

Ajith Nivard Cabraal: Inequality, poverty and development

Inaugural address by Mr Ajith Nivard Cabraal, Governor of the Central Bank of Sri Lanka, at Annual Sessions of the Sri Lanka Economic Association (SLEA), Colombo, 10 August 2007.

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Mr. Chairman, Distinguished Invitees, Ladies and Gentlemen,

At the outset, I wish to congratulate the Sri Lanka Economic Association (SLEA) for their initiative at organizing this important and timely event, **the Annual Session focusing on Inequality, Poverty and Development**. This forum would give a wonderful opportunity to all the participants to share their valuable thoughts and eventually enable them to contribute to the prosperity of this country and the well-being of our people. I am also delighted to have been invited to deliver the inaugural address to this distinguished audience and I must say that I consider it a great honour and a privilege.

The SLEA has been organizing events of this nature for many years and at most such events I have been an active participant. I have myself benefited immensely from these fora, and I know most of you academics, and professionals have also gained from these well balanced sessions and fruitful discussions. Further, the themes that have been selected by SLEA and the calibre of the resource persons they have invited during the past prove their willingness to make an important contribution to the development in this country.

As we are aware, the world's focus and attention has been to usher in an economic order that ensures high economic growth and an advanced level of development. In this endeavour, the widely discussed topics include liberalization, globalization, IT revolution, poverty alleviation, trade co-operation, political inclusion, regionalization, and many other buzz topics. Amongst these topics, **"inequality and poverty"** has maintained an important position, and it has therefore been discussed for years.

Let us then ask ourselves the question: What do we really mean by inequality and poverty?

Inequality means the lack of or fair treatment in the sharing of wealth or opportunities between different groups in society; and

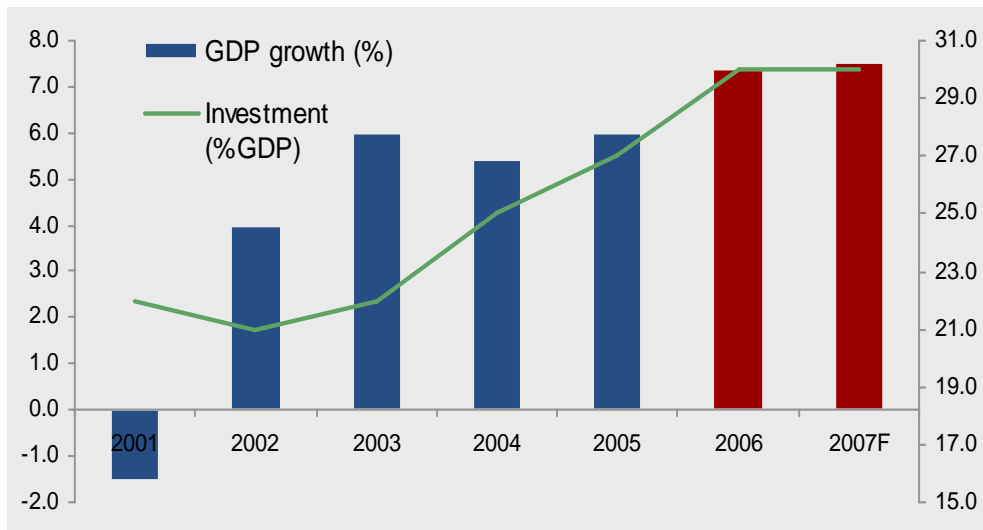
Poverty is the condition of being extremely poor.

What do those who are stricken by poverty and inequality feel? Simply, they suffer the lack of material well being and lack of opportunities to succeed. Such feelings are often the root causes of political, economic and social upheaval, tension and revolution.

