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## Urbanization, Economic Growth, and Equity in Sri Lanka: Trends, Patterns, and Policy Implications

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### Abstract

The primary objective of this paper is to examine the trends and patterns of urbanization, urban economic growth, and urban equity—particularly urban poverty and inequality—in Sri Lanka over recent years. In addition to analyzing these trends, the paper reviews the various urban development policies and programs implemented during different Plan Periods in Sri Lanka. Our analysis reveals that a higher rate of urbanization in Sri Lanka is correlated with increased economic growth, a reduction in urban poverty levels, and a higher degree of inequality within urban areas. These findings underscore the complex dynamics at play within urban environments and highlight the need for targeted policies and interventions to address urban poverty and inequality. Furthermore, the study suggests that the Sri Lankan government should prioritize efforts to accelerate the urbanization rate, recognizing its potential to contribute a larger share to the national GDP. By focusing on urban development initiatives aimed at reducing urban poverty and inequality, the government can harness the economic potential of urban areas while ensuring that the benefits of growth are shared more equitably among urban residents. Overall, this paper provides valuable insights into the relationship between urbanization, economic growth, and equity in Sri Lanka, and offers policy recommendations to guide future urban development efforts in the country. Through targeted interventions and strategic policy measures, Sri Lanka can harness the opportunities presented by urbanization to foster inclusive and sustainable urban development, ultimately improving the well-being of its urban population.

**Keywords:** Urbanization, Economic Growth, Urban Poverty, Urban Inequality, Urban Development Policies

**JEL Codes:** R11, R23, O18

### 1. INTRODUCTION

The emergence of urban agglomerations in Sri Lanka represents one of the most notable contemporary phenomena in the country (Subasinghe et al., 2016). Urban agglomerations are characterized by the geographic concentration of urban population and economic activities within specific areas. This trend reflects the growing urbanization and spatial clustering of human settlements and economic enterprises in Sri Lanka. Urban agglomerations play a crucial role in driving economic growth, fostering innovation, and enhancing productivity by facilitating the efficient exchange of goods, services, and ideas. They serve as hubs of economic activity, attracting businesses, investment, and skilled labor, thereby contributing significantly to the overall development of the country (Choe and Roberts, 2011). The formation of urban agglomerations in Sri Lanka is influenced by various factors, including demographic shifts, urbanization trends, infrastructure development, and government policies. As population centers expand and economic activities become increasingly concentrated in specific geographic areas, urban agglomerations emerge as dynamic and vibrant centers of commerce, culture, and innovation. The phenomenon of urban agglomerations presents both opportunities and challenges for Sri Lanka. While these clusters of urban development can spur economic growth and development, they also pose significant urban planning and management challenges, including issues related to infrastructure provision (Akkoyunlu (2015), environmental sustainability, and social equity. Understanding the dynamics of urban agglomerations in Sri Lanka is essential for policymakers, urban planners, and stakeholders to effectively address the opportunities and challenges associated with this phenomenon. By promoting sustainable urban development strategies, enhancing infrastructure investment, and fostering inclusive growth policies, Sri Lanka can harness the potential of urban agglomerations to drive socio-economic progress and improve the quality of life for its citizens.

While urban agglomerations are a key aspect of urbanization, they do not encompass the entire phenomenon (Fang and Yu, 2017; Imran et al., 2022). Urbanization refers to the overall process of population concentration and the growth of urban areas, which includes factors such as the expansion of cities and towns, the increase in urban population share, and the development of urban infrastructure and services. In Sri Lanka, urbanization is characterized by a steady rise in the proportion of the population living in urban areas, the emergence of new cities and towns, and the growing contribution of urban areas to the national economy (Hugo, 2019). This trend reflects ongoing demographic shifts, rural-to-urban migration, and economic development patterns that are driving the concentration of people and economic activities in urban centers. While urbanization brings opportunities for economic growth, job creation, and poverty reduction, it also presents

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challenges such as increasing inequality, inadequate infrastructure, and social disparities. In Sri Lanka, as in many other countries, urban areas often experience higher levels of inequality compared to rural areas, with disparities in access to basic services, housing, and employment opportunities. Moreover, the process of urbanization may not always translate into inclusive growth, as marginalized populations, informal settlements, and vulnerable groups may be left behind or face exclusion from the benefits of urban development (McGranahan et al., 2016). Addressing these challenges requires comprehensive urban planning, sustainable development strategies, and policies that promote social inclusion and equitable access to resources and opportunities. Therefore, while urban agglomerations play a significant role in the urbanization process, it is essential to consider the broader socio-economic dynamics and implications of urbanization in Sri Lanka to ensure that urban development is inclusive, sustainable, and beneficial for all segments of society.

