Poverty Inequality and Pro-poor Growth in Sri Lanka

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Introduction

Since the mid 1990s, a significant reduction in poverty has been achieved in Sri Lanka, with the poverty incidence declining from 28.8% in 1995/96 to 15.2% in 2006/07.[1] What has been responsible for this outstanding progress? What has been the role of the public sector in achieving this progress? What types of policies and programmes might lead to sustainable decline in poverty and inequality? Under what conditions is growth pro-poor? These are the questions that need to be addressed in a study on Sri Lanka's experience in reducing poverty over the past two decades. This article reviews some important aspects of poverty and main implications for public policy. Minimising inequalities in the distribution of income with the aim of improving the well-being of the poor has been given high priority in the government development plans.

The nexus between poverty, economic growth, and income distribution has been focused extensively in recent literature on economic development.[2] In general terms, Sri Lanka experienced a moderate economic growth rate during the past two decades. The average growth rate between 2002 and 2009 was 5.9 percent. But the question still remain is that whether the country succeeded in achieving the goals of poverty reduction and income equality as was expected from the economic reforms effected since the early 1990s.[3]

This paper is organised into six sections. Section 2 discusses the changes in poverty at national and provincial levels. The relationship between growth and poverty reduction is presented in Section 3. The fourth section reviews the trend in income distribution. The association between budget allocations and poverty reduction is discussed in Section 5. The final section contains a conclusion.

Poverty in Sri Lanka

At national level: It is widely accepted that poverty is a multidimensional phenomenon. It encompasses not only income for the satisfaction of basic needs, but also human, physical, social and political capital as a means of realising income (Zeller *et al.*, 2006). These different kinds of capital and property rights are treated as causes of poverty. Likewise, lack of healthcare and sanitation, a high degree of illiteracy and deprivation of basic rights and security also are considered as constituents of poverty. This section traces poverty in the nation as a whole, and in sectors and provinces. Based on household income expenditure data, we can see that macroeconomic performance in Sri Lanka has been led to a remarkable reduction in consumption poverty[4] during the 1990s and the first years of the new decade.

There are three indicators of poverty that we are interested in measuring: *incidence,* the percentage of individuals living below the poverty line - this is often referred to as the index of headcount; *depth* or intensity which indicates the resources needed to lift the poor out of poverty - this is called the poverty gap index; and *severity* that provides the information on the distribution of income among poor people - this is the well- known squared poverty gap index.

Table 1 shows the trends in poverty from 1995/96 to 2006/07. The poverty rate (headcount index)[5] for the nation as a whole was 28.8% in 1995/96, indicating that more than one quarter of the households lived below the poverty. The poverty gap index and squared poverty gap index were also quite high, with an

Table 1: Poverty Indices in Sri Lanka by Sectors

Poverty indices		1990	1995	2002	2007
Head-count Index	Rural	29.5	30.9	24.7	15.7
	Urban	16.3	14.0	7.9	6.7
	Estate	20.5	38.4	30.0	32.0
	Country	26.1	28.8	22.7	15.2
Poverty gap Index	Rural	6.3	7.2	5.6	3.2
	Urban	3.7	2.9	1.7	1.3
	Estate	3.3	7.9	6.0	6.2
	Country	5.6	6.6	5.1	3.1
Squared poverty gap Index	Rural	2.0	2.5	1.8	1.0
	Urban	1.3	0.9	0.5	1.3
	Estate	0.9	2.5	1.8	1.8
	Country	1.8	2.2	1.6	0.9

Source: Household Income Expenditure Survey, 1990/91, 1995/96, 2002 and 2006/07 using official poverty lines-- Department of Census and Statistics.

average expenditure shortfall equal to 6.6 per cent of their household subsistence needs in 1995/96. At country level, there is evidence that poverty decreased significantly over the period between 2002 and 2006/07. We find that overall poverty diminished remarkably during this period, from 22.7% to 15.2%. We can come to a similar conclusion by looking at the poverty gap and squared poverty gap indices.

