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Investing in the future: A universal benefit for Sri Lanka's children

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Investing in the future: A universal benefit for Sri Lanka's children

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Investing in the future: A universal benefit for Sri Lanka's children

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Abstract

While the lives of children have improved significantly over the past decades in Sri Lanka, the majority of them are living in families with limited and insecure incomes and, as a result, face challenges in accessing adequate, nutritious food and a good home learning environment. The current social protection system is not fit for purpose to address the needs of children. A key component of a modern system would be a Universal Child Benefit (UCB), offering all children cash transfers each month with the aim of increasing family incomes. This report outlines two options for providing all children in Sri Lanka with a child benefit. It shows that a Universal Child Benefit could help address many of the challenges faced by Sri Lanka's children and that it is financially feasible for Sri Lanka.

Summary

A nation's future is its children and, therefore, investing in them is of critical importance. While good quality health and education services are absolutely necessary, they are not sufficient if children are to reach their full potential. International evidence indicates that a high proportion of the variation in educational achievement among children is explained by out-of-school factors, such as good diets and home environments that are conducive to learning. Yet, the majority of Sri Lanka's children are living in families with limited and insecure incomes and, as a result, face challenges in accessing adequate nutritious food and a good home learning environment. While the Government of Sri Lanka recognises that it is necessary to provide families with income security, the current social security system – which, to a large extent, comprises the Samurdhi poor relief programme – has not been designed to effectively address the needs of children. Transfer values are low and the vast majority of children – including over half of the poorest children – are excluded from Samurdhi.

Therefore, Sri Lanka should urgently reconsider its approach to social security. While Samurdhi is based on a model of poor relief that was prevalent in a range of European countries in the 1800s, it is time to move to a more modern, inclusive social security system that guarantees that all citizens have the income required to manage the challenges they face across the lifecycle. A key component of a modern system would be a Universal Child Benefit, which would offer all children a monthly cash transfer with the aim of increasing their families' incomes. This report outlines two options for providing all children in Sri Lanka with a child benefit: The first option would begin with all children aged 0-5 years and the second would commence with children aged 0-8 years. In both options, children would not be removed until their 18th birthday. Each child would receive LKR 2,500 per month.

The report shows that a Universal Child Benefit could help address many of the challenges faced by Sri Lanka's children. The higher incomes received by families would enable them to increase their investment in their children by offering them better diets and an improved home learning environment. Its impacts would be much greater than those of Samurdhi and, if introduced, would be a very popular scheme. The growth in human capital would mean that the capacity of the nation's future labour force would be enhanced, enabling Sri Lanka to compete more effectively in international markets.

Importantly, a Universal Child Benefit is financially feasible for Sri Lanka. It could be introduced at an initial cost of between 0.36 and 0.66 per cent of GDP and, by 2032, the level of investment required would be no more than 0.49 per cent of GDP. Indeed, the level of investment required for Option 1 would be cheaper than the current cost of Samurdhi, while having greater impacts. Furthermore, the government could consider introducing the Universal Child Benefit alongside universal old age and disability benefits. The combination of benefits would be transformative for the country and would deliver the type of social security system that is characteristic of high-income countries, but at a cost of no more than 1.4 per cent of GDP. This would be less than is currently invested by Nepal – a much poorer country – in a similar set of benefits.

It is time for Sri Lanka's children to thrive and not just survive. The time for a Universal Child Benefit is now.