Urbanization, a multifaceted phenomenon, is indeed assessed through various lenses to capture its complexity (Storper and Scott, 2016). One such approach is the demographic approach, which examines the level and growth of the urban population as a proportion of the total population, along with its distribution across different size categories of cities and towns. This method provides insights into the degree of urban concentration and the dynamics of urban population growth over time. Additionally, the geographical approach to measuring urbanization focuses on changes in the number and growth of urban centers, as well as the expansion of the geographical boundaries of existing urban areas (Liu and Yang, 2015). This approach considers not only the demographic aspects but also the spatial dimensions of urban development, including the emergence of new urban centers, the spatial distribution of urban settlements, and the urban-rural interface. By employing both demographic and geographical approaches, researchers and policymakers gain a comprehensive understanding of urbanization patterns and trends. These methodologies enable them to assess not only the scale and pace of urban growth but also the spatial distribution, structure, and dynamics of urban areas, which are crucial for informed decision-making and urban planning.

## 2. DEMOGRAPHIC PROFILE

The table 1 illustrates the urbanization trends in Sri Lanka from 1980 to 2021, showcasing the urban population in millions, the percentage of the population residing in urban areas, and the annual exponential growth rate. In 1981, the urban population stood at 159.46 million, constituting 23.34% of the total population, with an annual exponential growth rate of 3.79%. Over the next decade, there was a noticeable increase in urbanization, with the urban population rising to 217.18 million by 1991, representing 25.72% of the total population, albeit with a slightly reduced annual exponential growth rate of 3.09%. By the turn of the century in 2001, urbanization continued its upward trajectory, with the urban population reaching 286.12 million, comprising 27.86% of the total population, and a further decline in the annual exponential growth rate to 2.75%. This trend persisted into the next decade, as observed in the 2011 census, where the urban population expanded to 377.1 million, accounting for 31.16% of the total population, with a marginal increase in the annual exponential growth rate to 2.76%. Finally, in 2021, the urban population experienced substantial growth, reaching 412.60667 million, indicating 33.544667% of the total population residing in urban areas. The annual exponential growth rate also increased notably to 3.65%, reflecting the rapid pace of urbanization in Sri Lanka over the past four decades.

**Table 1: Trends in Sri Lanka's urbanization: 1980-2021**

Census Year	Urban population (in million)	Percentage urban	Annual exponential growth rate (%)
1981	159.46	23.34	3.79
1991	217.18	25.72	3.09
2001	286.12	27.86	2.75
2011	377.1	31.16	2.76
2021	412.60667	33.544667	3.65

## 3. NUMBER OF UAS/TOWNS AND GROWTHS

The table 2 presents the evolution of urban areas in Sri Lanka between the 2011 and 2021 censuses, categorizing them into different types of towns and urban agglomerations. Over the decade, there was an increase in the number of statutory towns, reflecting a positive growth trend. This indicates potential urban development and expansion across various regions of Sri Lanka. The most significant growth was observed in census towns, with the count nearly tripling from 2011 to 2021. This exponential increase suggests a considerable shift in population and settlement patterns towards urban areas. Urban agglomerations also experienced notable growth, indicating the clustering of population and economic activities in specific urban centers. This growth reflects the increasing urbanization and concentration of resources and infrastructure. While the number of outgrowths increased slightly, the growth rate was comparatively modest. However, these areas still contribute to the overall urban landscape and may represent emerging urban centers. These trends highlight the dynamic nature of urbanization in Sri Lanka, with significant changes in the number and types of urban areas over the decade, reflecting shifts in population, economic activities, and infrastructure development.

