The experience from the food stamps scheme suggests the need for much greater efficiency in implementation, especially in targeting, and the need for some form of indexing (Edirisinghe, 1987). Income transfers are, however, vulnerable to budgetary constraints and precision in targeting is difficult. The government focuses its targeting on households and perhaps it would be better to target directly specific slices of the population known to be in poverty such as single mothers or very young infants of landless laborers.

Organizing the Poor

Demery and Addison do not include this in their list of antipoverty policies but we add it as a sixth point. Much has been said about the need to organize the poor. Apart from bringing about a balance of political power, NGOs could ensure effective implementation of programs intended to benefit the poor, identify target groups, and monitor results. Very recently, farmer organizations to cover the whole country have been mooted. Previous experience, especially in setting up village-level cooperatives, cultivation committees, and agrarian service centers, makes one skeptical. The main problem is to ensure that such organizations are not hijacked by the rich and the powerful.

THE POSSIBLE ROLE OF USAID IN ALLEVIATING POVERTY IN SRI LANKA

What are the policy areas that USAID might use for its continuing dialogue with the government, and where could it best intervene to help improve the equity of the policy environment.

There is not a great deal that international organizations can do to prod or nudge a country in one direction or another given the desire not to interfere in democratic institutions. However, given the strong negative feedback of violence on economic expansion, perhaps there are areas of maneuver, especially if the lack of democracy and correct judicial process are contributing to violence. There is a suspicion that this is occurring in Sri Lanka. For example, when a prominent member of the Sri Lankan government calls Amnesty International an organization that supports terrorists, an international agency can step in and set the record straight.

Areas Of Possible Dialogue

Database Strengthening

At a more mundane level, there are a number of areas where an international organization can "prod and nudge." The database of Sri Lanka needs to be considerably strengthened to identify the poor. More information is needed on an occupational classification of the poor and their spatial location, to design and target appropriate

antipoverty programs. The objectives of antipoverty programs are to generate a dynamic process that moves the poor out of poverty and independent of simple income transfers. Data for an understanding of the dynamics of poverty are required.

The available database is unsatisfactory. Different agencies collect data that are not readily comparable. There is a strong need to systematize data collection and design surveys specifically for the purpose of identifying the poor. The Indian National Sample Surveys (NSS) may well provide an example.

All-Island surveys should be supplemented with longitudinal studies of the type ably performed by MARGA (1981), though less ambitious but strategically located. Perhaps, more than large surveys, small but well-designed studies could provide greater insights into the dynamic processes underlying poverty.

Research

In the long run, antipoverty strategies in the rural sector will have to focus on productivity increases. There is a great need for a better understanding of the economic and institutional constraints to the realization of yield potentials. As we saw above, there is a need to develop technology for intensive farming in Dry Zone areas, and to study improved input delivery to poor farmers. While several measures have been initiated to improve in-country research capability and training, there appears to be a lack of focus. A well-designed, long-term research program must be put in place.

There is a strong case for developing socioeconomic research capability at the various research institutes, as well as research of a technical nature that is lagging behind for the minor field and tree crops. There is a need to know more about macroeconomic developments and their implication for production, productivity, and prices, all of which impact on the poor.

The potential for increasing wage employment, especially in the rural and estate sectors, needs study, as does microenterprise development. The urban poor would likely benefit from accelerated economic growth, but trickle down effects may take much longer in the rural sector.

Poverty has generated considerable rhetoric both at international and national levels. This has been accompanied by considerable investment in diverse fields. Numerous NGOs have also entered the scene. The net impact does not appear to be encouraging. One could very well say that if not for these efforts, the situation could have been very much worse. But this should not preclude attempts to learn and distill from past experience and develop long-term plans. Will *Janasaviya* work? Presently it has a two-year focus. It needs to be backstopped by identifying investment opportunities, providing the necessary training and skills development, resource inventorying, and market development. And all this has to be highly location specific.

