

## DOES THE 'POVERTY TRAP FRAMEWORK EXPLAIN WHY POVERTY PERSISTS IN THE RURAL HINTERLAND': THE CASE OF REMOTE VILLAGES IN THE DISTRICT OF HAMBANTOTA

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### **Abstract**

*Recent data on poverty head count (HCP) in Sri Lanka have shown a sharp decline. Nonetheless, the transient nature of poverty in the non-urban areas and the prevalence of "poverty trap" have made both income and human poverty more acute in the rural hinterland. This study on a set of Villages in the district of Hambantota explores the status of poverty and the factors that contribute to its persistence; the study which is based on the "poverty trap framework" shows that poverty has become an almost enduring characteristic of these villages. Redressing rural poverty in the country therefore has to be based on an approach that can effectively address the issues of poverty in the rural hinterland in the long-run. Two major policy implications that arise from this paper are the need for "public action" to augment physical and institutional infrastructure in the rural hinterland and the need for changing the "internal terms-of-trade" in favour of the poor producers.*

### **The Setting**

There has been some debate on the extent, causes and consequences of poverty in Sri Lanka (Lakshman, 1997 and 1999); Gunewardena (2002); Colombage, (2003); Osmani, (1990); Vidanapathirana, (2003). This discussion is significant because poverty in the rural and estate sectors appears to persist notwithstanding the precipitous reduction of urban poverty on the one hand and the concerted efforts by the state to reduce poverty during the past two decades on the other. In 2002, the head count poverty (HCP) index of the rural sector still lingered around 24 percent. This is an alarming situation as the earnings of every fourth rural household fall below the poverty line.

Recent data has shown that poverty levels in the country have fallen sharply during the inter-survey period 2002-2007 (DCS, 2008).

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<sup>1</sup>

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Yet two phenomena have made rural poverty a major policy issue.<sup>2</sup> First, rural poverty is highly transient in nature in which the HCP fluctuates radically in response to different covariant and idiosyncratic shocks (McCulloch & Baulch, 2000). The shocks move a substantial segment of rural households who are the “near poor” into poverty.<sup>3</sup> Unlike in the organized urban sector, the poor in the rural sector do not have the benefits of fallback arrangements like access to formal credit or insurance arrangements to counteract such shocks. Secondly, there are a number of other conditions that are peculiar to the rural sector that aggravate the transient nature of poverty. The “Poverty trap” is one such process that has made the condition of poverty more acute and persistent (Narayan et al 2000).<sup>4</sup> This paper argues that in the context of the rural hinterland it is the poverty trap at household level that generates a process of circular causation leading to “chronic poverty”.<sup>5</sup>

The reduction of urban poverty in the country is plausible because of the fundamentally urban oriented economic policies that apportion a disproportionate share of economic dividends of the liberalization policies in the spheres of trade, industry and employment opportunities (World Bank, 2007). Much of these conditions therefore are policy driven (SAPRIN, 2006; Rodrik, 1996; World Bank, 2004). Besides, the presence of the poverty trap produces conditions and processes that make the persistence of poverty inevitable in the rural hinterland. One of the outcomes of the poverty trap is “pockets of poverty” in the rural hinterland.<sup>6</sup>

### ***Objectives of the study***

This paper focuses on rural households to ascertain the conditions and processes that have contributed to the persistence of poverty in the rural hinterland. It attempts to address the following three broad sets of issues and research questions.

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<sup>2</sup> Poverty trends in the estate sector too have been persistently worsening during the past two decades.

<sup>3</sup> A classic example of this situation was reported in 1995/96 when poverty levels increased sharply in response drought conditions.

<sup>4</sup> A number of authors like Sacks (2006), Matsuyama (1991) and Narayan et al (2000) have defined the poverty trap differently. This paper uses the definition of Narayan et al (2000) that identifies it in terms of ‘cumulative causation with a number of feedback loops that reinforces the conditions that engender poverty’.

<sup>5</sup> See, website of the Chronic Poverty Centre of Manchester University (2008)

<sup>6</sup> These pockets of poverty register incidence of poverty which are unusually high in comparison with the national or regional aggregates.

1. What specific trends and patterns of HCP have emerged in the rural hinterland which have differentiated it from the rest of the country?
2. What factors and processes explain the reasons for the persistence of poverty in the rural hinterland?
3. What insights can we draw from the poverty trap framework to explain this phenomenon of persistence of poverty?

### ***The methodology***

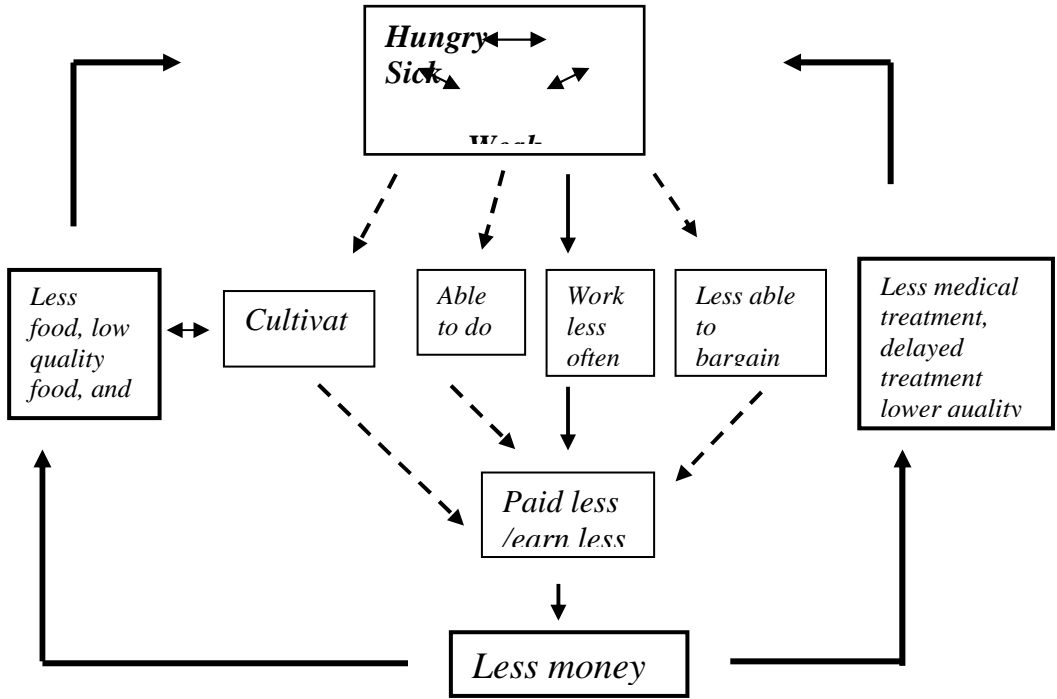
The paper postulates that the incidence of poverty in the rural sector of the country has been persistent despite the sharp reduction of poverty in the urban sector. It also postulates that the evidence on rural poverty presented by the national sampling surveys tends to veil the true conditions of poverty on account of the “central tendency” in statistics (Kurien, 2000).