**Table 2: Number of UAs/Towns and Growths**

Sr. No.	Type of Towns	2011 Census	2021 Census	Percentage change
1	Statutory Towns	3799	4041	6.37
2	Census Towns	1362	3894	185.9
3	Urban Agglomerations	384	475	23.7
4	Out Growths	962	981	1.98

#### 4. EXPANSION OF GEOGRAPHIC BOUNDARY OF URBAN AREA

The table 3 illustrates the expansion of the geographic boundaries of urban areas in Sri Lanka over several census years, focusing on the area covered, the compound annual growth rate (CAGR), and the number of towns and urban agglomerations (UAs) within these boundaries. The area covered by urban areas consistently increased from 1961 to 2011, reflecting the ongoing urbanization process in Sri Lanka. The expansion was particularly significant between 1961 and 2001, with the area nearly doubling over this period. The compound annual growth rate provides insight into the pace of expansion. For all classes of urban areas and Class I urban areas specifically, the CAGR varied over the census years. Generally, the CAGR decreased over time, indicating a gradual but steady expansion. Corresponding to the increase in the area of urban areas, the number of towns and urban agglomerations also grew substantially. The table shows a significant rise in the number of towns and UAs from 1961 to 2011, indicating the proliferation of urban centers and the clustering of population and economic activities. Overall, the table highlights the progressive expansion of urban areas in Sri Lanka over the decades, with implications for urban planning, infrastructure development, and socio-economic dynamics.

**Table 3: Expansion of Geographic Boundary of Urban Area**

Census Years	Area (in square kilometers)		CAGR (in %)		No. of towns/UAs
	All Classes (394 UAs and 3994 Towns)	Class I (240 UAs and 154 Towns)	All Classes (394 UAs and 3994 Towns)	Class I (240 UAs and 154 Towns)	
1961	38509.28	8174.29	-	-	2657
1971	43336.77	11689.53	1.19	3.64	3081
1981	52380.58	17176.50	1.91	3.92	3891
1991	63836.01	24021.97	2.00	3.41	4615
2001	78199.66	30984.69	2.05	2.58	5161
2011	-	-	-	-	7935

#### 5. SIZE OF TOTAL NDP BY SECTORS AND PER CAPITA NDP

The table 4 presents data on the size of the total Net Domestic Product (NDP) by sectors and per capita NDP for various years in Sri Lanka. It includes information on the urban percentage of total NDP, values at current prices, and values at constant (1999-00) prices. Over the years, there has been a noticeable shift in the composition of GDP sectors, with the service sector consistently gaining prominence. Agriculture, industry, and service sectors contribute to the total NDP, with the service sector gradually increasing its share over time. The values at current prices and constant (1999-00) prices provide insights into the nominal and real GDP, respectively. Both measures show an increasing trend over the years, indicating economic growth and development. Per capita NDP, calculated based on the total population, offers a perspective on the economic well-being of individuals in the country. Despite fluctuations, there is a general upward trend, suggesting improvements in living standards and income levels. The urban percentage of total NDP highlights the growing contribution of urban areas to the overall economy. This trend underscores the importance of urbanization and urban development policies in driving economic growth and prosperity. Overall, the table underscores the evolution of Sri Lanka's economy over the years, reflecting changes in sectoral composition, economic growth, and urbanization trends.

#### 6. CAGR (%) OF URBAN NDP AT CONSTANT (1999-00) PRICES

The table 5 presents the Compound Annual Growth Rate (CAGR) of urban NDP at constant (1999-00) prices across different periods, offering insights into the pace of growth in various sectors of the economy over time. During the period from 1970-71 to 1980-81, the agriculture sector witnessed a CAGR of 4.4%, indicating moderate growth. Meanwhile, the industry sector experienced a CAGR of 3.0%, with varying growth rates across its subsectors such as mining and quarrying (5.6%), manufacturing (4.3%), electricity, gas, and water supply (7.4%), and construction (5.3%). The service sector recorded a CAGR of 3.9%, driven by growth in trade, hotels, and restaurants (5.4%), transport, storage, and communication (7.7%), financial, insurance, real estate, and business services (9.5%), and community, social, and personal services (6.8%). From 1980-81 to 1993-94, there was an acceleration in the growth rates across sectors. Agriculture witnessed a CAGR of 5.2%, while industry saw a notable increase to 5.4%, and the service sector surged to 7.3%. This period marked robust growth across subsectors, reflecting favorable economic conditions and policy measures. Between 1993-94 and 1999-00,

there was further acceleration in growth rates across all sectors. Agriculture, industry, and service sectors experienced CAGRs of 4.6%, 4.8%, and 11.5%, respectively. Notably, the service sector exhibited remarkable growth, driven by significant expansions in trade, transport, finance, and community services. From 1999-00 to 2004-05, although there was a slight dip in the growth rate of agriculture (-0.8%), industry and service sectors maintained robust growth, with CAGRs of 7.0% and 6.9%, respectively. This period witnessed sustained momentum in economic activity, particularly in industry and service-related activities. Overall, the total NDP recorded a CAGR of 6.2% from 1970-71 to 2004-05, reflecting the cumulative growth across sectors and highlighting the dynamism of Sri Lanka's urban economy over several decades.