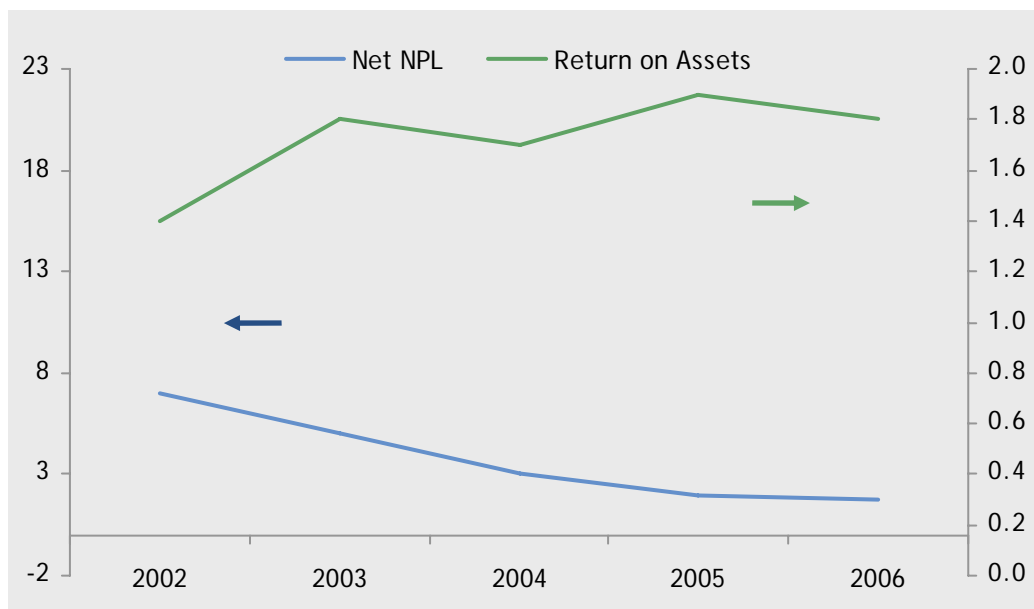
Mr. Chairman, **poverty and inequality are very closely linked**. There is also ample empirical evidence to suggest that **inequality and poverty seriously affect development**. Inequality often leads to poverty while poverty hinders development and prosperity. Addressing inequality issues would undoubtedly have a positive impact on poverty alleviation. We would also probably unanimously agree that alleviating poverty is vital, considering its many economic, social, cultural and even more importantly, the human costs. Therefore, addressing the issue of inequality and deprivation while expanding the economy, has today become a great challenge to economic planners across the globe, and indeed to those in Sri Lanka as well. In other words, poverty alleviation has to become an integral part of the development process if true prosperity is to be ushered.

That is one of the reasons why we at the Central Bank do not only track the traditional macro-economic fundamentals. We also track the indicators that tell us whether or not "wealth" is reaching the ordinary people of our country. In that context, let's take a quick look at some of the fundamental indicators as well as discuss some other trends to assess as to how inequality, poverty and development is progressing in our country.