The paper employs the poverty trap framework of Narayan et al to explain the incidence of poverty in the rural sector with special reference to the rural hinterland. It uses an eclectic approach to explain the poverty process. To assess the general pattern and conditions of the poverty trap, the paper uses secondary data drawn from the Consumer Finances and Socio Economic Surveys (CFSES) of the Central Bank of Sri Lanka and the Household Income and Expenditure Surveys (HIES) of the Department of the Census and Statistics (CBSL, 1999 and 2005; DCS, 2000 and 2006). Primary data for the study were collected by the researchers through a series of questionnaire-aided interviews at the Suriyawewa and Lunugamwehera DS divisions of the Hambantota district in 2002 (112), 2003 (105) and 2006 (294) that were supplemented by specific case observations and in-depth interviews <sup>7</sup>

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<sup>7</sup> The first two surveys were conducted by Upali Vidanapathirana while the last Survey was conducted by Upali Vidanapathirana and Anton Piyaratne. These surveys were financially supported by the National Science Foundation of Sri Lanka. The figures given in parentheses indicate the sample size. Systematic random sampling methodology was used to administer the surveys.

Figure 1- Poverty trap at the level of the individual



Adapted from, Narayan et al, (2000, figure 5.1.)

Figure 1 above illustrates the processes of and linkages between the different conditions and factors that reinforce the poverty trap. It shows how, for instance, low cash income leads to physical incapacities that arise from malnutrition, which in turn reduces the cash income of

the poor. The peasants who are undernourished become less agile; they fail to work long and productive hours, and hence generate meager surpluses. This in turn reduces their cash income from farm operations thus reducing their capacity to buy nutritious food, and timely medical treatment for the sick, thereby perpetuating the condition of low level equilibrium income.

Further, the poor health conditions arising from malnutrition downgrade their bargaining power with respect to wage work and/or claim for higher wage rates. This process thus leads to a circular causation with a number of feedback loops all directed at exacerbating poverty and destitution. These are circumstances that are beyond the control of the poor (Wikipedia, 2008). The “trap” becomes cumulative where each loop reinforces the other unless steps are taken to break the causation. It makes upward mobility difficult for those who are affected thus resulting in the perpetuation of poverty.

For instance, the model presented how, low cash income leads to incapacities arising from hunger, sickness, malnutrition and frail physical conditions. Consequently, they cultivate less, work less, and earn less. The poor financial and human capital base lowers their bargaining power, eventually decreasing their income level and trapping the poor into a condition of low-income equilibrium. Ad-hoc poverty reduction measures such as income assistance by the state and non-state agents fail to address this trap or lessen the severity of the different loops so as to make any headway in poverty reduction.

It is in this context that the poverty trap framework becomes arguably a better device to explain the persistence of poverty in the rural hinterland of Sri Lanka.

### ***Aspects of Poverty Trap and their Effects on Family Welfare - National Data***

One of the most unrelenting problems of low income is its negative effects on the family budget. The poor find it difficult to match their expenses to their limited earnings, which leads to a situation of dis-saving.<sup>8</sup> This is especially relevant to the lower income deciles where the potential to generate cash and non-cash income is paltry. Yet they have to meet their basic consumption and production expenses. The former

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<sup>8</sup> Such a situation arises when expenditure exceeds income leading to indebtedness or the drawing-down of their limited capital stock.

category of expenses meet their survival needs like food, medicine shelter etc., while the latter is required to ensure their economic sustenance. The poor are forced to spend more than they earn because their earnings are insufficient to meet even their basic consumer needs let alone investments to improve their conditions in the future.

In this context, poverty becomes a manifestation of income inadequacy or consequently an under-provision of entitlements (Sen, 1976). The coping strategies adopted by the poor include curtailment of their food intake, postponement of medical and educational expenses, disposing of critical assets such as cattle and land, draining accumulated savings and borrowing from informal sources at prohibitive rates of interest.<sup>9</sup> These strategies eventually move them along the downward spiral of poverty (Vidanapathirana, 2004). The selling of critical assets like cattle or fertile land for instance shrinks their income potential even more. Similarly, failure to invest on essential implements and other forms of physical capital like dug wells and irrigation canals further undermines their income potential. Besides, malnourishment or unattended morbidity makes them physically weak, less agile and hence incapable of contributing to income generation at their optimum level.

The CFSES series has produced some data on real income, expenditure and savings by spending units for deciles. For the inter-survey period 1996/07-2003/04, real income of households has declined for the rural and estate sectors especially for the poorest income deciles. Further, the real income of spending units has declined especially in the provinces of Sabaragamuwa and Uva.<sup>10</sup> Similarly, the income-expenditure gaps have worsened for the estate sector followed by the rural sector. The estate sector, for instance, has registered negative unadjusted savings of 16.7 percent for 2003/04 (CBSL, 2005). The situation in the rural sector is only slightly different as unadjusted savings are a meagre 1.5 percent.<sup>11</sup>

The extent of dis-savings can be better understood by decomposing these aggregates by quintiles. Accordingly, the CFSES 2003/04 revealed that the three bottom income quintiles have recorded

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<sup>9</sup> Formal sources of credit are virtually non-existent in these villages. The informal sector however includes an assortment of low cost sources such as friends and relatives and high cost sources like money lenders.