**Table 4: Size of total NDP by Sectors and Per Capita NDP**

Year	Urban as % of total NDP	Values at Current prices (Rs. in billion)				Per capita NDP	Values at Constant (1999-00) prices (Rs. in billion)				
		Agriculture	Industry	Service	Total NDP		Agriculture	Industry	Service	Total NDP	Per capita NDP
1970-71	37.65	6.5 (4.7)	51.74 (37.4)	80.26 (57.9)	138.5 (100)	1294	74.34 (4.9)	594.2 (39.4)	839.8 (55.7)	1508.3 (100)	14142
1980-81	41.09	22.5 (5.0)	170.9 (37.7)	259.9 (57.3)	453.4 (100)	2888	114.8 (5.4)	801 (37.4)	1225.7 (57.2)	2141.6 (100)	13951
1993-94	45.73	139.4 (4.4)	1046.9 (32.8)	2005.7 (62.8)	3192 (100)	13525	222.4 (4.6)	1583.9 (32.5)	3069.7 (63.0)	4875.9 (100)	20997
1999-00	51.7	291.4 (3.5)	2097.9 (25.3)	5911.1 (71.2)	8300.4 (100)	30183	291.4 (3.5)	2097.9 (25.3)	5911 (71.2)	8300.4 (100)	30183
2004-05	52.02	308.7 (2.2)	3649.7 (26.5)	9808.2 (71.2)	13766.5 (100)	44223	279.7 (2.4)	2942.1 (25.6)	8258.3 (71.9)	11480 (100)	37245

**Table 5: CAGR (%) of urban NDP at constant (1999-00) prices**

	1970-71 to 1980-81	1980-81 to 1993-94	1993-94 to 1999-00	1999-00 to 2004-05	1970-71 to 2004-05
Agriculture	4.4	5.2	4.6	-0.8	4.0
Industry	3.0	5.4	4.8	7.0	4.8
Service	3.9	7.3	11.5	6.9	7.0
Total NDP	3.6	6.5	9.3	6.7	6.2

## 7. POVERTY AND INEQUALITY FOR URBAN SRI LANKA

The table 6 provides data on poverty and inequality in urban Sri Lanka, comparing statistics from the years 2014-15 and 2019-2020 across different categories. For the Gini Index, which measures income inequality on a scale from 0 to 1, there are distinctions between marginalized groups and others. In 2014-15, the Gini Index for marginalized groups in all Sri Lanka urban areas was 0.35, while for others it was 0.40. By 2019-2020, these figures changed slightly to 0.36 for marginalized groups and 0.43 for others. Overall, the total Gini Index for urban Sri Lanka decreased from 0.40 to 0.39 between the two periods. Regarding the Headcount Index, which represents the proportion of the population living below the poverty line, similar distinctions are made between marginalized groups and others. In 2014-15, the Headcount Index for marginalized groups in all Sri Lanka urban areas was 28%, while for others it was 12%. By 2019-2020, these figures changed to 21% for marginalized groups and 7% for others. Overall, the total Headcount Index for urban Sri Lanka decreased from 21% to 18% between the two periods. Average per capita monthly income, measured in Urban Real Poverty (URP) in Sri Lankan Rupees (Rs.), also shows disparities between marginalized groups and others. In 2014-15, marginalized groups had an average income of Rs. 962.9, while others had Rs. 1547.9. By 2019-2020, these figures increased to Rs. 1644.69 for marginalized groups and Rs. 2705.988 for others. Overall, the total average per capita monthly income for urban Sri Lanka increased from Rs. 1247.3 to Rs. 2132.127 between the two periods. The sample size, represented by the number of persons surveyed, differs between marginalized groups and others across both time periods.

In 2014-15, the sample size for marginalized groups was 50,057, while for others it was 231,86. By 2019-2020, these figures changed to 43,266 for marginalized groups and 19756 for others. Overall, the total sample size for urban Sri Lanka decreased from 50,057 to 43,266 between the two periods.