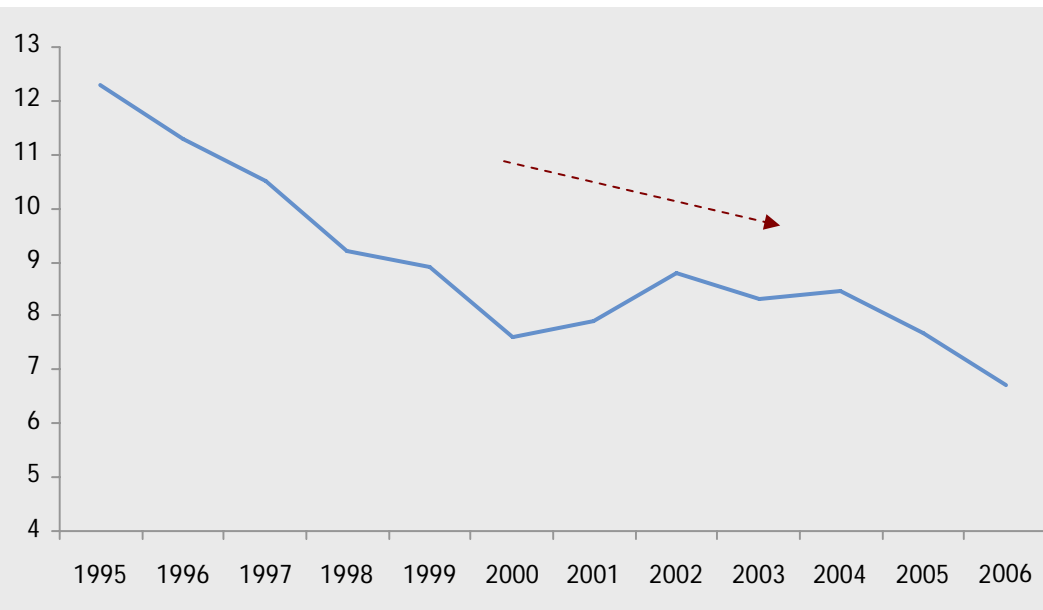
Strong GDP growth and investment



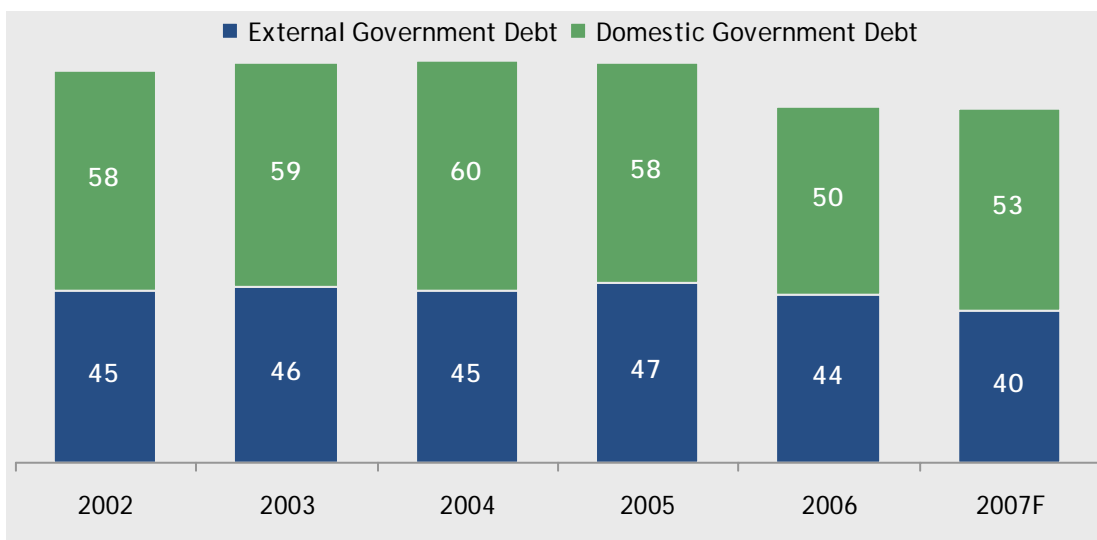
Banking system health strengthening



Unemployment declining (%)



Public debt declining (% of GDP)



As you may have noted, just yesterday, Standard & Poors revised the outlook for Sri Lanka from negative to stable and that is indeed a useful confirmation of the success of the manner in which the economy is progressing. At the same time, we see some interesting social and economic indicators as well which disprove the **Perception/claim that people do not feel the present economic growth**. Let's look at some of these facts too:

- Number of registration of motor vehicles and motor cycles continue to rise sharply.
- The usage of mobile phones is expanding rapidly.
- The number of new apartment buildings and individual housing units are increasing and selling fast – almost every road and by land now has some construction activity going on!
- Super market chains are expanding rapidly. In 2006, the per capita imported food intake was Rs.145/- per day.
- The number of banking outlets is increasing sharply. In the first 5 months of 2007 alone, 46 new units were added to our Banking system.
- The number of household appliances being sold, is increasing rapidly
- The number of new EPF accounts is increasing.
- The number of people going abroad on holiday is increasing – Just look at the queues outside the Indian High Commission of people who are hoping to go on pilgrimage.
- The per capita incomes are rising.
- More people are sending their children abroad for studies.
- The number of “Wanted” advertisements is increasing rapidly in almost all newspapers.

Nevertheless, **the global picture of poverty and inequality is still quite gloomy**. According to the World Development Report of the United Nations, of the world's 6 billion people, 2.8 billion (almost half) live on less than two dollars a day, and 1.2 billion (a fifth) live on less than a dollar a day. Also, the average income in the richest 20 countries is 37 times the average in the poorest 20, a gap that has doubled in the past 40 years. Hence, **the distribution of global gains is extraordinarily unequal**.

Worldwide inequality persists even on the socio-human front. Although in general, human conditions have improved more in the past century than in the entirety of previous history, particularly in health and technological capabilities, several inequalities still exist. For example, in the poorest countries, only 4 out of 5 children live to celebrate their fifth birthdays, while in rich countries this ratio is over 99 per cent. While in rich countries fewer than 5 per cent of all children under five are malnourished, in poor countries as many as 50 per cent are. Hence, **there is a huge imbalance and inequality in distribution of socio-economic gains** as well.

In this context, it is also heartening to note that strategies of reducing poverty have evolved over the past several decades in response to broadened understanding and rethinking of the complexity of development.

As we are aware, in the 1950s and 60s, many economic and political planners viewed large investments in physical capital and infrastructure as the primary means of development.

By the 1970s, policymakers realized that physical capital was not enough, and that health and education were equally important.