<sup>10</sup> See, HIES data base of the DCS.

<sup>11</sup> The concept of unadjusted savings does not make adjustments for expenses on jewellery and consumer durables, which are accounted as savings under adjusted savings.

dis-savings of varying magnitudes.<sup>12</sup> It simply means that on average only the richest two income quintiles have generated income surpluses. It is shown that more than 73 percent of the households in the poorest income quintile dis-saved. For the second income quintile, it is as high as 60.1 percent as well. It is argued that an alarming ratio of households within the poorer income quintiles find it difficult to meet their basic household expenses.

Conversely, it is posited that reforms have been conspicuously pro-urban and pro-rich making the non-urban poor particularly vulnerable to income shortfalls (Dercon & Krishnan, 2000). The growth impulses of reforms have been skewed towards the urban sector and especially towards the Western province of the country.<sup>13</sup> Consequently poverty levels fell steadily only in the urban sector up until 2002.<sup>14</sup> As a result, HC poverty in the urban sector halved during 1990/91-2002 despite the fact that this sector registered the lowest level of HC poverty even in 1990/91. In contrast, rural poverty fell by 5 percentage points only while in the case of the estate sector it increased by 9 percentage points - from 21 percent to 30 percent (DCS, 2000).

The low and falling real income and increasing expenditure manifest the most important aspects of the poverty trap in the rural and the estate sectors. Three interrelated macro-economic conditions and processes have worsened this situation further. They include the

- I. persistence of income poverty in the rural and estate sectors until 2002,
- II. continuous process of worsening income inequality by deciles and regions, and
- III. inflationary trends that eroded the earnings of the poor in real terms.

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<sup>12</sup> In terms of deciles, only the top two deciles have been able to make positive savings.

<sup>13</sup> The income share of the Western province that was 40 percent of the national GDP in 1990 increased to about 48 percent by 2007. The population ratio of the western province was a mere 26 percent of the national population. As a large share of the working population is traveling from the adjoining provinces daily, part of this population-provincial GDP difference may be explained partially.

<sup>14</sup> Although poverty data for 2006/07 have shown a sharp decline in the urban and rural sector, there is no published information on whether income inequality too has shown a substantial decline. In the meantime the inflationary trends have worsened seriously undermining the consumption levels of the poor.

These manifestations have led to the emergence of an “underclass” that is profoundly deprived in terms of low income, poor health, malnutrition and poor hygiene.

Two other conditions aggravate this process. The first condition deals with the investments on education for young people and skill development of adults. The public investments on education as a ratio of GDP declined over the past few decades which had crippling effects on equity in terms of access to high quality inputs on education (World Bank, 2005). This has to be assessed in the context of the strong negative correlation between the level of educational achievement of the household head and the incidence of poverty in Sri Lanka.<sup>15</sup> It is also revealed that educational achievements of primary students in the subjects of Mathematics, First Language and English in the districts such as Hambantota and Monaragala remained awfully poor. These are districts that register extremely inadequate infrastructure in terms of the quality of schools, teaching staff and other educational inputs.<sup>16</sup> In this context it is not clear whether the direction of causation takes the form of “the rich having better access to educational opportunities” helping them to register better educational achievements and concurrent improvements in their poverty reduction outcomes.

Stated differently, there is a strong possibility that educational achievements are higher among students of relatively well-to-do families (Provincial Ministry of Education, 2005). Related to this is another trend where there is a tremendous increase of out of pocket expenses on education among the working class in post-reform India.<sup>17</sup> The CFSES data for 2003/04 also shows a similar trend in substantial increase of private expenditure by households on education. The curtailment of public investments on education thus has adversely affected the equity and access to education for the poor in the hinterland.

The reduction of public investment on agricultural extension is another problematic issue. The island wide set up that covered agricultural extension was removed gradually in the early 1990s, which adversely affected skill development opportunities of the peasantry.

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15 It is argued that “a household is less likely to be poor when the head has an education at the A-Level and above” World Bank, 2007, p.25.

16 See the Master plan for Education for the Southern Province, 2007.

17 See, for instance, “Out of Pocket Expenses for Childrens' Education has increased by 1150% for the Indian Working Class” Network for Social Accountability media@nsa.org.in 2008.



Concurrently, the public distribution system was dismantled while the fertilizer subsidy was withdrawn in 1994.<sup>18</sup>

The second condition deals with the dearth of public investments on health and sanitary requirements of the poor. Some of the specific conditions that deprive human capabilities cover lack of safe drinking water and safe sanitation with respect to the use of toilets. Information produced by the CFSES for 1996/97 shows that only 20 percent of the households in the rural sector had access to pipe-borne water compared to a huge 85 percent in the urban sector. Similarly, households without any form of latrines are only 1.9 percent for the urban sector compared to 6.1 and 22.9 for the rural and estate sectors respectively (CBSL, 1999). Although these conditions have changed for the better in more recent years, the spread of communicable diseases like diarrhoea and TB in the rural areas stems partly from the prevalence of malnutrition. The poor in rural areas suffer from the deplorable initial conditions of low income and absence of basic amenities. The effect of these conditions are exacerbated by a set of other circumstances including lack of education and skills, malnutrition and unattended morbidity that reduce incomes further and degenerate their bargaining power for better wages or income.

The findings of the HIES of 2006/07 however may be more encouraging (DCS, 2008). Yet it is premature to say that the trends of the pro-urban pattern of growth are adequately reversed. In fact the rate of incidence of urban poverty is still falling in 2006/07 albeit slowly. Although the reduction of the HC poverty in the rural sector is a welcome sign, it is uncertain whether this reduction has initiated a long-term trend. Meanwhile, the conditions in the estate sector have continued to deteriorate in terms of income poverty. It is in this context that a series of micro studies are required to delineate the nature and problems of poverty pockets in the district of Hambantota.<sup>19</sup>

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<sup>18</sup> The dismantling of the PMB, privatization of the seed farms and the removal of tariff protection on locally produced agricultural produce aggravated this situation.