Table 1 shows a marked improvement in well-being of the poor in both rural and urban areas over the period from 1990 to 2007. However, the decline in poverty in urban areas has been more impressive than in rural areas. It is noteworthy that about 80 percent of the Sri Lankan population live in rural areas and rural poverty contributed 82 percent to national poverty in 2006/07. Surprisingly, the estate sector in the country experienced a dramatic increase in the incidence of poverty (the incidence increased from 30 per cent in 2002 to 32 percent in 2006/07). Moreover, the decrease in the poverty gap and severity indices implies that the expenditure distribution improved for the poor. The evidence of these poverty estimates suggests that poverty in Sri Lanka is predominantly a rural phenomenon, and rural people gained slightly from the economic growth realised over the past economic reform period.

At provincial level: It seems that there have been dramatic differences in poverty incidence at the provincial level (Figure 1). Distribution of the poor is quite uneven across the provinces. Uva Province (UP) is the poorest province in Sri Lanka in both surveyed years, 2002 and 2006/07, with the highest value for headcount poverty index, whereas Sabaragamuwa (SB), Central (CP), North Central (NCP), Southern (SP), and Eastern (EP) provinces are approximately equal in terms of the poverty rate. Meanwhile, the lowest incidence of poverty was in the Western Province (WP) where only 10.8 percent of households were poor in 2002, and only 8.2 percent by 2006/07.

It should be noted that the poorer provinces are less urbanised. The most striking feature emerged from the data is that all provinces show a substantial decline in poverty incidence between 2002 and 2007, but the degree of decline varies considerably across provinces. In relative terms, the percentage decline in poverty in the Southern province was somewhat larger than that in other provinces. Another important point is that the percentage decline in poverty in four provinces, namely, Sabaragamuwa, Western, Central and Uva provinces, was lower than the national average.

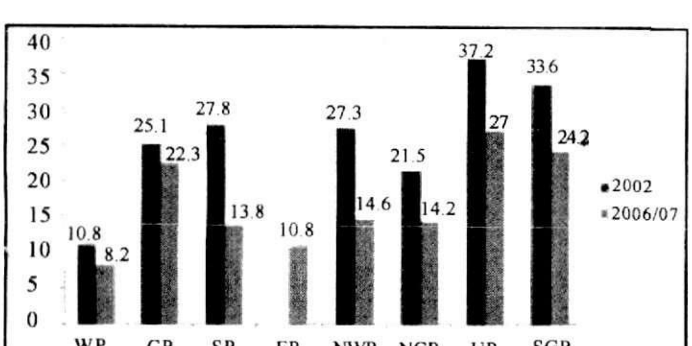

Figure 1: Poverty estimates (by provinces)

Source: Household Income Expenditure Survey, 2002 and 2006/07 using official poverty lines- Department of Census and Statistics.

A possible explanation for this provincial diversity in poverty might be the regional disparities in economic development. A more important factor is that provinces differ substantially from one another with respect to per capita incomes. Per capita income in the Western province is two times larger than that in Uva province in.[6] It is apparent that there is a massive regional disparity in economic activities. The GDP (gross domestic product) share of the Western province increased from 40 per cent in 1990 to 47 per cent in 2007, but the population share of this province is only 30 per cent. Over the same period, the GDP share of the Uva province halved from 8.1 percent to 4.9 per cent. It should be noted that the Western province, which performed outstanding by economic growth, accounted for 60 percent of total industrial products and 55 percent of services.

We see significant change in economic activities in the Western Province with the second wave of liberalised economic policies after the 1990s. The economic reforms initiated at the end of the 1970s hindered by the North-East civil war and political unrest in the South. Typically, the urbanised people employed in the organised formal sector benefited more from economic reforms than those who were employed in agriculture and informal non-farm activities. Thus the negative impacts of the economic reforms have been skewed towards the rural areas in low-income regions.[7]

Growth Incidence Curve

To show how the gains from economic growth were distributed across households in terms of their level of expenditures, a Growth Incidence Curve (GIC).[8] is used. The GIC curve indicates growth rates by household expenditure percentiles. The horizontal axis of the graph presents the annual change in the consumption expenditure between two points in time. Figure 2 shows the GIC for the nation as a whole for the period of 1990 - 2002.

