

Keynote Address

Post-Tsunami Challenge: Fast-tracking the Rehabilitation Efforts to Alleviate Poverty*

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First of all, I would like to thank my learned friend, Dr. Saman Kalegama, the Director of the Institute of Policy Studies in Sri Lanka, for inviting me to this International Conference which, as you all know, proposes to discuss the issue of "Economic Policy and Poverty Alleviation."

In my view, it is indeed a relevant topic to be discussed in Sri Lanka, especially in the context of the aftermath of the tsunami disaster.

It has been mentioned that nearly 3 million more Asians have joined the rank of the poor following the tsunami disaster, and it could take the affected population many more years to recover from poverty. Though, Sri Lanka was able to overcome the problems of the initial phase, it is my view that reconstruction and rehabilitation is certain to take time.

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As you know well, the tsunami disaster wiped out coastal communities and the poor fishing community was the one that was badly affected. In terms of loss of human life, nearly 273,000 people were affected in the entire region. In the case of Sri Lanka alone, the number of deaths was in the area of 50,000.

Since we are discussing poverty alleviation, one has to look at the issue from the point of view of homelessness and displaced persons.

In a country like ours where the traditional culture is intertwined with social and economic life, a situation where the poor man does not have a permanent abode creates numerous problems, resulting in total dislocation of social life in a community.

It is true that the economic pundits, who have examined the aftermath of the tsunami, are of the view that the macroeconomic impact of the disaster was limited. This is the view expressed by the Asian Development Bank's *Asian Development Outlook* report. However, although the macroeconomic impact may be very limited, the fact remains that the economic impact will be felt severely at the local and community levels, dragging a considerable number of already poor people into further impoverishment.

This is one significant point which I would like to emphasize and this is the stage in which you need to devise aggressive and ambitious policies for the alleviation of poverty.

In my assessment and also based on the traditional Sri Lankan culture, the damage done to both agriculture and fisheries, primarily the fisheries sector in the coastal belt of Sri Lanka, has increased the number of poor by more than a million. And it will take years to improve their livelihood.

Their small entrepreneurial activities, which had been destroyed, need time to be reestablished and restarted. The devastation of Sri Lanka's fishing community, part of which was totally traditional and backward in character, and the small scale trades has resulted in significant job losses, thereby naturally increasing the number of the poor.

The most important thing to which we need to give immediate thought is the fact that those people who were already poor before the tsunami hit the country have gone deeper into poverty because essential goods and basic services such as sanitation and health are short in supply.

There was comparative success in this sector as Sri Lanka is having a welfare edifice about which we can be proud of. The loss of housing (a major element of the disaster), and the loss of jobs and other assets of the poor, however, paralyzed their daily activities.

Now I would like to stress the fact that it demands—for all governments and decision-makers involved in the task of rebuilding—greater efforts with much enthusiasm to take these people above the poverty line.

The United States-based financial services network, CitiBank, says in a study that Sri Lanka, India and Maldives could take a longer period to recover from this terrible disaster. It is their projection that even if the recovery process were to be faster or more speedy, the additional poverty would still be eliminated, at the earliest, by 2007.

My own view is based on this projection and I would like to say that it would take time because of our bureaucracy which, in my view, needs to be attuned to this task and to its urgent necessity.

If you do not take immediate steps to accelerate the process of recovery, or if the recovery process were to be delayed, the additional millions would join the poor. This, in my view, is pregnant with several consequences.

Our own survival as a government is at stake. We are a vibrant democracy and people are very receptive electorally to various issues and changes affecting their daily lives. I would like to request the policymakers to work fast because the longer the recovery process takes place, the worse will the effect on the poor be.

I dealt with the aftermath of the tsunami to highlight the need for an effective policy package in this extraordinary situation, and yet another point of view is that the country, with its experience in

the last 50 years as an independent new State, needs a readjustment of its economic policies with respect of poverty alleviation.

Though we have been talking of growth rates and per capita incomes, poverty reduction still remains as the major problem.

Sri Lanka, for instance, is one country in the region which has made vast strides in social welfarerism but its main problem is poverty alleviation. It is in this context that I would like to refer to the economic policies that gave priority to social welfare and human development.