Table of Contents

Summary	i
Acronyms	iii
1 Introduction	1
2 The rationale for a <i>universal</i> child benefit.....	2
2.1 Challenges faced by Sri Lanka's children	2
2.2 The ineffectiveness of poverty targeting and the need for universality	7
3 Options for universal child benefits in Sri Lanka.....	10
4 Levels of investment required for a Universal Child Benefit in Sri Lanka	13
5 Impacts of the Universal Child Benefit options.....	14
6 Conclusion	19
Bibliography	21
Annex 1 Methodology	25
Annex 1.1 Projecting transfer costs.....	25
Annex 1.2 Simulating impacts	25
Assessment of targeting effectiveness of the Samurdhi programme.....	27

Acronyms

CRC	Convention on the Rights of the Child
FGT	Foster-Greer-Thorbecke
GDP	Gross Domestic Product
HIES	Household Income and Expenditure Survey
IMF	International Monetary Fund
IPL	International Poverty Line
LCU	Local Currency Unit
LKR	Sri Lankan Rupee
NPL	National Poverty Line
PMT	Proxy Means Test
PPP	Purchasing Power Parity
SDGs	Sustainable Development Goals
TSA	Targeted Social Assistance
WEO	World Economic Outlook

1 Introduction

Children are a nation's future. If countries do not invest in their children, they put their future well-being and prosperity at risk. Nations depend on the quality of their labour force to be competitive in global markets. Yet, a skilled workforce does not appear from nowhere. Rather, it is the result of countries investing in their children by offering them access to high quality public services, such as health, education and social security, so that each child can maximise her or his potential.¹

Many countries around the world have recognised this and have established, beyond free healthcare and education, comprehensive child benefit systems, which offer families a regular, monthly top-up to their incomes so that they can give their children the best start in life. Currently, 69 countries worldwide provide child benefits and, out of these, 23 offer them on a universal basis, which means that *all* children in society can benefit, regardless of where they live or their families' income.² While most of the countries offering universal child benefits are high-income, there are growing numbers of low- and middle-income countries that are offering comprehensive child benefit schemes as well, including Mongolia, South Africa and Argentina. Within the South Asia region, Nepal plans to provide all children up to 5 years of age with a child benefit by 2022.³

The aim of this paper is to demonstrate why a universal child benefit is a key instrument that can be used to reduce poverty and vulnerability in Sri Lanka, that it can be delivered at a relatively low cost, and that it will have significant impacts not only on child wellbeing, but on the nation as a whole. Sri Lanka's current social security system – of which the Samurdhi poor relief programme is one of the main features – is not fit for purpose and follows an outdated model implemented by a range of European countries in the 1800s. It urgently needs to be replaced with a much more effective, modern and inclusive lifecycle system of which a universal child benefit will be a key component. Such a child benefit would also enable Sri Lanka to comply with its commitments towards the Convention on the Rights of the Child (CRC), which stipulates that all children have the right to social security (Article 26), as well as working towards complying with Concluding Observation 37 (2018) of the Committee on the Rights of the Child for Sri Lanka.

¹ The right to social security is expressly recognised in many human rights instruments, such as The Universal Declaration of Human Rights (Articles 22 and 25); The Convention on the Rights of the Child (Article 26); The International Covenant on Economic, Social and Cultural Rights (Articles 9 to 12); The Convention on the Elimination of All Forms of Discrimination Against Women (Article 11 and 14); The Convention on the Elimination of all Forms of Racial Discrimination (Article 5); The Convention on the Protection of the Rights of all Migrant Workers and their Families (Article 27 and 54); and The Convention on the Rights of Persons with Disabilities (Article 28).

² UNICEF & ILO (2019).

³ Garcia & Dhakal (2019).

2 The rationale for a *universal* child benefit

There is a strong rationale for a universal child benefit in Sri Lanka and, in this section, we examine it from two different perspectives. The first considers some of the challenges faced by Sri Lanka's children and shows that a child benefit would make a meaningful difference to the lives of the vast majority. The second examines the relative effectiveness of poverty targeting and universality in the design of child benefits. The paper demonstrates that even if a policy decision were made to provide a benefit to only the poorest children, this *could not* be achieved through poverty targeting, as many of the poorest children would not, in fact, be reached. As explained below, international evidence indicates that even the best poverty-targeted programme globally still excludes almost half its intended beneficiaries.⁴ Therefore, reaching all of the poorest children can only be achieved by a universal benefit.