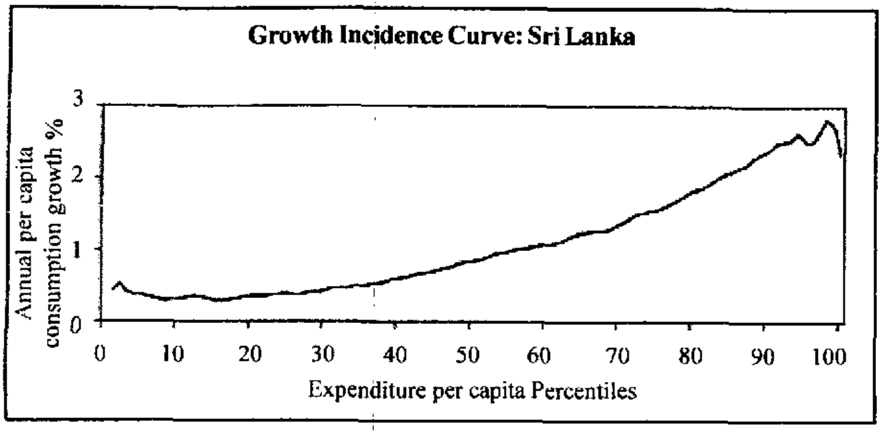

Figure 2: Growth Incidence Curve for Sri Lanka (1990 - 2002)

Source: Household Income Expenditure Survey, 1990/91 and 2002

The shape and position of the GIC provides important insights into changes in poverty and distribution of growth (Mckay, 2005). As Figure 2 shows, the national GIC is always above zero. This implies that there has been growth in the consumption level at all points of the distribution. Also, it indicates that absolute poverty at the national level has dropped between 1990 and 2002 for all conceivable poverty lines. Moreover, the slope of the GIC demonstrates the distribution pattern of growth at the national level.

It is apparent that the GIC curve is clearly showing upward trend indicating that consumption levels have increased in all percentile groups. The most striking feature of this curve is that consumption of higher expenditure percentile groups has grown at a faster rate than that of lower percentile groups, suggesting that the non-poor benefited more than the poor from economic growth.[9] Evidence from various studies suggests the gradual turnaround of the income inequality trend throughout the post-liberalisation period (Colombage, 1998; World Bank, 2002; Datt and Gunawardane, 1997).

The economic growth realised in Sri Lanka throughout the post-economic reform period was pro-poor in absolute sense, but it was not so in relative sense. The aggregate picture provided by the national-level GIC curve is totally different from the same for sub groups of population, distinguished between rural and urban areas.

Figure 3 illustrates dramatic *sectoral differences in consumption* distribution between 1990 and 2002. The GIC curve for rural areas is sharply upward sloping indicating that the non-poor greatly benefited from economic growth more than the poor. Meanwhile, the GIC curve for the urban sector shows both an upward and downward sloping pattern across the range from the lowest to the highest percentile groups. What is surprising *is that the lowest* percentile groups in the urban sector show a similar increase in their consumption levels as the highest percentile groups. In summary, it is clear that all percentile groups in the urban sector have gained more from economic growth than the rural sector between the two survey periods (HIES 1990/91 and 2002).

In this context, a comparison of outcomes of these two surveys suggests that consumption inequality within the sector and between sectors is growing. In reality, this finding has important implications for policy purposes;