Sri Lanka, as a new State, emerged out of colonialism in 1948. It faced stern realities of economic life and the challenge was to realize economic independence along with political independence.

Every State, which emerged from a prolonged period of colonial rule, found that its economy was colonial in character and the policies devised in the past decades after independence were aimed at correcting the imbalance in the economy.

With the resources available, the State has to provide the essential facilities with regard to education, public health, and communication. Yet another thing which a new State faces immediately after independence is the lack of proper economic thinking; the economic thinking having been related to the interests of the metropolitan countries.

In the case of Sri Lanka, the national economic policy since 1948 has evolved on the basis of the need to achieve social democracy.

With the establishment of a highly competitive political party system, both political parties and politicians began to advocate various bands of democracy and socialism, and they, in the process, influenced the national economic policy. It was on the basis of this policy that the State accepted its collective responsibility for social welfare.

The extension of social welfare services gave birth to a new conception of society where an attempt was made to combine democracy with social equality.

To achieve this, the following policy standpoints were recognized and adopted: (1) the acceptance of the need for planning; (2) control over private enterprises; (3) nationalization and public

ownership; and (4) distributive policy. Though social welfare was given priority, the economic policy followed the pattern as enumerated above.

All Sri Lankan political parties while advocating a brand of social democracy, called for an enhanced role of the State.

The nature and content of the change came to be marked during the post-1956 period. The kind of social democracy which we experimented for nearly 3 decades was a unique one, where the rulers are made accountable to the ruled through the device of the representative assembly freely elected on the basis of universal adult suffrage by voters who have a choice of candidates from competing parties.

But under this kind of liberal democracy, have we succeeded in eliminating mass poverty? This question of whether or not there is a basic and unavoidable incompatibility between the institutions of liberal democracy and the processes of rapid economic development needs to be asked. There are writers who tend to advance the argument that liberal democracy is an obstacle to the removal of poverty.

The argument is as follows. The only way to ensure economic growth is to increase capital investment, and capital has to be generated from within the country, and the immediate way of doing this is to increase the gap between current production and current consumption which would in turn entail sacrifice through reduced benefits. Liberal democratic governments, however, are always looking for short-term popularity instead of long-term needs.

As such, they (as in Sri Lanka) pursue policies that increase consumption rather than savings, and this is achieved through such measures as increasing expenditure on social services, education, health and subsidies.

At one stage, Sri Lanka thought that increased productivity could be obtained through a variety of social changes such as land reform but this again is subject to controversy. It showed that cleavages in society could not be solved by such reforms; their effect on major social and economic changes was limited.

The poorest sections of the population in Third World countries are the weakest; though they have the political weapon, the free vote in their hands, they are powerless. It is this powerlessness which makes them vulnerable and their vulnerability is primarily due to poverty.

But the poor have something in their favour—that is, their numbers. This I perceive to be their latent power, and it is through this that they have found access to political power. All governments in Sri Lanka, because of this latent power of the poor, introduced various kinds of poverty alleviation programmes in the past several decades.

In the first two decades after independence, the island's welfare statism was a remarkable achievement. The welfare-oriented style of development has had impressive result in Sri Lanka—high literacy rate, high level of political consciousness, high level of electoral participation and gender equality in education.

This process of State welfare was reversed in 1977, and the policies of liberalization, introduced in 1977 and after, led to substantial concentration of income and wealth in the hands of a few, leading to a high degree of inequality in their distribution.

There was an increase in the incidence of poverty, and there was a substantial decline in the living conditions of the people in the low social strata. A reputed Sri Lankan economist, therefore, remarked that, "In spite of the dynamism injected into [the] economic process since 1977, there {has been} was no significant decline in the incidence of poverty".

It was in this context that an extensive 'safety net' programme in the form of an income transfer was introduced for the purpose of poverty alleviation, which is widely known as the 'Janasaviya programme'. It targeted the absolutely poor. With the introduction of the Samurdi Programme which is another program targeting the poor, there was a shift of attention from relative poverty issues to absolute poverty issues.

The Government's Samurdhi Programme has been the single largest welfare program for the poor in Sri Lanka, since its inception

in 1995. In 2004, it covered about 1.9 million households, representing approximately 40 percent of the population in the country.

Samurdhi has three main components.