2.1 Challenges faced by Sri Lanka's children

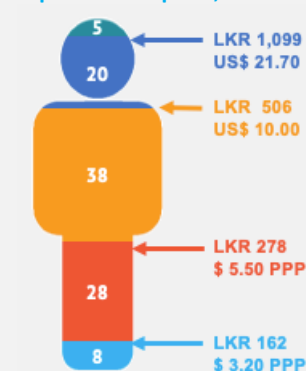
In recent decades, Sri Lanka has made considerable progress in improving the lives of its children, with aggregate-level indicators depicting a very positive situation on many dimensions. It has one of the lowest rates of child mortality in the South Asia region, and levels of access to antenatal care, exclusive breastfeeding, and immunisation are almost universal.⁵ More than 90 per cent of the population has access to improved water and sanitation⁶ and primary schooling reaches practically every child, with no significant gender disparities.⁷ The child poverty rate has also fallen dramatically since the mid-1990s.

Despite this, there continue to be large disparities in how children are faring, often as a result of where they live or their family conditions. The low national poverty line used in Sri Lanka masks the fact that significant challenges remain.⁸ This section outlines challenges faced by children which could, at least in part, be addressed by a Universal Child Benefit.

Most children in Sri Lanka live in families with insecure incomes

The majority of Sri Lanka's children are still being brought up in families that are struggling to get by on insecure incomes. While the national poverty rate would suggest that few children are living in poverty, in reality, the poverty line is set at a very low level and is no longer appropriate for Sri Lanka's current status as a middle-income country. As Figure 1 indicates, 36 per cent of children live on less than LKR 278 (\$ 5.50 PPP) per day, while 74 per cent

Figure 1: Proportion of children living under different levels of per capita consumption, in 2016



Source: HIES (2016).

⁴ This is in terms of exclusion errors, that is, the proportion of people who are omitted from a social transfer programme even though they are eligible.

⁵ Demographic and Health Survey (2016).

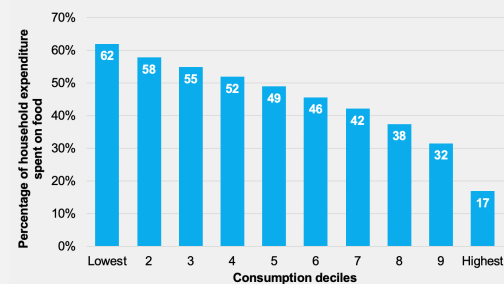
⁶ Demographic and Health Survey (2016).

⁷ Household Income and Expenditure Survey (2016).

⁸ The current national poverty line (NPL) is considered by many experts to be inadequate for a country like Sri Lanka. If international poverty lines (IPL) for middle-income countries were used, much higher levels of poverty would be recorded. For example, while according to the NPL only 4.1 per cent of the population is living in poverty, according to the IPL for upper-middle income countries like Sri Lanka (US\$5.50 a day per person, 2011 PPP) the figure would be 40.4 per cent.

live on less than LKR 506 (\$ 10.00 PPP) per day.⁹ Because most Sri Lankan families live on such precarious incomes, they spend a high proportion of their incomes on food. While, in most high-income countries, households spend, on average, less than 15 per cent of their income on food, as Figure 2 shows, for over 70 per cent of Sri Lankan households, food comprises more than 40 per cent of their total expenditure, which dramatically squeezes their spending power.¹⁰ These figures are in line with the averages found in African countries such as Kenya (47 per cent) and Cameroon (45 per cent). Consequently, families are far less able to invest in their children, thereby impacting negatively on children in a number of ways, as discussed below. This high level of vulnerability across most households in Sri Lanka shows that being able to afford food and other necessities is not only a “problem of the poor”.