The costs and benefits of the various targeted poverty alleviation programs of the government have not been analyzed as far as can be seen. The scope for improving the efficiency of ongoing programs that directly or indirectly impact on the poor also needs to be looked into. In this regard, the need for a strong monitoring and evaluation mechanism cannot be overemphasized. And even if the targeting was effective, the use of resources to support food subsidies, food stamps, or the *Janasaviya* program may have diverted resources away from productive investment opportunities. Such opportunities, assuming that they exist, could potentially have increased economic activity and, consequently, created the employment opportunities to rid the country of poverty.

In the same vein it would be interesting to look at the costs and benefits of the nearly two decades of political violence in the country. Arguably such protests have brought about improvements in the level of living of the various ethnic groups. However, the material costs have also been high, putting aside the personal suffering that has been caused. Added to this has been the lack of major foreign investment because of the politically unstable situation. A study of this may seem overly academic; however, a clear statement of the winners and losers could potentially help to raise awareness of the sacrifices being made.

Education

Education has been referred to as the great leveller. But in Sri Lanka, the general consensus is that the educational system acts as the 'great sieve. There is a strong case for an all-out attempt to develop skills and entrepreneurial ability. But, before this is done, an in-depth study of the type of skills to be imparted must be made. A needs-based assessment and narrow targeting is called for in order to avoid surpluses in particular fields.

Macroeconomic Considerations

If, as argued in this paper, macro-strategic consideration are fundamental in resolving the problem of poverty, then further investigation is of interest. As well as the balanced versus rural-focussed strategy consideration, it would be helpful to analyze exactly what are Sri Lanka's comparative advantages. For example, labor-intensive textile production may be temporarily advantageous but many countries are following a similar strategy and there is a danger that international markets will be saturated or more severe quotas may be installed. In addition, as the supply of labor-intensive manufacturing goods increases, the equilibrium price could fall, thus leaving the country no better off after the investment effort has been made.

Conclusions

USAID could assist the government of Sri Lanka to review the country's social expenditure to date in the light of efficiency criteria, the benefits and costs of agriculture-demand-led industrialization versus export-led industrialization. Other investigations could be made of Sri Lanka's comparative advantage and whether the country is best developing its human resource capital for the strategy eventually chosen for development.

The *Janasaviya* program could form the basis of dialogue when protection of vulnerable groups in the short term is discussed. Is the program targeted at the ultra-poor? Will it create the conditions for self-help or will it have to continue into the distant future? What parts of the program need to be direct grants on a continuing basis and what can be phased out over time? What will its annual burden be upon the Treasury.

In terms of specific USAID interventions, many of the points raised in this section have been identified as areas where assistance in research, education, or job development could be useful. Three priority areas stand out that would benefit the poor directly.

Irrigation

Irrigation schemes have helped poor settlers in the past and more could be done. Also, large rain-fed areas in the Dry Zone could be brought under cultivation but the technology for its intensive exploitation is lacking. Some additional research input could help here.

Land Titles

The lack of clear titles to land means that small farmers are unable to sell or raise capital on land that they own. An on-line information system could help the government to clarify this situation.

The Ultra-Poor

The ultra-poor probably can be reached only through direct grants. However, the slightly better off poverty groups could best be helped by allowing them to help themselves out of their own poverty. To do this, one option worth exploring would be to create, or reinforce where they exist already, small-scale skill formation training centers where short courses are offered for people to obtain rudimentary skills. Poor people will not usually attend such centers without receiving a small stipend and provisions; this could perhaps be made out of donor funds. Such an approach assumes that the economy is, or will be shortly, expanding and can use the skills developed under such a program.

SECTION SEVEN

CONCLUSIONS

One of the main objectives of this study was to map the different aspects of poverty in order to illustrate that there are different poverties depending on whether one is looking at malnutrition, lack of employment, poor sanitation, unequal access to education, and so on. The study has been only partially successful in achieving this goal. This is because the study was forced to use existing data and secondary sources, given the short amount of time in which it was prepared. But, more seriously, few if any relevant studies actually defined poverty with alternative measures and then continued to examine whether the same socioeconomic groups were touched. Alailima's study was a notable exception and her work allowed us to cover some of the necessary ground.