<sup>19</sup> Hambantota forms one of the districts where the incidence of poverty has fallen drastically by 2006/07. There is no agreement on the causes of this decline especially in the Southern province although the massive public investment programme on infrastructure could be one of the dominant causes. Here again these investment programmes have a natural tendency to bypass the hinterland as the process of trickling down does not reach out these poverty pockets.

### ***Aspects of Poverty Trap and their Effects on Family Welfare-Micro Data***

The income and expenditure trends presented above outline how the incidence of poverty has changed over the years at national and sectoral levels. At national levels, poverty has declined since 1995/96. Except for poverty figures in the estate sector, HC data has shown a pattern of decline in varying magnitudes for the urban and the rural sectors by 2006/07. However, this data does not show the patterns of poverty incidence in the rural hinterland especially with respect to the pockets of poverty.<sup>20</sup>

As for the urban ghettos the likelihood of poverty pockets is real while the divide could also be widening both in terms of income inequality and HC poverty. However, the urban ghettos are placed in a better position relative to the rural villages as the poor in the urban areas have access to health, drinking water, road networks and jobs at least in the casualized urban job market. Conversely, the rural hinterland is cut-off from the rest of the country; even the barest minimum requirements of physical and institutional infrastructure are missing in most of these villages. The villages are inaccessible because of the poor conditions of roads and absence of public transport while years of neglect have made the irrigation infrastructure unserviceable. Public utilities such as electricity, telecommunication, and postal services have also suffered on account of years of neglect.

Further, the villages are marginalized due to the lack of arrangements to market agricultural produce, obtain input supplies on time, agricultural extension and banking services. They are further handicapped due to the dearth of educational and health infrastructure as well. The isolation of these villages worsens the living conditions of the peasantry. It makes the incidence of income poverty acute and human poverty overwhelming. The authors of this paper have monitored and documented the production, income and expenditure patterns of a sample of remote villages in the district of Hambantota since 2003. The following section of this paper uses some of this data to highlight the causes and consequences of the poverty trap in the rural hinterland.

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<sup>20</sup> The presence of these pockets of poverty is not necessarily an isolated situation as many would want to argue. Although we do not want to generalize this condition, we also want to consider it a fairly widespread situation in the districts of Hambantota, Monaragala and Badulla.

This section begins with a discussion on income and consumption expenditure data. Table 1 below highlights income-expenditure gaps at household level. A few salient features emerge from this table. Firstly, income levels in terms of nominal and real terms have increased during 2003-2006. This is a welcome sign. The changing policy framework that supported the agricultural sector including the fertilizer subsidy and increased farm-gate prices for paddy may have contributed to this change. Another reason could be the public investment programme that augmented the inflow of resources into this district. The construction boom especially after 2005 provided causal work for the unemployed while the receipt of irrigation water from the Lunugamwehera and Mau-Ara schemes contributed to raising agricultural output and farm income.<sup>21</sup> The world-wide shortage of food grains helped jacking up the farm-gate prices of agricultural produce that contributed to rising agricultural earnings.

Secondly, the consumption expenditure of households has increased only in nominal terms during this period. In fact, expenditure in real terms has shown a declining trend. This may be attributed to the increased cost of fuel, dhal, dry fish, clothes, medicine, and transportation which form a large portion of the family budget of these villagers. The prices of these items have surged at a steady pace thus reducing the entitlements of these households.

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<sup>21</sup> One reason for the construction boom is the Tsunami related construction of houses and roads.

Table 1 -Income expenditure data and the incidence of dis-savings

No	Indicator	Suriyawewa N=112 (2003)	Lunugamwehera N=105 (2004)	Suriyawewa and Lunugamwehera N=294 (2006)
1	Average HH income	47334.00	59692.00	67494.00
2	Income in real terms	47334.00	54864	60665
3	Household expenditure on consumption	30423.00	34385.00	39095.00
4	Expenditure on consumption in real terms	30423	30342	29238
5	Expenditure on production (paddy)	30010	32651	34100
6 = (4+5)	Total expenditure in nominal terms	60433	67036	73195
(6-1)/ 1×100	Expenditure- income gap	28	12	8

Sources: Field surveys  
by the authors

Thirdly, the huge gap between income and expenditure that was as high as 27 percent in 2003 has fallen to 12 percent by 2006. This is a noteworthy improvement. Despite these improvements, the households interviewed still find it difficult to balance their budgets. By 2006/07 the expenditure-income gap in nominal terms has narrowed further; yet the incidence of dis-savings at household level remains more than 8 percent per annum on average.

The situation of very high dis-savings in terms of average income and expenditure can be interpreted as a condition where farm households continue to be affected by a “debt trap” where the poor spend most of their farm income to service old debts. Much of their debt is linked with agricultural work although consumption related debt to boutiques is a common feature of these households. One of the main reasons for the debt trap is the failure of formal banking arrangements to reach out to these villages. Less than 12 percent of these farm households use formal banking sources for financial services. These are households that receive income from multiple sources including jobs in the formal sector or those involved in trade and commerce. The effects of the “debt-trap” can be debilitating when farmers borrow at high interest rates (Patnaik, 2004). The micro-finance sources that are supposed to be

very active in the district of Hambantota too have failed to reach out to these villages.<sup>22</sup>

The decline of household expenditure in real terms reflects the deterioration of entitlements of the peasantry in the villages selected for this survey.<sup>23</sup> It affects food and non-food expenditure at household levels adversely. The impact of the fall in expenditure on food may be severe on women and old people who are discriminated in terms of intra-household distribution of expenditure.<sup>24</sup> The adverse effects of food shortage on children are long-term as malnutrition retards their growth process. Findings of national level surveys have revealed that malnutrition among children is as high as 13 percent while about 30 percent of them suffer from anemia.<sup>25</sup>

The old-age dependency is another problem because of expenses arising from age-specific health complications. This category of the population is specifically susceptible to health complications owing to two reasons Firstly, they are malnourished. Secondly, they tend to delay medical treatment. Both conditions are linked to their low income and the inability of their offspring to support them. The survey also showed that women suffer silently, when mothers sacrifice more in terms of food and non-food consumption. However, the underlying causes for this uneven distribution of expenditure discriminating against the adult female members of the household are not clear.<sup>26</sup> Some data on the incidence of malnutrition among mothers will be discussed in a subsequent section.

