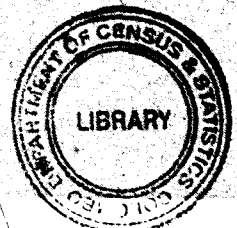


The Western Province shows a marked growth in output, but a lower level of reduction of inequality.



Reducing inequality amidst fast growth

Incredible strides have been made in post-conflict Sri Lanka, to put the country back on track on the growth highway. However, recent studies show that inequality persists despite the scramble for prosperity. The State of the Economy 2012 report, the Institute of Policy Studies' annual flagship publication, discusses the implications of 'inequality' on the future of Sri Lanka. The following is an abstract from the report:

SRI Lanka is not an exception in setting its policies towards accelerated economic growth. Such policies have become the focal point of policy efforts across the globe. Yet, with inequality trends in the world on the rise, global evidence suggests that the benefits of growth take a long time to trickle down to substantially reduce inequalities. Consequently, there has been a shift in the emphasis of policy frameworks in many countries, signalling a shift away from poverty reduction to the reduction of inequality.

Socio-economic disparities

Evidence supports the fact that accelerated growth alone is not sufficient to reduce inequalities. In Sri Lanka, the most recent available data suggests that while reduction in poverty has been accompanied by improvements in bridging inequities, socio-economic disparities still persist among regions and population groups in the country.

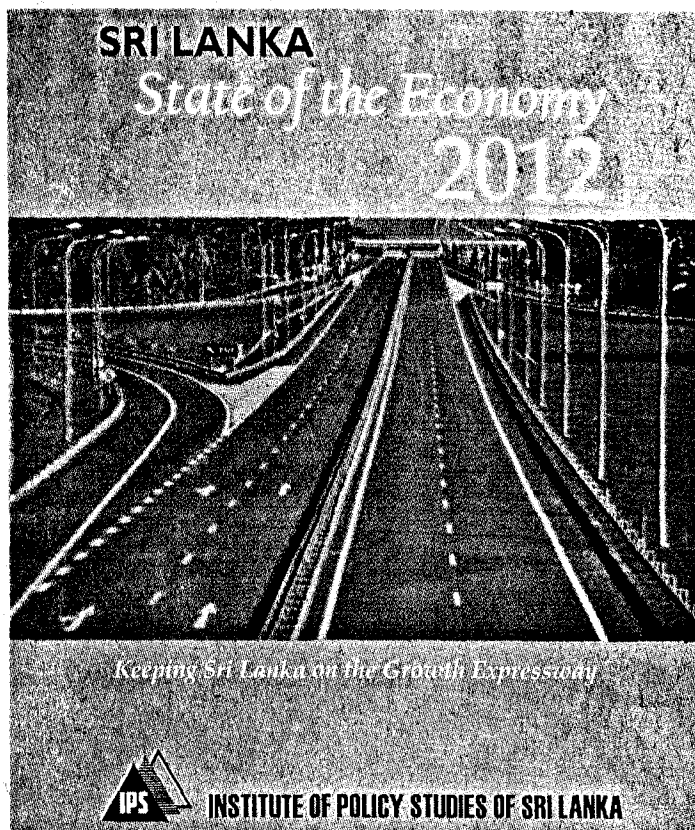
Comparison of the changes in the level of spatial inequality and growth over the years indicate that inequality reduction is not necessarily related to improved growth. In particular, the Western Province shows a marked growth in output, but a lower level of reduction of inequality. This indicates that in the Western Province, benefits of growth have not trickled down adequately for a substantial reduction in inequality. In contrast, the North-Central Province has been able to reduce inequality remarkably during the considered period, even with a lower level of growth. This suggests that growth has not always resulted in reducing income inequality.

The key factors that may be contributing to income inequality in Sri Lanka include wage differentials in different occupation categories, gender wage differentials, inequalities generated due to migration and remittances, disparities in education - including both differences in access to education and educational outcomes - concentration of economic activities, and disparities in infrastructure.