Figure 2: Food consumption as a proportion of overall household expenditure

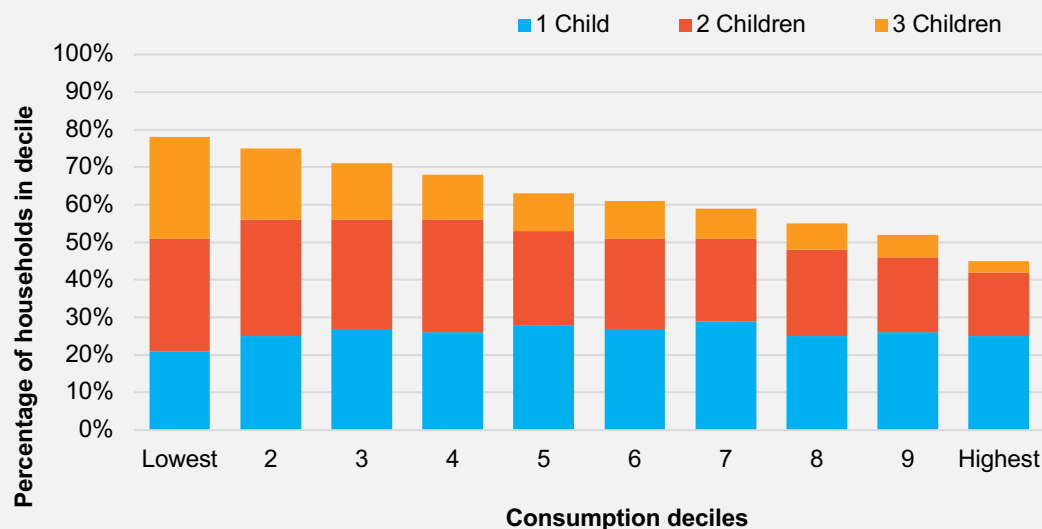


Source: Based on HIES (2016).

Box 1: The over-representation of children among the poorest households in Sri Lanka

On average, Sri Lanka’s children are poorer than other citizens and, as shown by Figure 3, are disproportionately found among the poorest households in Sri Lanka. While nearly 80 per cent of households in the poorest decile include children, among those in the richest decile, the proportion is less than 50 per cent. Further, households with at least three children are even more disproportionately represented among the poorest households. Addressing the challenge of widespread insecure incomes in Sri Lanka is, therefore, particularly important for children.

Figure 3: Distribution of households with children across welfare deciles



Source: Based on HIES (2016).

⁹ The figures in dollars are actual dollar values, not the values in purchasing power parity. However, the PPP conversion factor (LCU per PPP \$) for 2016 is 50.636. Sources: World Bank, International Comparison Program database, International Monetary Fund & International Financial Statistics.

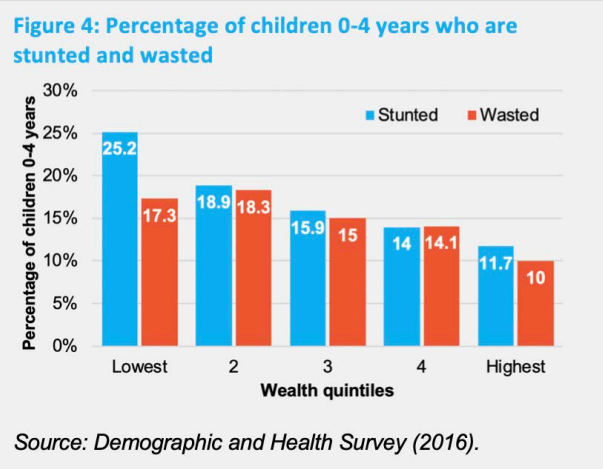
¹⁰ Source of international figures: <https://ourworldindata.org/food-prices>

Addressing the widespread insecure incomes experienced by families with children is particularly important if Sri Lanka is to build a stronger and more competitive future labour force. This will require the nation to build the skills base of its population and, in particular, invest in the human capital development of its children. While it is important, therefore, to invest in education, this is insufficient. International evidence indicates that up to 86 per cent of the variation in educational achievement among children is explained by out-of-school factors.¹¹ Further, many of these factors are determined by family incomes, with children from families with insecure incomes much less likely to perform as well at school as children from well-off families. The following sections examine some of these key factors, in particular child health and the home learning environment.