The postponement of medical expenses by adult women is one of the first casualties of budget cuts. According to the DCS data, the postponement of medical treatment is widespread among adult women.<sup>27</sup>

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22 This is partly because of the high initial costs of organizing micro financing activities.

23 The computation of cost of living in Sri Lanka has been skewed towards the urban workers. Thus, whether these findings merely represent the inflationary impact on the rural peasantry is a problem. These households too face inflationary pressure especially with respect to their expenses on agro-chemicals, food provisions like dhal, dry fish, clothing, medicine etc. For years 2003, 2004 and 2006, the rate of inflation measured in terms of the GDP deflator was 5.1, 8.8 and 11.3 respectively.

24 It is customary that male adults are given preference in respect of allocation of food within the households.

25 The age group referred to here is between 1 to 60 months.

26 As indicated by one mother, she considers it her duty to ensure that the husband and the children are fed first because that was what "mothers have been doing" for centuries. Whether this practice has something to do with age-old practice, culture or altruism is something that has to be evaluated separately.

27 See the Health Survey by the DCS and the Ministry of Health, 2000.

The reasons for this postponement include transportation problems, lack of funds, and non-availability of medical facilities in the vicinity (DHS, 2000).

For the male members of the households, the shrinking food budget affects their ability to secure jobs and earn reasonable wage rates. This situation reduces household incomes further. The poor health-low wage loop causes malnutrition among household heads reducing their capacity to earn as wage workers or farmers.<sup>28</sup> As will be revealed later, the incidence of malnutrition is high among male heads of households as well. On the whole, the shrinking family budget results in malnutrition at household levels triggering off the vicious cycle of the poverty trap.

Another negative outcome of the poverty trap is the postponement of educational expenses of children. This has a long-term effect on the income generation capacity of poor households. According to the CFSES of 2003/04, the share of household expenditure on health and education has increased sharply in recent years questioning the efficacy of the investments on free education and free health. These manifestations have adversely affected the overall well being of the poorer households.

One reason for the income–expenditure gap is the escalation of working capital needs of farm operations. It is seen that the cost of production of farm produce is even larger than the food expenditure listed in Table 1. Consequently, the total expenditure of these households always exceeds their total income resulting in a very heavy incidence of dis-saving among these farm households. Except for the households that belong to the top two income deciles where multiple income sources insulate the income expenditure gap, dis-saving is the usual spending pattern of these households.

Conversely, any realistic change of their conditions should indicate that they have been able to generate net-saving or capital investment so as to improve their response to the cycle of the poverty trap. Investments on working capital may help them to maintain the status-quo unchanged. However, for them to come out of the poverty trap, there is a need to increase the capital stock: this includes the improvements in farm structures, irrigation networks, farm modernization, diversification

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<sup>28</sup> The incidence of consumption of alcohol, other forms of psychoactive drugs, betel and cigars/cigarettes also erodes their income base reducing their capacity to spend on family welfare.

of crops, access to food processing and marketing etc. The data on income and expenditure flows listed above show that these changes are too slow to come by. Therefore the income expenditure gaps delineated above give rise to recurrent problems of chronic poverty in the peasant households selected for this study. Table 2 below elicits two salient features pertaining to income poverty.

First, the incidence of poverty in the district is very much higher than the rates quoted by the national sampling surveys of the DCS. According to the DCS reports, the poverty level for the Hambantota district was about 32.2 percent in 2002. By 2006/07, it declined by 19.5 percentage points to 12.7 percent. This is an enormous reduction of more than 153 percent during a span of five years. However, case data enumerated for this study do not present any evidence to indicate that the villages selected have shown the sort of poverty reduction outlined in the DCS surveys. This may be partly due to the central tendencies of the national surveys resulting from the non-inclusion of some of the worst affected villages in the hinterland (Kurein, 2000).

*Table 2- Computation of poverty HC and Poverty Assistance data*

Indicator	Suriyawewa N=112 (2003)	Lunugamwera N=105 (2004)	Suriyawewa and Lunugamwehera N=294 (2006)
Poverty lines <sup>29</sup>	1406	1530 <sup>30</sup>	1889
Poverty threshold per annum <sup>31</sup>	67849.5	76946.9	93426.76
Poverty HC	69.1	72.6	74.8
HH on Samurdhi	62.5	64.1	64.1
Average Samurdhi grant (Rs)	470	430	480
Samurdhi grant (real terms)	470 (100)	395 (84)	359 (76)

Sources: Survey data

<sup>29</sup> In the absence of district or provincial inflation rates the district poverty line of 1334 (2002) for the Hambantota district was adjusted for inflation using the GDP deflator.

<sup>30</sup> Inflated using CCPI index.

<sup>31</sup> The District level poverty line for Hambantota for 2002 was 1334. This was adjusted for 2003, 2004 and 2006 using the GDP deflator that yielded poverty lines of 1406.5 for 2003, 1530.3 for 2004 and 1889.7 for 2006. The aggregates were computed using the average size of households in different years.

The second reason for the high incidence of poverty is the sharp increase in the poverty lines used for this study. The higher the poverty line adopted for the computation of HC poverty, the greater would be the HC poverty. The inflation-adjusted poverty line used for the computation of 2006 data is about 34 percent higher than the 2004 poverty line.<sup>32</sup>

The HC poverty figures of more than 69 percent for 2003 and its persistent increase in the following two panels are appallingly high. However, the higher coverage of poverty assistance of over 62 percent for the villages shows that the data are not unreasonably high. The databases maintained by the two DS offices also portray a similar picture. The table shows that the percentage of households receiving Samurdhi assistance has increased marginally.

The discrepancy between the number of households that receive poverty assistance and the number of households that deserve poverty assistance has increased since 2003, and by 2006 it was as high as 10 percentage points. This discrepancy points out the prevalence of “exclusion error” in the determination of poverty assistance.