Balancing growth and equity

Though on one hand inequality is considered to be desirable for economic growth, on the other hand higher inequality could lead to negative effects on growth. As countries adopted accelerated growth strategies, widening of inequalities at the initial phase is an expected outcome. Therefore, balancing growth and the overall welfare of the population remains a challenge for governments hoping to maintain a growth momentum.

Investment in human capital is one of the most important elements in achieving greater income equality in the country. Investment in early childhood development and education, investment in general education, together with skills devel-



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opment to improve the employability of the workforce, can be considered as main tools for human capital development. However, this should go hand-in-hand with creation of more productive and rewarding employment opportunities, necessarily with opportunities for training and with career prospects.

Better jobs for the poor

Reducing inequality also

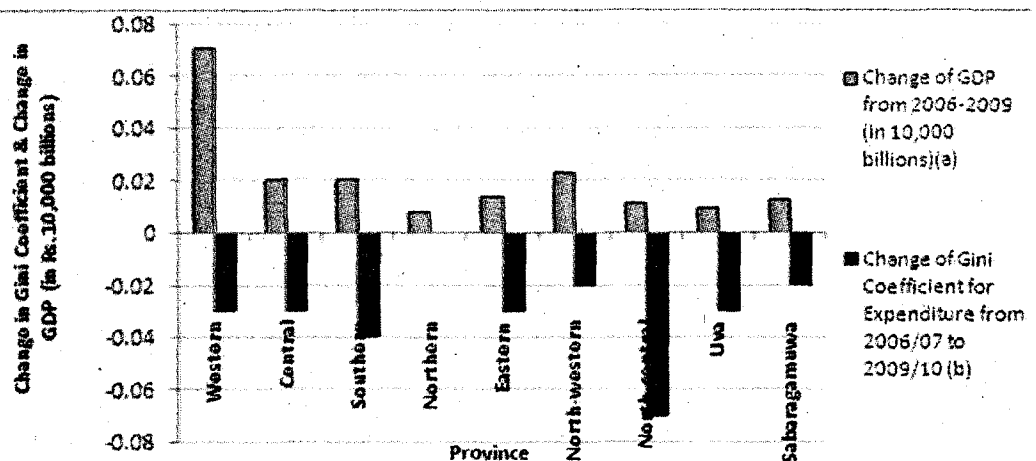
requires better jobs for the poor. Better jobs can be formed with structural transformation from agriculture to the more productive industrial and services sectors. Infrastructure improvement within the regions and connectivity is one of the ways of achieving this, as they encourage industry and services growth. However, such structural transformations may

be slow to occur. In the interim, there is an onus on governments to ensure that less productive sectors of the economy, and the population that derive a livelihood from such economic activities, are not left behind.

Further, while accelerated economic growth requires that concentration be more on leading regions; lagging regions also need to sustain a level of growth, without falling far behind. This stresses the need to focus on regional development while achieving the objective of accelerated economic growth; an aspect in which Sri Lanka is on the right track. The improvement of infrastructure, connecting the lagging regions to markets and economic centres, etc., would open up access to economic opportunities. This will help to ensure a higher possibility that the benefits of growth will be shared by all and inequities across the country will be bridged.