By the 1980s, emphasis was placed on improving economic management and allowing greater functioning of market forces. By the 1990s, a three-fold strategy evolved: first,

promoting labour-intensive growth through economic openness; second, intensive investment in infrastructure, and third, providing basic services to poor people in health and education through a solid welfare net.

The model for 2000's went further and took an even wider approach. In September 2000, 189 member states of the United Nations adopted the **Millennium Development Goals**. That declaration endorsed a strong commitment to the right to development, peace and security, gender equality, and the eradication of the many dimensions of poverty. It also mainstreamed a set of 8 inter-connected and mutually reinforcing development goals and 18 related targets into a global agenda. **As of now, Sri Lanka has achieved some of the goals of the Millennium Declaration while others are being pursued quite diligently.**

The first goal is **poverty eradication**. For international comparison, the poverty line is set at US dollar 1 per day. As you know, the proportion of population whose income is less than the poverty threshold is known as the poverty head-count ratio. As measured by this indicator, as at 2002, about one fifth of the household population in Sri Lanka was living in poverty. Many efforts are now being taken to reduce this further.

The second goal is to achieve universal primary education. Sri Lanka has already made much progress in this regard.

Promoting gender equality and empowering women is the third MDG. Sri Lanka has already eliminated gender disparity in both primary and junior secondary education, with the parity index being nearly 100 per cent in 2002.

Goals 4 and 5 are to **reduce child mortality and maternal mortality**. The current trends indicate that Sri Lanka is on track to achieving child and maternal mortality goals. Other goals such as **combating HIV/AIDS, malaria and other diseases, and ensuring environmental sustainability** are also amongst our priorities. The final goal, **developing a global partnership for development** is also being pursued diligently.

We are aware that, our country is, by and large, on track on the achievement of most of the goals. However, there remain considerable challenges. The critical challenge is that one-fifth of Sri Lanka's population is still living below the national poverty line and we need to take proactive and practical measures in that regard.

Mr. Chairman, at this stage, as a precursor to the wider discussion that will take place on tomorrow, I would like to share some thoughts on the subject in the Sri Lankan context. **Where do we stand?** Sri Lanka is now a lower middle income country with a per capita income of around US dollars 1,355. The per capita income is projected to increase further to around US dollars 1,500 by the end of this year and is expected to continue to increase during the coming years. So, there is a clear indication that **we are growing amidst several challenges and that people are enjoying the gains of the growth although some may tend to down play or disregard these national gains for whatever reason.**

With increased personal incomes, we also observe that living conditions of the people are improving. I already spoke about it. But, at the same time, we would be the first to admit that a lot more needs to be done. We have to attempt to double our per capita income every 6-7 years from now onwards. We must also aim at increasing the per capita incomes in the provinces from the present levels of between US dollars 700-800 to at least US dollars 1500 in the next 6-7 years. That is not a dream. It can be done. **Towards this objective, the government has clearly identified as a priority, the importance of having quality infrastructure facilities in the country.** In that regard, mega infrastructure projects, particularly in the areas of power and energy, highways, rail roads, ports and aviation are currently being implemented. In fact, the government has given the highest priority in its public investment programme to complete these projects as early as possible so that development process would be accelerated.

The government has also identified the need to focus on developing regional infrastructure facilities in order to stimulate economic activities in the regions as well as to quickly distribute

the gains of higher economic growth to the people who are living in remote areas. The ongoing “Maga Neguma”, “Gama Neguma” and “Neganahira Navodaya” programmes are particularly aimed at fulfilling this need.

In the meantime, the Central Bank, in collaboration with the Finance Commission has initiated a new approach to examine new ways of maximizing the Provincial Councils’ contribution in the regional development process. We have observed that even after the existence of Provincial Councils for about two decades, the inequalities among the provinces still prevail and in fact have widened over the years. Hence, it is clear that we have to introduce a new and innovative strategy to develop our provinces.

In line with this objective, as the first step of this new initiative, the Central Bank and Finance Commission, along with several other stakeholders, are in the process of identifying the issues, difficulties and potential of the respective Provincial Councils to improve the provincial contribution towards achieving **balanced regional development**. Finding ways and means to increase the private sector participation in the development process without solely depending on government funds is the key feature of this new approach.