Meanwhile, the average Samurdhi grant per household increased in nominal terms in 2006.<sup>33</sup> However, in real terms, the grant per household has fallen considerably. The reduction of Samurdhi assistance in real terms and the non-inclusion of those who deserve such assistance are two major weaknesses of the Samurdhi programme. The insufficiency of the Samurdhi grant per household makes poverty reduction efforts of the state futile; this is further complicated by the targeting errors.<sup>34</sup> On the whole information presented above shows that the incidence of poverty is acute in the study area by whatever standards adopted to measure it. The evidence is conclusive that the incidence of poverty in some of these poverty pockets is much higher than the picture portrayed by the national sampling surveys.

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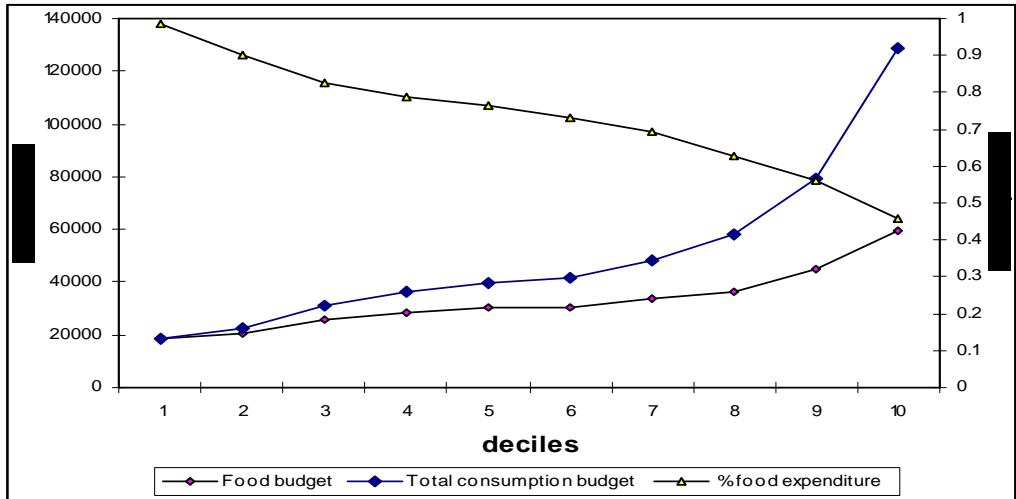
<sup>32</sup> The absence of district-wise inflation data tends to inflate poverty incidence.

<sup>33</sup> This increase in the average Samurdhi grant in the area is an outcome of the upward revision of Samurdhi benefits since 2005.

<sup>34</sup> It is supposed to be less problematic primarily because these are closely knit communities where everybody knows about the economic status of each household. A government functionary can make a fairly accurate decision on income levels by looking at the condition of the house and the other assets.



Chart 1- Changes in food expenditure by deciles



Source: Survey data

The data set for 2006 is used to plot the expenditure on food and non-food items by deciles. In computing the total expenditure this table has excluded expenses on durables and jewellery.<sup>35</sup> As very few households reported expenditure on jewellery or consumer durables, the impact of this exclusion is minimal. Another noticeable feature is the absence of “pawn-brokering” reported as a means of credit. This is despite the fact that pawn brokering happens to be a popular form of formal credit among the “poor” in Sri Lanka. The scarcity of gold jewellery may be one plausible explanation for this situation.<sup>36</sup>

Interestingly, the expenditure on food items is very low in absolute terms for the poorer income deciles although as a percentage of their total expenditure it has reached a staggeringly high level of more than 90 percent.<sup>37</sup> This distribution of expenditure has two implications. In absolute terms it shows that they survive on the barest minimum level of subsistence. This in other words is referred to as a sign of “entitlement failure”. The fact that they spend a huge share of their expenditure on food implies that they are left with very little to meet their non-food requirements including health and education which are vital for the development of human capital.

<sup>35</sup> The CFSES surveys include them under ‘adjusted savings’.

<sup>36</sup> Another problem may be the problems of banking density.

<sup>37</sup> One of the crude measures of poverty is that the poor spend more than 80 percent of their income on food but fail to purchase even 80 percent of their food requirements.

Almost up to the 4th decile the households were spending more than 80 percent of their income on food leaving very little margin for expenses on the development of human, physical and financial capital. Despite this high share of food related expenditure many of these households failed to secure even two square meals a day.<sup>38</sup> It is this pattern that has made the poverty trap so pervasive in the villages selected for this study. This incapacity to secure minimum food energy and to invest in education, health and other basic necessities has had a profound effect on poverty. However, as it reaches higher income levels this food expenditure ratio declines to 46 percent of total expenditure

One of the major causes of low income and hence high incidence of poverty is the lack of regular employment.<sup>39</sup> The following table presents some information on the status of employment/unemployment to gauge its impact on human poverty. The most striking feature relating to the labour force data is the extremely high ratio of daily status unemployment, which is almost four times higher than the national average. The economic profile of the Divisional Secretariat of Suriyawewa had also shown an unemployment figure of 38 percent for the three villages selected for this study.<sup>40</sup> This figure compares well with the estimates we have made through our survey.<sup>41</sup>

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38 Although they spend more than 80 percent of their expenditure on food they still fail to secure even 80 percent of their food energy requirements.

39 According to the human poverty index II (HPI-II) of the UNDP, unemployment is considered one of the salient features of human poverty.

40 The socio-economic profile of Suriyawewa (2002) has estimated that the three villages of Weliwewa, Ranmuduwewa and Andarawewa have a labour force of 1895 of which 715 are unemployed (DS, 2002; 21).

41 Because the villagers cannot afford to remain unemployed for the simple reason of survival, measurement of unemployment is a complex issue; they perceive themselves as farmers (Govi) or wage workers (Kuliweda) and hence are considered "employed".

