Alleviating poverty in Sri Lanka: Take a broader look at poverty measures

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Sri Lanka has managed to bring down its poverty from 26.1 per cent in 1990 to just 11.1 per cent by 2016. However, it is not enough to consider only income poverty when it comes to poverty, as many are faced with multidimensional poverty. It is important to note that many Sri Lankans live just above the poverty line, which is not the only dimension of poverty. A combination of the National Poverty Line (NPL) and the Global Poverty Line (GPL) is used to measure poverty in Sri Lanka. The methodology used in the determination of NPL is often debated and GPLs are misinterpreted when estimating poverty. As such, the blog attempts to clear some misconceptions on these poverty lines and the importance of estimating poverty using different measures and dimensions. It is also important to rebase the NPL, which was developed in 2004 based on Household Income and Expenditure Survey (HIES-2002) of the Department of Census and Statistics (DCS), as the spending and consumption patterns of the poor have changed over time.

The ‘Cost of Basic Needs (CBN)’ method, used in most developing countries to determine the NPL, measures absolute poverty based on the cost of a consumption bundle, which includes both food and non-food items, that is adequate to meet the nutritional requirements of a population likely to be poor (or a reference group initially identified based on the HIES-2002 conducted by the DCS). The household in the 2nd to 4th deciles, ranked by per capita total consumption expenditure are chosen as the reference group. The aggregates of food expenditures for all food items consumed by the ‘reference group’ on their calorie intakes are then calculated. The cost per calorie is then derived by dividing the former by the latter.

The average energy requirement has been estimated to be 2000 kilocalories per day, per person in Sri Lanka. The cost of meeting this requirement of energy per person, per month is computed by multiplying the per capita calorie cost by 30×2000 (i.e., 30 days x 2000 kilocalories). The Food Poverty Line, based on these calculations was Rs. 970 per month in 2002.

Unlike the Food Poverty Line, estimating the non-food component is more complex. It is estimated by taking the average of the median per capita non-food expenditures of the reference group, whose per capita food expenditure is close to the Food Poverty Line and whose per capita total expenditure is close to the Food Poverty Line. This methodology was developed by a team of experts from the Sample Surveys Division of the DCS and two international experts. The details of the methodology and the team of experts is found in Poverty in Sri Lanka: Issues and Options. As the spending and consumption patterns of the poor change with time, it is desirable to rebase the NPL using the latest HIES-2016, so that a more realistic estimate of poverty in Sri Lanka could be made.

Purchasing Power Parity (PPP).

The PPP conversion factor for private consumption (excluding consumption from own production), is the number of units of a country's currency required to buy the same amount of goods and services in the domestic market as one unit of the U.S. dollar would in a country with the same currency. The PPP conversion factor of the Sri Lankan rupee to the U.S. dollar converted local currency at 2011 prices, needs to be inflated using the Consumer Price Index (CPI), to determine the equivalent of the PPP conversion factor for the Sri Lankan rupee at 2011 prices, which can then be used to estimate all forms and dimensions of poverty in the country.

The above table compares incidence poverty using NPL, GPL, RP and MDP, and NMDP. These estimates of the poor and near poor based on different measures show that at least 11.5 per cent of the population falls into poverty (Table 1), which could be checked, if necessary using PovCalNet.

The World Bank also uses $3.20 a day poverty line to compute poverty in Lower Middle Income Countries (LMICs) and $1.90 a day poverty line in Low Income Countries. The main aim of the World Bank to measure extreme poverty was $1.90 a day (based on 1990 prices) and was referred to as "a dollar a day". The World Bank is used as the international standard for extreme poverty. This was replaced by the GPL $1.25 a day (based on 2005 prices). Subsequently, in October 2015, $1.25 a day PL was updated to $1.90 a day (based on 2011 prices).

There seems to be a misconception that the GPLs could be used to estimate poverty in Sri Lanka, by simply multiplying the GPLs by the exchange rate during the period in which they have been conducted, to compute its value in local currency. This is totally false. For example, if extreme poverty is to be estimated, it is necessary to first convert $1.90 to local currency using 2011 exchange rates, reflecting the country's economic and social situation.

To compare the status of poverty among regions within the country, it is more appropriate to use the National Poverty Lines, which also need to be re-based, as explained above. However, no single definition or poverty measure will ever be suitable to estimate all forms and dimensions of poverty in the country.

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