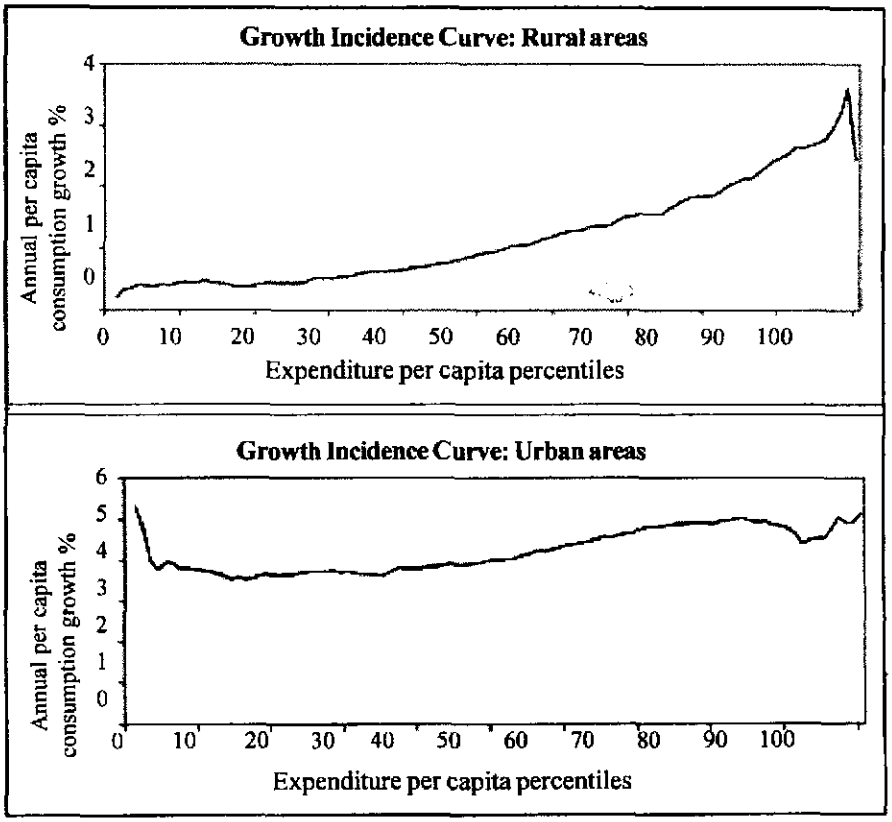

Figure 3: Growth Incidence Curves for Rural and Urban Sectors (1990 -2002)

Source: Household Income Expenditure Survey, 1990/91 and 2002 the national-level GIC curve does not reveal the critical regional disparities in the level and distributional pattern of growth.

Table 2: Poverty Reduction and Economic Growth in some Selected Countries

Country	Year	Headcount index*		GDP growth rate %	Annual poverty reduction %	Poverty elasticity
Bangladesh	2002-2005	48.9	40	3.49	-4.55	-1.30
India	1992 2004	36	28.6	4.37	-2.94	-0.67
Vietnam	1998-2004	37.4	28.9	4.90	-4.55	-0.93
Indonesia	2002-2005	17.6	16	1.48	-0.91	-0.61
Philippine	2000-2003	32.1	25.1	2.76	-5.45	-1.98
Sri Lanka	2002-06/07	22.7	15.2	4.51	-6.61	-1.47
Sri Lanka	1995/96-2002	28.8	22.7	3.30	-2.65	-0.80

Source: Author's calculation

*Note: * Headcounts and GDP growth rates for countries from World Development Indicators.*

Economic Growth and Poverty Reduction in Sri Lanka

The association between macroeconomic policies and poverty reduction is indirect through the relationship between economic growth and poverty. In terms of 'trickle down' theory, the benefits of economic growth are distributed automatically across all segments of the society. Thus, the most efficient way of reducing poverty is by prompting high economic growth. Recently, researchers have shown increased interest in the pro-poor growth concept which allows for classifying growth patterns into those that lead to poverty reduction and those that do not (Kappel *et al.*, 2004). Detailed examination of economic growth and poverty by Dollar and Kraay (2001) found that policy induced-growth is good for the poor. This view is supported by Bigsten and Shimeles (2004) who argue that to reduce poverty, economic policies should aim to accelerate economic growth. This implies that economic growth is good for the poor irrespective of its nature, and government should not pursue policies directly aimed at the poor (Kakwani, 2000).

However, the results of some cross-country analyses on the economic growth-poverty association are inconclusive (Brock and Durlauf, 2000; Kappel *et al.*, 2004). The work by Ravallion (2001) stressed, based on a sample of developing countries that the poor in these countries gain from economic prosperity and experience substantial poverty reduction in those countries where inequality is declining. According to Kakwani and Pernia (2000), some countries need pro-poor growth policies with a focus on reducing inequality. Based on empirical evidence, Melvill (2002) argues that countries with relatively egalitarian initial conditions may lead to grow faster than those with high initial inequality. In some, it is the general consensus that economic growth is necessary, but not sufficient for poverty reduction. Economic growth is said to be pro-poor when the poor benefits from it.[10]

Let us turn to explore the question whether economic growth has led to lift the people out of poverty. In general, the Sri Lankan economy has experienced moderate economic growth over the past two decades. Sri Lanka intensified market-oriented reforms under the enhanced structural adjustment programmes at the turn of the decade (1980) that triggered GDP growth. Far reaching economic reforms of all types were adopted with a high commitment of the Sri Lankan government. The economy was stabilised and liberalised, thereby improving the incentive structure enabling a sustained high growth rate. Macro economic policy has been directed towards gradually reducing budget deficit, controlling inflation and alleviating poverty.[11]

During the post-economic reform period, two types of policies, intertwined with each other, have been implemented: Policies of stabilisation including deregulation and liberalisation on the one hand and a package of State-led welfare-oriented policies on the other, were adopted under different political regimes (Laksman, 1997). The former policies were aimed at promoting high economic growth with macroeconomic stability in the economy and the latter, to protect the vulnerables and those who were hurt by deregulation and liberalisation policies.

