



## **Pathfinder Economic Alert**

### **Voiceless, Helpless and Powerless: Let's Uplift and Integrate Them into the Mainstream of Economy and Society**

#### **Commendable Achievements**

Over the years Sri Lanka has gained a considerable reputation for its achievements in social development. It punches above its weight on the UNDP's Human Development Index. It has also performed very well in meeting the internationally agreed Millennium Development Goals (MDGs) which focus on indicators related to poverty, health, education and gender parity.

There is also a positive narrative on poverty. The latest household income and expenditure survey (HIES) records that absolute poverty has declined to 8.9 per cent. This is an impressive figure for a country at Sri Lanka's stage of development. In addition, relative poverty, inequality, as measured by the Gini Coefficient, has remained steady at a time when there has been a sharp rise in inequality in countries ranging from the US to China. In fact, the Asian Development Bank has identified increasing inequality as the greatest threat to Asia's rise and the prospects of this being Asia's century. Recently, there has also been a trend towards greater regional balance in development across the country with the Western Province's share of national GDP declining.

Access to state provided health and education has been an important determinant of Sri Lanka's positive performance in combating both absolute and relative poverty over several decades. The state's strong commitment to the provision of these public goods differentiates Sri Lanka from many developing countries. This can be attributed to the overall commitment to welfarism by successive governments since independence. In recent decades, remittances from temporary migrants have boosted the household income of a wide range of socio-economic groups. About Rs 780 billion (US \$1 =Rs 130) is expected to flow directly into households across the country in 2012.

#### **The challenges**

Despite Sri Lanka's robust record in social development, there is no room for complacency. First, there are still pockets of abject poverty in the rural, urban and estate sectors of the country. There is a general tendency among Sri Lanka's polity, policy makers, civil society leadership and the media to highlight and debate macroeconomic and sectoral issues mainly impacting upon the upper and lower-middle classes. However, the Pathfinder Foundation (PF) wishes to draw attention **to the plight of many thousands** of our own people who live in abject poverty, mostly in isolated pockets in

rural areas, plantations and the urban centres. Secondly, the development model that has enabled Sri Lanka to achieve its successes is currently facing affordability challenges.

On **affordability**, the free education and health that Sri Lanka has enjoyed from independence was initially funded for a population of 7 million primarily through taxing the surpluses generated by the three main export crops: tea, rubber and coconut. However, the twin pressures of a rapidly increasing population and a secular decline in the terms of trade made it increasingly difficult to achieve a growth-friendly balance in the public provision of health and education on the one hand and physical infrastructure on the other. **The problem was subsequently compounded by the escalation in defence expenditure during the 25-year conflict. The upshot was a considerable backlog in infrastructure development. The recent much-needed efforts to address this problem have been made possible by the end of the conflict; an increasing reliance in foreign borrowing on commercial terms; and a reduction in public spending as a percentage of GDP on education and health (on education, Sri Lanka now fares poorly when compared with its peers/competitors in Asia.) The latter two trends are unsustainable as they would respectively undermine financial stability; and exacerbate poverty by threatening the impressive past achievements in social development.**

Sri Lanka's experience over the last five decades seems to make clear that something has to give when the government assumes responsibility for provision of education, health and infrastructure. **First, infrastructure development was squeezed for much of the time. Now the share of education and health spending as a percentage of GDP is declining.** This has necessitated a fundamental review of the country's still largely statist development model. Affordability factors now make it imperative to take a pragmatic perspective on the provision of basic services and physical infrastructure. **The paradigm shift brought about by exposure to rating agencies and international capital markets reinforces this message.** The country needs a non-ideological and problem-solving approach to the provision of public goods. The continuation of the current model could well result in a financial crisis, a deterioration in quality or both. Foreign and local private investment and public/private partnerships (PPPs) should be encouraged and promoted by creating a conducive environment and a level playing field.

### **Abject poverty**

An absolute poverty head count of 8.9% is impressive. However, it should also be recognised that this still means that about 1.8 million Sri Lankans are living on less than Rs.120 per day. In addition, there are a number of others living just above this poverty line whose existence remains highly precarious. There are pockets of extreme poverty in the rural, urban and plantation sectors. Citizens in the conflict-affected regions, areas termed "border villages" during the conflict and the plantation sector face special difficulties.

From a public policy perspective, the challenge is to generate inclusive growth. **Accelerated growth is a necessary but far from sufficient condition for combating poverty. Inclusivity** involves increasing access to assets; good quality basic services, particularly health and education/training/skills, for the disadvantaged; and pro-poor

infrastructure (e.g. rural roads, minor irrigation schemes, markets, electricity, clean water and sanitation). Taking this reality into consideration, prudent macroeconomic and sectoral policies need to be complemented by well-designed and targeted interventions to assist the poor. These need to be customised to take into account the specific needs of the different pockets of poverty around the country. It is important that the affected communities are empowered to be involved in this process. Access to decent dwellings, **as well as basic services and infrastructure** has to be a key plank of any such programmes. The Pathfinder Foundation believes that **while** the state, at national, provincial and pradeshiya sabha levels, **has a very key role to play** in addressing the pockets of abject poverty, **Business and civil society can also play an important role in delivering these programmes.**

Alleviating the condition of children living in abject poverty has to be the most important challenge for all policy-makers. The first thousand days of an infant's life are the most crucial in terms of the development of cognitive skills. Malnutrition at this stage of a child's life results in a loss of potential that can never be restored. The current programmes targeted at infants and lactating mothers need to be reviewed in terms of access and impact. Intervention to support child development at this early stage is a crucial determinant of subsequent life chances. Freedom, democracy, good governance, and economic growth will only be meaningful if political leaders and policy-makers can **create the conditions for uplifting** the powerless, voiceless parents and children **trapped in** pockets of abject poverty.

Any programme that intends to raise the living standards of the adults and children in pockets of abject poverty needs to:

1. Ensure that the total allocation of the government's budget for this noble objective is channelled direct to the targeted communities.
2. Develop partnerships with community level organizations to ensure long-term sustainability
3. Avoid creating **another** self-perpetuating government body.

*This is the Thirty Seventh in the series of Economic Alert articles published by the Pathfinder Foundation. Readers' comments are welcome at*

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