Table 2 A – Comparative data on the conditions of employment and unemployment

Status of employment	Suriyawewa (2003)	Lunugamwehera (2004)	CFSES data (for 2003/04) national
Regular	3.4	4.8	20.9
Casual	36.4	33.5	34.0
Self-employed	46.1	43.6	32.9
Unpaid family	12.4	16.5	8.7
Others	1.7	1.6	3.5
Total employed	100	100	100
Unemployed as % of labour force	37	34	8.9
Underemployed as % employed	76	81	23.7

Source: Survey data and the CFSES, 2005; pp 58

In practice, most of those who were classified as “employed” are farmers and wagedworkers: they in fact are “working poor” or “idle workers” (Vargas, 1991). At any given point in time the work available for them in terms of “hours” or “days” of work is well below their capacity and willingness to work. This has given rise to an acute problem of underemployment among those who consider themselves employed. The evidence presented below shows that the peasantry did not have sufficient work opportunities despite the fact that they wanted to work and earn. The Suriyawewa case study revealed an underemployment figure of 76 percent among those who claimed to be employed. This rate was almost three times the CFSES assessment of underemployment for the rural sector of Sri Lanka.

Whatever the definition used to delineate the pervasiveness of underemployment in the study area of Hambantota, it is found that lack of income and employment opportunities is one of the major reasons for the high incidence of poverty in the district.<sup>42</sup> Two manifestations contribute to this situation. Firstly, workers do not have adequate work opportunities in terms of number of hours per day or days per month. On average, two days a week was the number of “full” days of around eight (8) working hours reported in the survey. Secondly, even when they can secure work, the wage rate tends to be low during the off-seasons due to the limited demand for labour in relation to the supply of labour.

<sup>42</sup> The Youth Survey data for Hambantota also provided an extremely high rate of unemployment of 71 percent among those who are between 18-24 years of age (Lakshman, 2002).

The wage rate quoted per day for manual labour in 2004 was Rs. 200 44(US \$ 1.9) per day.<sup>43</sup>

The second manifestation pertaining to employment was the very high incidence of self-employment, casual employment and unpaid family work, which reflect the “distress-adaptation strategy” followed by the peasantry for survival (Stokke et al 1991). The extent of regular work reported was less than five percent. This is horrendously low in comparison with the national data. These features have a strong bearing on poverty and related problems of malnutrition among the peasantry. It was revealed that self-employment was the single most important source of employment. This source includes farming, followed by petty-trading and those working as village artisans.

Table 3- Conditions governing employment/underemployment

Indicator	Weheragala N=13	Angunukolawewa N=10	Lunugamwehera N=105
Unemployment	36.2	38.2	34
Underemployment	86.2	88.5	81
Daily Wage rates (Rs.)	Rs.187	Rs.180	190
Wage rate % average wage rate for agriculture	67%	68%	73%

Source: Survey data.

To highlight the conditions of unemployment and under-employment, this paper uses case data from two of the remotest villages in Lunugamwehera (2004). The very purpose of selecting these extreme cases is to highlight the conditions in poverty pockets which escape researchers and policy planners. However, unless the conditions of these villages are redressed, the problems of the poverty trap in the rural hinterland will never be resolved.

Two points pertaining to unemployment emerge from Table 3 above. Firstly, the rate of unemployment in Lunugamwehera DSA is about four times than that of the national average.<sup>44</sup> Moreover, the conditions in these two remote villages selected to highlight the situation appeared to be even worse than the mean rate of unemployment for

<sup>43</sup> This was 71 percent of the wage rate quoted (Rs. 280) for agricultural work by the CBSL.

<sup>44</sup> The national average unemployment is 8.3 % for the year 2004.

Lunugamwehera. Both in absolute as well as relative terms the rates quoted above reflect a very serious situation as the national data for unemployment is around 8 percent for 2004. The rate of unemployment quoted above could lead to serious social problems with devastating political implications.

A related condition of the employment situation is the extremely high incidence of underemployment. The rates referred to are much higher than the national figures as well as the figures quoted for the two Divisional Secretariat (DS) areas. The impact of this high unemployment and underemployment rates is evident in the wage rates for casual jobs as indicated in the table. As there are too many workers whose services are available for casual wage work, the rates quoted are about 30 percent less than the national agricultural wage rates.<sup>45</sup> These figures contradict the notion that the wage rates are prohibitively high for agricultural work in the peasant agricultural sector. In fact there is a severe scarcity of work opportunities during the off season which span a much longer time. The reserve-army of unemployed workers suffers on account of the twin evils of lack of work and falling wage rates during this period.<sup>46</sup> On the whole, lack of work opportunities and low agricultural earnings, and escalating prices of consumer goods have distressed the peasant economy badly. Table 4 below shows that the impact of these conditions has seriously undermined the nutritional and health standards of these villagers.

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<sup>45</sup> Two important considerations affect this difference in wage rates. First, these are rates for peak seasons where the demand for work is high. Second, having a large reserve army of unemployed always contributed to pull the wage rates down in sectors where workers are not organized. This is especially so during the lean periods.

<sup>46</sup> Most of them belong to the youth category who may not be interested in farming since it is considered economically unrewarding and socially stigmatized.

Table 4- Data on malnutrition and morbidity

Indicator	Weheragala N=13	Angunukolawewa N=10	Lunugamwehera N=105
Body-mass index ( mothers) <sup>47</sup>	38%	50%	22%
Signs of malnutrition in fathers <sup>48</sup>	46%	40%	28%
Cases of unattended morbidity <sup>49</sup>	49.6	51.2	34.3

Source: Survey data

It is clear that the incidence of income poverty is very high for the villages studied. National data on malnutrition has shown that the conditions of children in Sri Lanka are particularly bad with respect to nutritional levels.<sup>50</sup> The bottom most income quintiles, the estate sector and the districts like Badulla, Monaragala and Hambantota, were the worst affected by this situation. Micro studies by the authors have shown that even the adults in the study area are not spared by the conditions of under-nutrition and related complications.

Table 4 above shows data on two of the poorest villages compared with the general conditions of malnutrition and unattended morbidity in the DS division of Lunugamwehera. For the collection of this data a team of trained midwives were employed: they elicited information, among others, on the body-mass index (BMI) of women, signs of malnutrition among male household heads and unattended morbidity pertaining to elderly members and women.