However, the economic growth record was not very satisfactory in the liberalised period. The average annual rate of GDP growth was at 5 per cent during 1978-2009, compared to that of 4.2 per cent in 1960-77. Although Sri Lanka's per capita growth rate compares favourably with most developing countries, it falls considerably short of the growth rates achieved by the high-performing East-Asian countries. During the first wave of the economic reform (in 1978-82), the growth rate averaged at 6.14%, whereas, unlike Korea or China, Sri Lanka was unable to continue this growth in spite of her continuous effort to keep up market-oriented economic reform (Indraratna, 1999).

It is notable, the average growth rate for 1990-2007 was 5.2%, whereas the benefits generated from that growth were not trickled down to the low-income groups as was expected by policy reforms.

It is widely accepted that the only way to reduce poverty is by creating rapid economic growth and by letting the benefits spill over to all sectors of the society. Accordingly, it is clear that growth and distribution of income are equally important to the reduction of poverty. Likewise, in order to be pro-poor growth, it should be strong in agriculture, non-farm, and informal sector activities in rural areas where poor people are highly concentrated (Kappel *et al.*, 2004). Also, it must be both land and labour intensive.

The degree of poverty reduction resulting from economic growth differs remarkably across countries and overtime. As shown in Table 2, poverty reduction has been substantial in the countries which had achieved relatively high economic growth rates. In particular, Sri Lanka, Vietnam and Bangladesh have recorded remarkable annual reduction in poverty incidence. Recently, the most widely-used indicator of pro-poor economic growth, which measures how well growth translates into poverty reduction, is the poverty elasticity of growth.[12] Basically, it shows by how much poverty falls when the economy grows by one percent. The last column of the Table 2 shows poverty elasticities of selected countries. In terms of poverty elasticities, Philippine, Sri Lanka and Bangladesh had achieved marked pro-poor economic growth than others over the past period.