Child health in Sri Lanka and its impact on human capital development

It is well-established that the first 1,000 days of life (roughly between conception and a child's second birthday) are critical to a child's development. It is a unique window of opportunity when the foundations of optimum health, growth, and brain development across the lifespan are established. However, if children during this period suffer from poor nutrition and repeated infection, which causes them to be stunted, research indicates that they may never fully recover and will experience, on average, a 26 per cent reduction in lifetime earnings.¹² In some contexts, this can lead to a loss in gross domestic product (GDP) that is twice as large as the amount some countries currently spend on healthcare. Other research has indicated that scaling up effective interventions in early childhood development in developing countries to address malnutrition is likely to yield long-term benefits of US\$3 for every US\$1 invested.

In Sri Lanka, 17 per cent of children under the age of 5 years are stunted, and this reaches 22 per cent among those who are 2 years of age.¹³ Further, wasting (when a child's weight is too low for his or her height) affects 15 per cent of children under the age of 5 years, which places Sri Lanka as the 9th worst country on this indicator in the world. Such a rate is well above the Asian average of 9.5 per cent and, indeed, the African average of 7.5 per cent.¹⁴ Rates of wasting are significantly higher in some districts, reaching levels generally associated with near-famine-like conditions (25.4 per cent in Moneragala and 21.8 per cent in Hambantota).¹⁵ As Figure 4 indicates, stunting and wasting affect children across the welfare distribution (from poorer to less poor households), reflecting the fact that most families are living on insecure incomes.



¹¹ Goldhaber, Brewer, & Anderson (1999); Hirsch (2007).

¹² Richter et al. (2017).

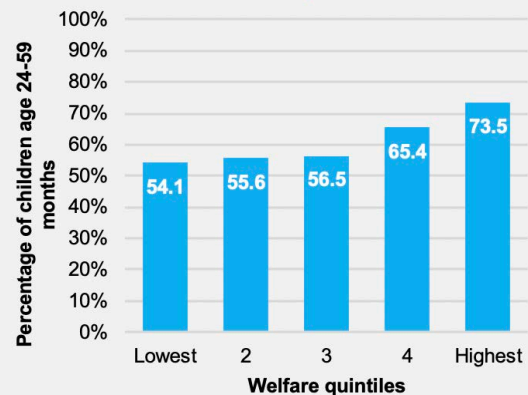
¹³ Demographic and Health Survey (2016).

¹⁴ FAO, IFAD, UNICEF, WFP & WHO (2018).

¹⁵ Demographic and Health Survey (2016).

Micro-nutrient deficiencies can also have harmful impacts on children. Across six separate studies on iron deficiency in low-income countries, infants with iron deficiency anaemia were found to have mental capacity scores that were between 6-15 points lower than their non-iron-deficient peers.¹⁶ As indicated by Figure 5, in Sri Lanka, 39 per cent of children between the ages of 24-59 months had not consumed iron-rich foods in the past 24 hours.¹⁷ While the proportion was highest among the poorest children, even among those in the second wealthiest quintile, 35 per cent had not eaten any foods rich in iron in the previous 24 hours. Without a doubt, widespread insecure incomes mean that many families cannot afford to consistently offer healthy, balanced diets to their children. The impacts, though, on child development across all economic classes in Sri Lanka will be significant.

Figure 5: Percentage of children 23-59 months who consumed iron-rich foods in past 24 hours



Source: Demographic and Health Survey (2016).

In fact, diet and nutrition play a key role in brain development throughout childhood. Iron deficiency during school age has been linked with lower test scores at school.¹⁸

Further, undernutrition in adolescence is associated with impaired cognitive function, school absenteeism and psychological stress.¹⁹ As a world-leading expert has noted: “If [teens] don’t eat right, they can become irritable, depressed [and] develop problems such as obesity and eating disorders – and those have a whole host of psychological morbidities.”²⁰

Behavioural challenges in children on insecure incomes

Child development can be affected by insecure incomes in other ways. For example, international evidence indicates that insecure incomes are associated with a greater likelihood of behavioural challenges in children.²¹ Indeed, children living in families with insecure incomes may be more likely to experience depression and stress, which can impact negatively on brain development.²² While there is no evidence on the extent to which this affects children in Sri Lanka, the risk cannot be ignored.