The BMI data shows that malnutrition is relatively high for the DSA of Lunugamwehera and extremely high for the two poorest villages. It is evident that the poverty-malnutrition nexus is clearly established. As revealed by Narayan et al (2000), the poverty-malnutrition loop works

<sup>47</sup> Body mass index (BMI) uses a ratio of weight in kg/height in meters (W/H<sup>2</sup>) to measure malnutrition. The BMI of mother's that falls below 18 was considered malnourished. The Lunugamwehera study employed trained staff from the office of the DHS at Lunugamwehera to collect this information.

<sup>48</sup> In the case of men signs of malnutrition included aspects like angular stomatitis, glossitis, and anaemia which were diagnosed by the public health staff.

<sup>49</sup> This again was estimated by the technical staff from the DHS office of Lunugamwehera.

<sup>50</sup> As stated elsewhere the rate of malnutrition is as high as 13 percent while anemia is as high as 30 percent among the school going children.

both ways: reinforcing the incidence of malnutrition among the poor and vice versa.

The low value of BMI among poorer mothers indicates that the poverty trap persists.<sup>51</sup> While production of food-grain by households is inadequate to feed family members, the limited and unpredictable cash income has curtailed what they could purchase in the open market. This has caused a sort of an entitlement failure and it is the mothers who suffer the most in such a situation. Ironically, the findings of this study show that even fathers are not spared. Conditions of malnutrition represented by data on aspects other than the BMI have indicated that signs of malnutrition are widespread among them. Thus the vicious conditions of poverty and the related outcome of malnutrition have produced a process of poverty trap in the villages selected for this study. It is this situation that has made chronic poverty an inevitable condition in the rural hinterland.

### ***Discussion of findings***

The findings of this study show that the incidence of HC poverty is extraordinarily high in the villages studied; it also reveals that despite some improvements in the income levels of the peasant families, HC poverty continues to remain very high. These two conditions have made poverty alleviation a daunting task.

The situation was extremely distressing for the lower income deciles where the poor face severe family budget constraints to meet their basic needs. The average 'dis-savings' of the poorest income decile is about 2.5 percent according to CFSES data of 2003/04. In the villages studied, the situation was much worse. A substantial share of the population spends more than 80 percent of their income on food but still fail to meet the bare minimum food requirements. Consequently, they are unable to meet the non-food requirements including shelter, medicine and education.

Empirical data on the nutritional status of the poor has shown that malnutrition has been a persistent problem in rural Sri Lanka. The shortage of food grain causes malnutrition that makes them vulnerable

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<sup>51</sup> Individuals who are sick or disabled are less likely to be hired for wage work, may have difficulty working effectively, and will often be paid less for their services (Narayan et al, 2000, p.96).

to epidemics such as malaria, diarrhoea, and tuberculosis etc. This is especially so during droughts and associated conditions of famine which are recurrent in the drier parts of the Hambantota District. The condition of droughts and crop damage signifies the incidence of covariant shocks and the extent to which they undermine the economic well-being of the poor. The situation is further compounded by the frequent incidence of unattended morbidity. Morbidity, as we discussed earlier, belongs to the category of “idiosyncratic shock” that triggers a downward spiral of low income and other forms of deprivation.

Consequently, farm households fail to reap the full potential of their farm plots. They also fail to secure work in the farm or the non-farm sector as work opportunities are limited relative to the number of people who seek work during the off- season. While their real income goes down, expenses remain almost stable. The low educational attainment compounds this situation. The household-heads who are illiterate suffer from a lack of skills that reduce their ability to choose better technology, seek market information and bargain for higher prices or better wages. Moreover, they fail to appreciate the importance of educational needs of their own children resulting in school attendance becoming poor in the poverty stricken areas; attendance is disturbingly low during the peak seasons when child labour is abundantly used to meet increasing labour needs.

The parameters listed in the poverty trap model appear to be fairly well established in these villages. The initial condition of low cash income leads to physical incapacities arising from hunger, sickness, and lack of physical agility which reduces the capacity of peasants to work more and earn more. They fail to buy nutritious food, obtain timely medical treatment etc. that lower the capacity to bargain for better wages perpetuating their low income. The chain of events could be reciprocal and two-way. The working of the poverty trap has not only exacerbated the conditions of poverty in these villages but has also made poverty a persistent feature. The policy implication of this finding is that unless the conditions that contribute to its continuation are removed, there is hardly any possibility in alleviating poverty in these remote villages.

On the whole this paper argues that the conditions and processes that operate today make the poor malnourished, weak in health status, exposed to further health hazards and afflicted by irregular and unsteady flows of income thus making them incapable of moving out of the poverty trap. These are circumstances which are beyond their



control and outside assistance is required for them to overcome poverty. However, the palliative programmes to reduce poverty do not address the core issues discussed in this paper. In fact the reduction of public investments under structural adjustments has made the situation much worse. This is precisely why poverty reduction programmes fail in Sri Lanka. It is therefore necessary to understand the nuances of this impoverishing process that engenders persistence of poverty in the rural sector before launching poverty reduction programmes in the future. The idea that “one size fits all” does not work for poverty reduction as conditions that govern poverty differ by pockets, sectors, regions, districts and also by income deciles.

### **Concluding Remarks**

On a positive note, this paper finds that the income levels of rural households in these remote villages have increased causing a reduction in income expenditure gaps. We attribute these two changes, that occurred towards 2006, to the increased flow of public investments in the form of infrastructure development that help in the generation of casual and contract jobs for the unemployed and the increased price levels of farmer produce and the fertilizer subsidy. These changes have had a positive impact on the livelihoods of the poor. However, there were countervailing negative forces such as the increased costs of seeds, mechanical and chemical inputs, that negated these positive developments particularly for those who live in the hinterland. These conditions have delayed the onset of desired impact of some of the pro-poor policy changes. The persistence of poverty in the rural hinterland therefore has become an almost enduring characteristic of these villages. Redressing rural poverty therefore has to be based on an approach that can effectively address the issues of the rural remote areas in the long-run. Two major policy implications that arise from this paper are the need for public action to augment physical and institutional infrastructure in the rural hinterland and the need for changing the internal terms of trade in favour of the poor producers from these areas.

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