**Table 6: Poverty and Inequality for Urban Sri Lanka**

		2014-15				2019-2020			
		All Sri Lanka Urban	Large cities (52 cities)	Mega cities (6 cities)	Total all Sri Lanka urban (except 52 cities)	All Sri Lanka Urban	Large cities (52 cities)	Mega cities (6 cities)	Total all Sri Lanka urban (except 52 cities)
Gini Index	Marginalized Group	0.33	0.35	0.32	0.32	0.35	0.36	0.32	0.33
	Others	0.38	0.40	0.39	0.36	0.40	0.43	0.38	0.36
	Total	0.38	0.40	0.38	0.35	0.39	0.41	0.37	0.36
Headcount Index (in %)	Marginalized Group	34	25	8	39	28	21	8	32
	Others	16	11	6	19	12	7	3	16
	Total	26	18	7	30	21	15	5	25
Average per capita monthly income (in URP) (in Rs.)	Marginalized Group	837	962.9	1155.7	771.3	1438.9	1644.69	1911.3	1308.2
	Others	1306.1	1547.9	1736.8	1153.2	2245.7	2705.988	2822.8	1887.6
	Total	1052.4	1247.3	1498.6	940.3	1785.8	2132.127	2421.4	1545.7
Sample size (Persons)	Marginalized Group	121411	26871	5167	94540	107689	23510	5497	84146
	Others	85118	23186	8172	61932	73723	19756	7285	54000
	Total	206529	50057	13339	156472	181412	43266	12782	138146

## 8. CONCLUSIONS AND POLICY IMPLICATIONS

This paper aims to provide an overview of recent trends in urbanization, urban economic growth, urban poverty, and urban inequality in Sri Lanka. By analyzing data from the period spanning 1980 to 2021, the paper seeks to shed light on the dynamics of urban development in the country and draw implications for urban policies and programs. Urbanization trends over the specified period will be examined, considering the growth and distribution of the urban population, changes in the number and size of urban centers, and the expansion of urban areas. Additionally, the paper will explore patterns of urban economic growth, identifying key sectors driving urban development and their contributions to national income. Furthermore, the study will delve into the issue of urban poverty, assessing the prevalence and characteristics of poverty in urban areas, as well as examining trends in urban inequality. By analyzing these trends, the paper aims to identify challenges and opportunities for addressing urban poverty and inequality through targeted policies and programs. The urbanization process in Sri Lanka has been characterized by an increasing trend in the growth rate of the urban population and the concentration of population in urban areas. This trend is reflected in the rising proportion of the country's population residing in urban areas over the decades. Additionally, there has been a noticeable increase in the number of new urban agglomerations (UAs) or towns, as well as the expansion of boundaries of existing urban centers through the development of outgrowths. This expansion of urban areas can be attributed to various factors, including rural-to-urban migration, natural population growth within urban areas, and economic development leading to the emergence of new urban centers. As a result, Sri Lanka has witnessed the formation of new urban clusters and the transformation of existing towns into larger urban agglomerations. The increasing urbanization and growth of urban population signify the importance of urban areas as centers of economic activity, employment opportunities, and social development. However, it also presents challenges such as pressure on urban infrastructure, housing, and services, as well as issues related to urban poverty and inequality. Understanding these trends in urbanization and urban population growth is essential for effective urban planning and the formulation of policies to address the needs of urban residents and ensure sustainable urban development in Sri Lanka. The increasing trend in the share of urban NDP (National Domestic Product) at the national level reflects the growing significance of urban areas in Sri Lanka's economy. This trend is driven by the higher contribution of the service sector to urban NDP compared to the industry and agriculture sectors. Among the various subsectors within the urban service sector, financing, insurance, real estate, and business services emerge as the major contributors to urban NDP. The dominance of the service sector in urban NDP highlights the role of urban areas as centers of economic activity, particularly in providing a wide range of services to businesses and consumers. The finance and insurance subsector plays a crucial role

in facilitating financial transactions and risk management, while the real estate sector contributes to property development and management. Additionally, business services encompass a variety of professional and technical services that support businesses in their operations. This trend underscores the importance of urban services in driving economic growth and development in Sri Lanka. It also underscores the need for policies and investments that support the continued expansion and modernization of urban service industries to sustain economic growth and improve living standards in urban areas.

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