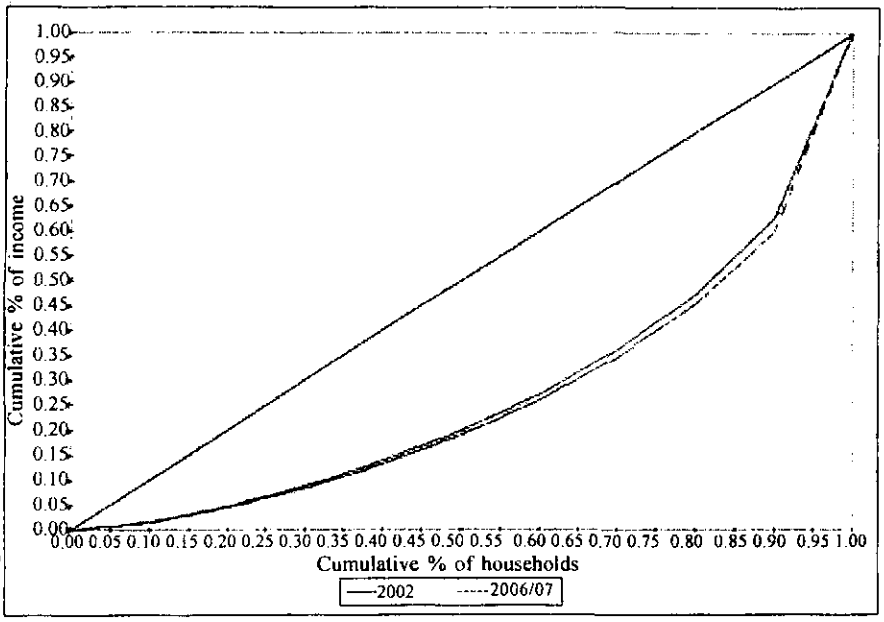

Figure 5: Lorenz curve for Household Income Distribution

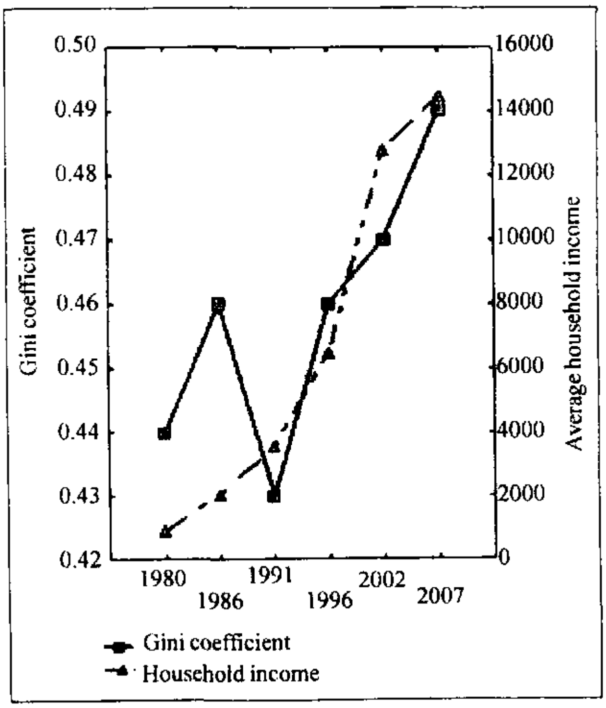

Figure 4: Average Household Income and Gini coefficients

Source: Department of Census and Statistics, Labour Force and Socio Economic Survey, 1980; 1986 and Household Income Expenditure Survey, 1990/91; 1995/96; 2002; 2006/07.

It is apparent from Table 2 that economic growth in Sri Lanka has been more pro-poor with poverty elasticity of -1.47 between 1995 and 2002 in contrast to 1990s.

Trends in Income Distribution

In this section, we explore the degree of income inequality in Sri Lanka. Income distribution is highly affected by the weather and political changes and policy shocks (Easterly, 2000). As Figure 4 shows, inequality as measured by Gini coefficient[13] has increased during the period between 1990 and 2007.

It is apparent from this Figure that the Gini coefficients in Sri Lanka are concentrated between 0.43 and 0.49. From the data in Figure 4, we can see that average inequality remained relatively stable, with only a slight increase of the Gini coefficient from 0.47 to 0.49 between 2002 and 2007.

This increase in income inequality was accompanied by rapid economic growth of an average 6 percent per annum for the period from 2002 to 2007. In addition, Figure 4 illustrates that there is a clear trend of rising income inequality with increase in income.[14]

This increasing trend can be observed even from the Lorenz curves in respect of income receivers. The Lorenz curve is considered as the most popular graphical tool for visualising and comparing inequality. As depicted in Figure 5, the Lorenz curves are more distant to the diagonal indicating the movement towards greater inequality between 2002 and 2007.

Table 3: Annual Change of Income Shares and Gini coefficient for Some Selected Countries (%)

Country	Survey Year	Quintiles					Gini coefficient
		Poorest	2nd	3rd	4th	Richest	
Bangladesh	2000 ; 2005	-0.44	-0.43	-0.32	-0.20	0.50	0.79
India	1992 ; 2004	-0.63	-0.76	-0.60	-0.37	0.79	1.24
Bolivia	2002 ; 2004	70.02	12.59	3.74	-0.62	-3.31	3.99
Indonesia	2002 ; 2005	-3.72	-2.44	-1.66	-0.65	2.29	4.06
Pakistan	2002 ; 2005	72.96	25.47	10.08	2.26	-7.85	-11.36
Philippine	2000 ; 2003	0.28	0.82	0.94	0.99	-0.79	-0.60
Sri Lanka	2002 ; 2007	-1.25	-0.88	-0.75	-0.70	0.72	0.71
Vietnam	1998 ;2004	3.19	0.35	-0.18	-0.40	-0.36	-1.11

Source: Author's calculation using WIDER dataset.

It can be seen from the data in Table 3 that decline in income shares of the poorest quintile in four countries, while four cases recorded an increase in income shares of that quintile. In general, the poorest quintile has shown that they have succeeded in maintaining or increasing their income shares. The absolute income of the poorest quintile in Sri Lanka increased in the1990s. However, according to the Table 3, in the case of Sri Lanka, there has been a significant deterioration in the income shares of four quintiles, whereas the gains by the richest quintile have positively changed since 2002. On the basis of the income expenditure survey in 2006/07, we can conclude that the benefits of economic growth have highly concentrated on the richest quintile; the impact of the growth performance on the well-being of the poor has not been impressive.

