

+ Measuring poverty within Sri Lanka's Upper Middle Income status

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Sri Lanka achieved 'Upper Middle Income Country' (UMIC) status in July 2019, as the country's Gross National Income (GNI) increased from USD 3,840 per capita in 2018 to USD 4,060 per capita in 2019. World Bank's (WB) new threshold for UMICs is USD 3,996 - USD 12,375 GNI per capita.

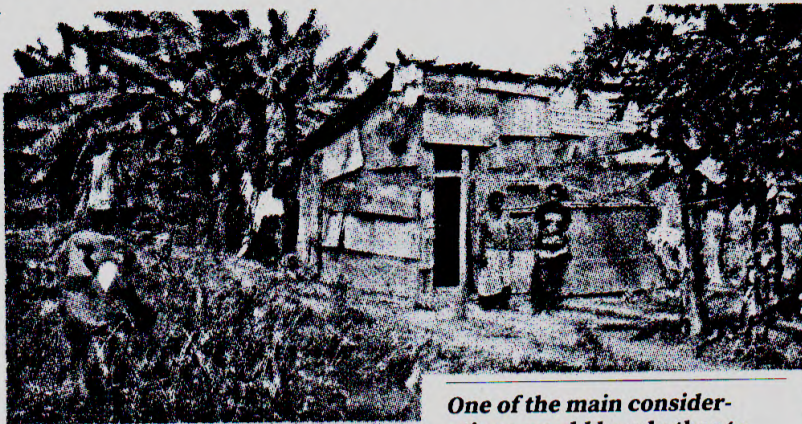
Sri Lanka scraped by the line of demarcation to enter the new threshold for UMICs and is still at the lower end of the spectrum. There is still a risk of slipping back to Lower Middle Income Country (LMIC) status again, if the economy does not progress at a level expected of a UMIC.

Based on the WB's Global Poverty Line (GPL) for UMICs - USD 5.50 a day per person (2011 PPP or using 2011 prices) - 40.4% Sri Lanka's population are in poverty. But, based on the National Poverty Line (NPL) currently used in Sri Lanka, only 4.1% were in poverty in 2016.

However, as long as the country is in UMIC status, poverty levels should be measured using the GPL USD 5.50 a day per person (2011 PPP).

Even though all countries have their own poverty measures to estimate poverty at national and regional levels, it would not be appropriate to use the current NPL to estimate poverty in Sri Lanka, due to the following reasons: (i) Sri Lanka has graduated to UMIC status; (ii) vast changes in the economy and income distribution expected in the near future, owing to the rapid technological advancements of the Fourth Industrial Revolution (4IR); (iii) the current NPL is based on the market value of a basket of goods and services based on the 2002 Household Income and Expenditure Survey; (iv) most UMICs and high income countries use 'Relative Poverty' instead of 'Absolute Poverty' measures used in Sri Lanka.

This article presents some important points that statisticians, planners and policymakers should consider when developing methods and measurements to estimate poverty in Sri Lanka in the future.



With the elevation of Sri Lanka to UMIC status, it is not appropriate to use the poverty lines meant for LMICs for inter-country comparisons. The GPL of USD 1.90 a day is the poverty line used to estimate extreme poverty and represents the typical condition of the world's poorest countries.

This GPL is also used to estimate extreme poverty in other countries. Based on it (USD 1.90 a day), only 0.89% of Sri Lanka's population were in extreme poverty in 2016. For international comparisons, Sri Lanka used USD 3.20 a day measure (until the country was elevated to UMIC status), under which 10.13% of the population was in poverty in 2016. With the elevation to UMIC status, Sri Lanka will have to use the GPL of USD 5.50 a day.

In this context, Sri Lanka cannot continue to use the current NPL to measure poverty levels in the country. If the country is to maintain the UMIC status, it is necessary to revise the NPL.

One of the main considerations would be whether to continue with the concept of Absolute Poverty or adopt the concept of Relative Poverty, like most other UMICs. Relative Poverty is a condition where household income is a certain percentage below the Median Household Income.

For example, the threshold for relative poverty could be set at 40%, 50%, or 60% of the Median Household Incomes. Relative Poverty is useful for showing the percentage of the population who have been left behind.

Based on the HIES-2016 conducted by the DCS, 7.8% of the population is

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below 40% of the Median Household Income, 12.3% of the population is below 50% of the Median Household Income, and 18.2% are below 60% of the Median Household Income. A decision needs to be taken on which threshold Sri Lanka should adopt and then develop a suitable methodology to measure poverty in the future.

Way forward

It is not possible to take an arbitrary decision on the best method of measuring poverty in Sri Lanka in its new reality as a UMIC. For international comparisons, it would be necessary to use the GPL USD 5.50 a day.

For poverty estimates at the national level and the regional level, it would be necessary to develop a suitable methodology/criterion, as a UMIC country. The DCS may have to develop an acceptable methodology to estimate poverty in Sri Lanka in the future. To achieve this, it is important to initiate a dialogue with planners, policymakers, and other stakeholders.

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