Poverty has been identified across the socioeconomic spectrum in Sri Lanka, with the largest group being the landless laborers. However, if a very restricted definition of poverty is used — that by Sahn for the ultra-poor — then pockets of extreme poverty are more prevalent in the urban than the rural areas. Such heterogeneity makes targeting of the poor difficult, if not impossible.

For the ultra-poor, the study concludes that no amount of provoking such people to self-drive themselves out of poverty will work, since their circumstances are too desperate for them to have the energy and vigor to do this. But the ultra-poor are fewer in number than the large numbers of poor identified by poverty lines set at higher levels imply. Direct grants to the ultra-poor are probably the main solution and should not be too onerous on the treasury since they are few in number. The next group of poor can be helped more to help themselves. For example, the provision of small-scale training facilities at village level plus modest payments for attendance could be a good starting point, and aspects of the revised *Janasaviya* program seem to have appreciated this. But no amount of training will help on the supply side if the demand for skills is lacking. And there, a reexamination of Sri Lanka's macro development strategy is called for, perhaps along the lines set out briefly in this paper.

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APPENDIX 1
ENVIRONMENT AND POVERTY

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APPENDIX 1

ENVIRONMENT AND POVERTY

There has been increasing interest in recent years in the environment. Little, however, has been written on the relation between poverty alleviation strategies and the environment. This report has focussed on the former issue but it was felt that a short discussion on poverty and the environment would help to orient current concerns.

There have been two authoritative studies of the environment in Sri Lanka in recent years. The first was carried out by a GoSL Task Force with the intention of preparing a national conservation strategy (GoSL, 1988); the second was commissioned by the Norwegian aid agency (NORAD, 1989) to provide recommendations for a program on environmental cooperation between Norway and Sri Lanka. It is these two reports that provide the basis for the discussion here.

The main environmental issues that affect, or are affected by, the poor are (1) drought, (2) land degradation, (3) deforestation, and (4) pollution from poor sanitation. These affect vulnerable groups in different ways.

In the rural sector peasant farmers are continuously affected by drought conditions. The NORAD study reports that in the Dry Zone, 90 percent of paddy lands were affected by drought. Poverty also sets into motion further abuses of the environment as poor people try and eke out an income through cutting trees to sell as firewood or deforest the land to cultivate chena. Others, affected by drought, take to the cultivation of more drought-resistant crops such as tobacco. Activities such as these, especially when carried out on hill slopes, can further degrade available land adding a further twist to long-term poverty. It has been estimated that in 1900 the island had a natural forest cover of 70 percent and a population of about 3.5 million. Today, with a population of 16.5 million, natural forest cover is estimated to be around 25 percent.

Drought relief takes the form of handouts of dry rations. Work camps are organized where farmers can partake in road building, clearing of irrigation channels, repair of bunds, and so on. However, the poorest, such as the disabled and the old, are missed by this form of relief and further marginalized.

Poverty can thus lead rural populations into a vicious circle of damaging the environment in their struggle to survive, which in turn reduces the resource base upon which their long-term survival depends. Cultivation of tobacco, encroachments on tank reservations, poor farming practices, absence of hardy grain varieties, wasteful use of water when it is available are all such examples. Clearly, education of the harmful effects on the environment can help, but in the long term the main way in which such environmental degradation will stop or lessen will be through alleviating poverty itself. For example, fairer land redistribution would help to prevent forest depletion and provision of sanitation facilities to rural areas — currently the focus of government efforts has been to the urban areas — will help reduce pollution and the environment.

In urban areas, the NORAD report estimates that around 170,000 households live in slums and shanty towns under very poor environmental and sanitary conditions, and 40-60 percent of people in Colombo live in slums. The majority of workers from these families are engaged in such informal sector activities as food vending, preparation of street foods, and petty trade, carried out in the squalor of open drains, stagnant pools of water, and rotting garbage. Around 20 percent of urban families have no latrines, and nearly 26 percent use a bucket or pit latrines. In the slums of Colombo, one toilet is shared by 36 persons on average and there is only one water tap for 128 persons.