Budgetary Process and Poverty Alleviation

In general, the well-being of the people is apparently correlated with their occupations. As revealed by many studies, poverty in Sri Lanka is more severe among small farmers, followed by agricultural labourers and non-agricultural labourers.[15] Meanwhile, a substantial decline in incidence poverty can be seen from households headed by salaried earners and self employees.

Fiscal policy can influence on poverty and income inequality through its impact on economic growth and on income distribution (McKay, 2005). In fact, budgetary support in the fields of economic and social infrastructure is likely to play an important role in generating a pro-poor growth. It is believed that access of the rural poor to infrastructure and public services has important impacts on human capital and productivity of the rural sector (Khan, 2000). In a developing country like Sri Lanka, the development of infrastructure and targeted government spending can potentially lead to wider social and economic consequences. This public spending can take the form of either direct financial transfers, like *Samurdhi* programme, or investment in the assets of the poor by providing social services. Like most of the developing countries, even in Sri Lanka, agriculture and poverty are closely interlinked. Consequently, changes in public policy and expenditure on agriculture can make a substantial impact on poverty, in particular rural poverty, because a larger portion of the rural poor is engaged in agriculture and allied activities for their livelihood. Meanwhile, agriculture is also dependent on non-agricultural policy and decisions, for instance, spending on rural infrastructure (roads, irrigation), land development, health and education services, which can exert an influence on agricultural development (Akroyd, 2004). Therefore, public expenditure can have direct and indirect effects on poverty through different channels. The poor benefits directly from spending on different employment-generating and welfare programmes, like *Gamidiriya* programme and food and input subsidy programmes (for instance, *Samurdhi* and fertiliser subsidy programmes). At the same time, indirect effects can generate from government spending on economic and social infrastructure activities, such as agriculture, road development, health, and education, which result in agricultural and non-agricultural growth leading to employment opportunities and to cheaper food.

Public spending on infrastructure in Sri Lanka exhibits an erratic pattern over the period concerned. The food subsidy programme until 1979, when it restricted to the needy households, was put into practice universally.[16] Food subsidy is the most crucial from the perspective of poverty, both as a consumption item for the poor, and as the major role of the rural poor in food production (Woodward, 1992). Domestic market liberalisation in the form of the removal of price distortions through removing or relaxing subsidies can have disproportionate effects on the poor. It can be observed apparently that there was a marked decline of government expenditure on per capita food subsidy in real terms. It fell from Rs.62.29 in 1979 to Rs. 20.72 in 1982; this increased up to 29.64 slightly by 2005. Government expenditure on education remained almost the same before and after the liberalised era, at around 2.7 percent of GDP, while the proportion of health expenditure to GDP hovered around 1.5 percent. The public spending on health, and transport and communication show a slight decrease in the 1980s and 1990s. However, public expenditure on transport and communication increased to 3.5 percent in 2009. We can observe that the fiscal adjustment programme since 1990 has made a strong impact on agriculture.[17]

The picture we can get from the recent budgetary process of Sri Lanka is that the government has attempted to lower the budget deficit while protecting targeted social spending. To empower the poor and reduce regional disparities in incomes, government implemented various development activities mainly in rural areas. For instance, *Gama Neguma, Maga Naguma* projects, the major rural development programmes under *Mahinda Chinthana* -Vision for the Future, basically aimed at providing village centric infrastructure, such as access roads, drinking water and sanitation projects, rural electrification programmes, minor tanks and irrigation systems.[18] It should, however, be noted that higher budgetary allocation to the economic and social sectors, such as, agriculture, irrigation, road development, health, education and family welfare, will not necessarily translate into an improvement of well-being of the poor people unless make an attempt to correct the underlying inefficiency in public spending (Gupta and Vehoeven, 2001).