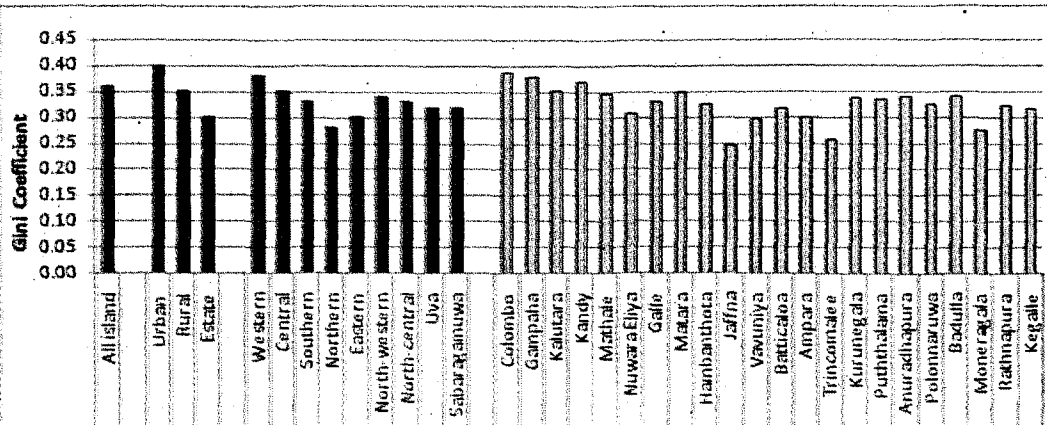
So, the need for prudent policies to be in place, that address inequalities and manage rising levels of inequity, should be a primary concern. As such, improved investments in human capital and regional infrastructure - thereby improving connectivity of lagging regions to economic centres, creating more opportunities in productive sectors and productive employment, etc. - are two key areas for policy attention.

Change of GDP and the Gini Coefficient of Expenditure from 2006 to 2009 by Provinces



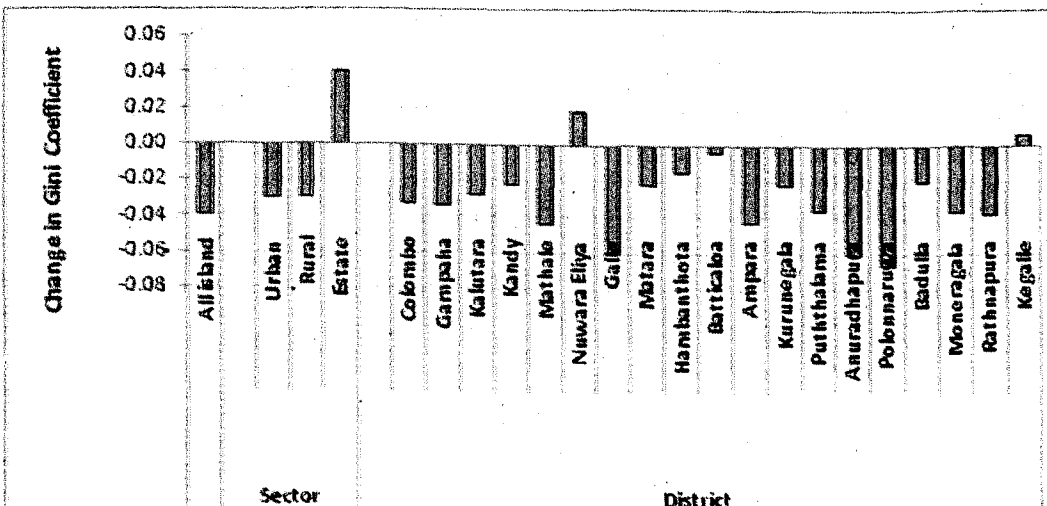
Notes: The GDP change is provided in Rs. 10,000 billions
Sources: Based on Central Bank of Sri Lanka, Annual Report 2011; Department of Census and Statistics of Sri Lanka, 'Household Income and Expenditure Survey 2009/10 Final Report'

Gini Coefficient by Sectors, Provinces and Districts in 2009/10



Notes: Gini coefficient here refers to Gini coefficient based on expenditure (Gini coefficient of expenditure is a better measurement than Gini coefficient of income).
Source: Based on Department of Census and Statistics of Sri Lanka, 2011, 'Household Income and Expenditure Survey 2009/10 Final Report,' Department of Census and Statistics of Sri Lanka, Colombo.

Change in Gini Coefficient by Sectors and Districts between 2006/07 and 2009/10



Notes: Gini coefficient here refers to Gini coefficient based on expenditure (Gini coefficient of expenditure is a better measurement than Gini coefficient of income).
Source: Based on Department of Census and Statistics of Sri Lanka, 'Household Income and Expenditure Survey,' 2006/07 Final Report and 2009/10 Final Report.