The first is the income transfer component, which includes consumption and social insurance support for families whose monthly income is below Rs. 1,500. The amount of transfer received by the selected households depends on the household income and the family size. In 2004, the government spent about Rs. 8,600 million on the Samurdhi income transfer program.

The second component is the community development through investment in economic and social infrastructure, agriculture, nutrition, etc. And the third is the Samurdhi Savings-Credit Scheme, which provides financial services to the poor through a series of Samurdhi Banks that have been set up in almost all the districts in the country.

Currently, there are more than 1,000 Samurdhi Banks in the country. Government spent about Rs. 10 billion on the Samurdhi program in 2004. This amount accounts for about 2.2 percent of the total government expenditure of that year.

The new government has initiated a number of reforms in the Samurdhi program aimed at improving its efficiency in targeting.

One of the important reforms is to strengthen 'Samurdhi Maha Sangam', which are the divisional level apex organizations of Samurdhi, to act as dynamic new institutions that will plan, implement, monitor and self-correct the divisional level Samurdhi program functioning.

Prof. B. Hewavitharana, a former colleague and a teacher of mine, is of the opinion that Samurdhi from the beginning entailed weaknesses, and it, therefore, affected its effectiveness as a program of poverty alleviation.

All efforts have been made to extract the surplus labour in the villages for development work. One has to make a study to see whether this has been an effective instrument of rural reconstruction and rural empowerment.

This is an international seminar, which proposes to examine the economic policies in the area of poverty alleviation. It is in this context that one has to ask this question - what is the central economic question in our country today?

In my view, it is the development of rural productive process and the first budget of our Government, which is a unique coalition, has given due recognition to the need to develop the rural productive process.

Today, we are engaged in a scheme of restoration of our ancient irrigation tanks with which an effective hydraulic civilization was built in the past. Through the restoration of small village tanks in the rural areas, rural productive forces could be reactivated for the benefit of the rural people.

Today, we have an economy wherein the rural economy is appropriated by the urban economy. In other words, the rural economy is dominated by the urban economy. This needs to be rectified and it can be done only by organizing a tremendous shift of resources to the rural economy. The budget of our government has addressed this task by shifting resources to the rural economy.

The new government assumed duties in April 2004, and has a development strategy aimed at achieving higher economic growth and poverty reduction in Sri Lanka. It highlights the fact that economic growth alone is not sufficient to reduce poverty. Instead, it should focus on pro-poor growth strategies.

The major policy approach of the government is to navigate pro-poor or pro-growth strategies which you are going to discuss in your various sessions.

The new framework also recognizes the importance of practices of participatory development in achieving pro-poor growth. In such a framework, the poor will occupy the center of the development process and will develop possible development partnerships with the stakeholders in the system.

The new framework stresses the importance of micro level policy planning and implementation in promoting sustainable economic

development and poverty reduction. It focuses on strengthening the divisional secretariat offices. The Divisional Secretary (DS) Divisions will act as coordination centres of overall administration in consultation with the peoples' representatives and the relevant government agencies. For this, each DS division will prepare a development plan, including a plan for poverty reduction. This approach will enable the people in the area to identify their priorities and location of specific strategies to fulfill their needs.

This development framework also identifies the importance of synergizing all poverty alleviation and rural development programmes. The reformed Samurdhi programme will be the main poverty alleviation programme while other programmes are to be operated in a well-coordinated manner.

Some important sub-programmes aimed at poverty alleviation and rural development include small and medium enterprise development projects, rehabilitation of rural roads, community water supply, sanitation, vocational training and skills development, rural infrastructure development, primary health care and nutrition programmes, and rehabilitation of 1000 minor irrigation tanks.

Village economies need to be revitalized. In view of this, all resources, including the irrigation resources which we have inherited from the great hydraulic civilization of the Anuradapura period, will be channeled to the village economies. Our history could be tapped for the benefit of the people and such framework would lay the foundation for an effective programme of poverty alleviation in Sri Lanka. Such strategy will certainly empower the poor to enable them to gain a command over the resources required for them to escape from poverty.

Finally, in conclusion, I would like to once again thank the organizers of this important seminar, in particular, Dr. Kelegama, for giving me an opportunity to share some of my thoughts with this distinguished audience. Thank you.