Conclusion

We can conclude that poverty rates in all areas in Sri Lanka declined. But survey data shows that drop in poverty in the rural sector during this period was small. Urban households experienced greater reduction in poverty than rural households. A plausible explanation for this might be that the poor in urban areas where the modern economy is located, benefited more from economic growth that resulted from macroeconomic reforms of economic liberalisation. In the meantime, the inequality effect generally had a negative impact on poverty reduction. In general, it seems that the low productivity of the rural economy (for instance, smallholders), accounted for a larger share of poverty incidence in rural areas.[19] It should be noted that policy reforms that promote remunerative employment opportunities in the rural areas for both skilled and unskilled labour will tend to improve the standard of living of rural households. At the same time, we uncover regional disparities in economic development and poverty dynamics across provinces. Despite several measures undertaken in the budgetary process over the past period, more effort is needed to further reduce poverty and income inequality. Also, economic uncertainty in donor countries resulted from the global economic crisis is likely to decline foreign support to budgetary allocations. In this context, change in government actions in allocating public expenditure in pro-poor direction is vital. Moreover, it is essential to emphasise that serving the poor more effectively through public expenditure requires a medium-term process for budget allocations and good public expenditure management.

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Footnotes:

[1] See Department of Census and Statistics (2009).

[2] See Dollar and Kraay (2000); Ravallion (2001); Easterly (2000); Bigstern and Shimeles (2004).

[3] In order to reverse the rigorous macro economic difficulties emanating from the debt crisis and structural weaknesses, the government was prompted to implement structural adjustment policies designed by the IMF and the World Bank to make product and factor markets operate more smoothly by removing obstacles such as price controls and subsidies through the liberalization.

[4] Consumption poverty is estimated based on the poverty line which is estimated in terms of a level of per capita expenditure that is considered as compatible to basic needs.

[5] The headcount ratio measures the incidence of poverty; simply it computes the percentage of individuals living below the poverty line. Note that if a household is identified as poor, then all members of that household are deemed to be poor.

[6] See Household Income Expenditure Survey, 2006/2007.

[7] For instance, the province with the highest poverty incidence, *Uva* is a totally agricultural region with small farmers who rely heaviest on paddy and other agricultural production for their subsistence.

[8] See Ravallion and Chen (2003).

[9] This suggests a marked increase in inequality, the Gini ratio of per capita consumption for Sri Lanka as a whole increased from 30% to 40% between 1990 and 2002 indicating the expenditure distribution of the country is worsening (HIES 1990/91; 2002).

[10] Growth is deemed to be pro poor "*When it is labour absorbing and accompanied by policies and programs that mitigate inequalities and facilitate income and employment generation for the poor, particularly women and other traditionally excluded groups* "Asian Development Bank, (1999: 81)

[11] For instance, we see a reduction of the budget deficit to 9.8 percent from 23.1 percent during 1980-2009 as a result of the improvement of fiscal performance.The inflation in this period has had its up and downs; annual average rate of inflation was 21.5 percent in 1990, which was almost consistently decelerated to 3.4 percent in 2009.

[12] Epaulard (2003) using data from 99 countries shows that, on average, the elasticity of the 2$ a day poverty rate to economic growth is about -1.38. It means that a 1 percent growth tends to a 1.38 percent reduction in poverty rate. Ravallion (2001) employs absolute poverty line of $1 a day and headcount ratio to estimate poverty elasticity. He finds that growth elasticity of the head count ratio is about -2.

[13] The Gini coefficient assumes values between 0 that indicates complete equality, and 1 that reflects complete inequality.

[14] Correlation between household per capita income and Gini coefficient is 0.83.

[15] 45 percent among poor households depend on agriculture and allied activities as their principal source of income (DCS 2009).

[16] With the liberalisation of the economy in the post 1977 period, this radical change of food subsidy programme was introduced. Some modification of the nature of the food subsidy programme was introduced in the late 1979. The rationing system which has been implemented since 1942 was replaced by the Food Stamp scheme. Since then, we can observe that some adjustments were made to provide this subsidy to well targeted households with the aim of reducing the compression on the budget.

[17] Public spending on agriculture and irrigation has decreased markedly to 1.4 percent in 2009 from 2.7 percent in 2000 (see annual reports of Central Bank, 2002 and 2009)

[18] By September, 2010, under *Gamanaguma* project, 11,918 projects have been completed at a cost of around Rs. 11 billion. Meanwhile, Under Maganaguma, over 8,200 km of rural roads have been reconstructed at accost of Rs. 13,500 million (see Fiscal Management Report, 2011).

[19] It is expected to improve productivity by 5-6 %per annum (Budget -2011).