

Decomposition analysis of poverty in Sri Lanka: 1990-2010

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Poverty has always occupied a prominent place in the economic development agenda of successive governments in Sri Lanka since independence. This is evidenced by the fact that Sri Lanka had achieved the 1st Millennium Development Goal by 2010 despite the difficulties caused by the long-lasting ethnic conflict. However, the economic benefits of development have not been evenly distributed over the whole island. Regional disparities are large and have been a key concern. Thus poverty decomposition into growth and redistribution provides a better picture for analysing poverty situation in Sri Lanka as it examine poverty reduction through increases in mean income/expenditure or changes in relative income distribution. Therefore the main objective of this paper is to examine the decomposition of change in poverty in Sri Lanka within last two decades into growth and distribution effects.

Poverty decomposition has been calculated using the computational tool 'POVCAL' developed and distributed by the World Bank. National poverty changes were decomposed into growth and redistribution components following the method of Datt and Ravallion (1992), using disaggregated household expenditure data from National Income and Expenditure Surveys 1990/91 and 2009/10 in Sri Lanka. The decomposition of the poverty change was done using the poverty headcount ratio, the poverty gap index and the severity of poverty in Sri Lanka based on HIES data in 1990 /91 and 2009/10 using national poverty lines for the respective years.

The results show that mean consumption in Sri Lanka has increased; therefore the growth component has contributed to significant poverty reduction within the period 1990/91 to 2009/10. Further, the results confirm that the significant poverty reduction in Sri Lanka is fully accounted for by the increase in mean consumption. This effect carried through to the other poverty measures as well. Although usually the redistribution component is negative, here it has a positive value, indicating that the redistribution component has dominated the growth component of the change in poverty in Sri Lanka over the last two decades.

Key words: Poverty decomposition, growth effect, distribution effect, POVCAL, Sri Lanka

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