Not surprisingly, **there will always be an intense debate about the trade-off between the growth momentum of an economy and the equitable distribution of benefits.** Almost always, in any country the benefits of growth do not reach the deprived segments of the society, quickly. The fact that over 50 per cent of the GDP is still concentrated in the Western Province and the fact that the share of the poorest 20 per cent of country in total household income is less than 4 per cent, shows that this situation is true in our country as well. The per capita income of the Western Province is over US dollars 1,900 whereas in the other provinces it is around US dollars 700-800. Further, the Gini coefficient of per capita consumption in Sri Lanka had increased at an annual rate of 2 per cent, from 1990 to 2000, higher than comparable countries in East Asia. These facts support the view that reducing inequality and alleviating poverty should be a main policy concern that has to be pursued with a pro-active strategy. That is probably why the **Mahinda Chantana** has identified several policy measures to fast track this shift, that the Western Province’s GDP contribution could continue on a downward trend as evidenced by the marginal decline in contribution from 50.9% in 2005 to 50.1% in 2006.

In the meantime, the alternate view in this debate suggests that the more affluent persons of a country usually benefit faster when the economy grows rapidly and that even without any specific policy actions being implemented to address this situation, such gains will ultimately spill over to the deprived segments also, albeit at a slower pace. While this theory too may be somewhat true, it would certainly not provide too much comfort to the person who is suffering from inequality and poverty, if he/she were to find out that such a policy was being followed. That is why it is vital that the current Sri Lankan policy which is a pro-active one to consciously support the trickle down of economic benefits quickly, should be implemented fast, since it will surely help to reduce the social tension that would otherwise build up.

Mr. Chairman, notwithstanding all our current efforts, we still have to accept that significant disparities remain despite the remarkable achievements that we have made so far. Hence, the challenge before policymakers is to continue to find ways to minimize disparities in wealth distribution without disturbing the overall efficiency in resource utilization or retarding the growth momentum. This is not a simple task, but is surely possible to do so. However, the common syndrome of this country is that many begin by saying: “we can’t”, or “we are too small” or “we are not in a position to do that” or some other negative claim. **We have to, as a matter of urgency get out of that negative mentality.** As we know, **the Sri Lankan Government has embarked on the pro-poor pro-growth policy with a focus on balanced regional development.**

The Government has committed itself to improving socio-economic conditions of the entire Island with a mix of infrastructure development, human capital development, and enterprise development while providing a safety net to the needy segments. To do so, the Government

is attempting to direct investments beyond the centre, focusing on public-private partnerships and promoting the utilization of resources in the provinces. In that way, both the private sector and the public sector will have to become engines of growth and development!

In all these endeavours, our ultimate goal has to be the provision of better living conditions for our people. That is one reason why the **Statistics Department of the Central Bank is in the process of constructing a Prosperity Index** to ascertain national, provincial and district-wise economic prosperity. Once in place, the new index will be able to track regional performance, and we are hopeful that it would serve as a measure and a catalyst to encourage poverty reduction and to induce a faster trickle down effect.

At the same time, we believe that **there is great role for academics and professionals in the development of our country. In fact, the Central Bank has consciously recognized the importance of professionals' contribution and has made efforts to gain from their expertise and knowledge as well.** For example, in January 2007, a Monetary Policy Consultative Committee was established in the Bank, comprising of professionals, experts and representatives from other stakeholders in order to obtain their views on monetary policy implementation. Your own Chairman, Prof. A D V de Indraratne, chairs such Committee and we have benefited immensely from the insights and advice rendered by such Committee.

In a similar manner, I am certain that the research findings that will be presented by you at the conclusion of this very timely conference, together with the professional views expressed at the technical sessions would help policymakers immensely to reshape their policy focus appropriately.

In conclusion, let me emphasize our deep commitment to your theme by referring to our own Mission at the Central Bank. **The Vision of the Central Bank is that of being a credible and dynamic Central Bank contributing to the prosperity of Sri Lanka.** As set out in our Strategic Plan, the term prosperity has a wider connotation: i.e., the **enhancement of the quality of life of people through sustainable wealth creation and inclusion of all segments of the society in enjoying the benefits of development.** The Central Bank expects to facilitate this process by ensuring **price stability and financial system stability** while providing prudential and pro-active policy recommendations, as the Advisor to the Government on Economic Affairs.

We have, so far, taken a pro-active stance in the delivery of prosperity and we are encouraging the key stakeholders in our country also, to implement the necessary strategies towards such end. We see the Sri Lanka Economic Association as being a key partner in the delivery of prosperity in our country and we commend you for your commitment and dedication. We are confident that you, together with other stakeholders would overcome the various challenges and someday soon, we would all be in a position to truly state that we have ushered in development with equality.

I wish your Conference all success.