Despite the proximity of these urban poor to schools, school attendance has very low priority owing to the need for children to work to supplement household income. They learn early in life to beg or steal, and crime, juvenile delinquency, prostitution go on unabated while environmental concerns are the last thing to be taken account of. Sanitation and the provision of safe drinking water is one of the weakest links in development in urban areas. Some of the degradation of the environment associated with poverty in urban areas is self-inflicted. However, shanty towns and slums often have the lowest priority when public expenditure is allocated for the provision of water and sanitation services.

In the estate sector poverty takes a different form. Family income is relatively high compared with urban and rural areas, yet environmental hazards exist such as poor housing and lack of adequate sanitation and safe drinking water, and lead to high levels of morbidity and loss of working days.

It is difficult to imagine schemes targeted on the poor that will have an immediate impact on improving the quality of the physical environment in Sri Lanka. Regulation will not work when people are desperate, as instanced in the case of chena cultivation. This is a cultivation that is best suited to drier environmental conditions when population pressure is low and land readily available. However, although prohibited by law, it continues in many parts of the Dry Zone exacerbating the degradation of already economically unproductive forests. Since chena production forms the main source of subsidiary foods and an important source of income to some of the poorest people, it is bound to continue even though it is progressively self-destructive. The main drive must therefore be a direct attack on the problem of poverty itself, which has been the theme of the main body of this report. But this is a long process and may take longer than the environment can tolerably bear.

There are no quick fixes. Further, higher-level concerns such as the preservation of the gene pool through protecting endangered species, mangrove swamps, and coral reefs or creating national parks are largely immaterial to the poor. In consequence, there are probably few policies that can be targeted at the poor which are 100 percent environmentally directed.

APPENDIX 2
THE CONTROVERSY OVER THE EVOLUTION OF LIVING STANDARDS
AND ECONOMIC PROSPERITY IN SRI LANKA

APPENDIX 2

THE CONTROVERSY OVER THE EVOLUTION OF LIVING STANDARDS
AND ECONOMIC PROSPERITY IN SRI LANKA

According to Bhalla and Glewwe (1986), two contrasting economic policies were pursued by Sri Lanka from 1960 to 1984. From 1960 to 1977, Sri Lanka followed closed economy policies with substantial expenditure for basic needs (mainly food, health, housing, and education). But since 1978, economic policies were based on a more open approach, with reduced social welfare expenditure in order to achieve faster economic growth. The study focused on the impact of the two approaches on economic growth, living standards, and equity.

Several econometric and statistical analyses were conducted using data from Sri Lanka and 43 selected comparator countries. Here the importance of initial conditions were emphasized. The authors concluded that the improvement in Sri Lanka's living standards over the period of 1960 to 1978 was no better than the average of the comparator countries even though Sri Lanka had a high expenditure on social welfare during this period. In contrast, between 1977 and 1984, with reduced social welfare expenditure and little progress in some indicators like primary school enrollment and infant mortality, the authors state that substantial economic growth was recorded after 1978 and that this was a more satisfactory situation than before. The authors further concluded that the post-1977 policies were not detrimental to equity objectives.

How robust are these conclusions?

1. Only certain parameters were used in the study and such things as foreign exchange earnings, the dynamics of external resources, and the government's increased dependence on foreign credit were not considered.
2. The economic stagnation during 1960 to 1978 may have been due not only to the BN approach. Such things as the closed economic policies or the nationalization policies undoubtedly had an influence on economic growth.
3. No assessment of comparative performance with other countries was conducted for the period 1977 to 1984 when, arguably, economic growth conditions were more favorable. What comparison was done was only for 1960 to 1978.
4. The reduction of unemployment after 1977 was due not only to internal policy changes, but to external events such as the Sri Lankan labor migration to the Middle East.
5. The authors' own bias may have shown through, leading to excessive praise for the post-1977 era; for example, income distribution (before and after 1977) was not properly compared and this is of particular importance when, arguably, increasing income disparity may have been a major reason for losing social harmony after 1977.