Child education and the home learning environment

Although most younger children are able to attend school, attendance drops off with age and, by 18 years of age, around 50 per cent of boys and 40 per cent of girls are out of school.²³ Many children drop out of school at around the age of 15 years and above, potentially because they need to seek work to supplement their families’ incomes. The skill levels of children who drop out of school early are significantly compromised and, ultimately, this has a negative impact on the national economy.

¹⁶ Walker et al. (2007).

¹⁷ Demographic and Health Survey (2016).

¹⁸ Otero et al. (1999); Halterman et al. (2001); Walter (2003).

¹⁹ Belachew et al. (2011); Cusick & Kuch (2012); Patton et al. (2016); UNICEF (2019).

²⁰ Dr Neville Golden, Chief of Adolescent Medicine at Stanford University School of Medicine, USA, quoted in Costa (2016).

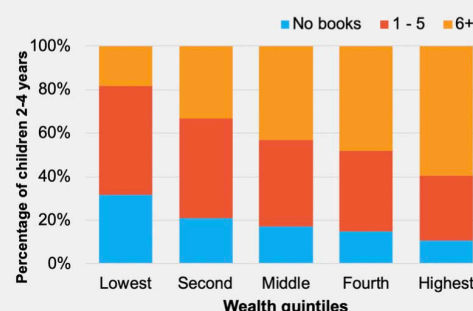
²¹ McLoyd, V. C. (1990); Conger et al. (1992); Conger et al. (1993); Lupien & McEwan (1997); Lupien et al. (1998).

²² Lupien & McEwan (1997).

²³ Demographic and Health Survey, 2016.

Even when children attend school, families with limited incomes can find it challenging to create a home environment that is conducive to learning, which can be detrimental to their children's development. For example, in Sri Lanka, 60 per cent of children between the ages of 2-4 years have five books or less in their home, suggesting that they may not be receiving the educational stimulation they require.²⁴ Again, as Figure 6 shows, this affects not only families living in extreme poverty, but households from across the welfare distribution, although the poorer the family, the greater the challenge. Further, around 40 per cent of children aged 3-4 years are not attending pre-school or early childhood development centres – potentially, in part, as a result of insecure incomes – which will hinder their progress in later life.

Figure 6: Number of books belonging to children aged 2-4 years



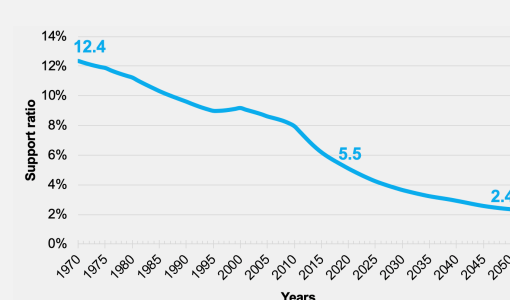
Source: Demographic and Health Survey (2016).

Income stress in families can contribute to domestic violence, which also impacts on child wellbeing.²⁵ Across Sri Lanka, 17 per cent of women aged 15-49 years who have been married at least once have been victims of domestic violence, with rates rising to 50 per cent in some districts.²⁶ Domestic violence can impede the cognitive and sensory growth as well as language development of children, while making it more likely that they will experience sleep problems, emotional distress and depression.²⁷ Further, children living in families where violence is prevalent are, again, likely to have home environments that are less conducive to studying, which can affect their performances at school.

Investing in children today to avoid the challenges of tomorrow

Today's children will have to become much more productive if they are to effectively support their parents and grandparents once they reach old age. Unless Sri Lanka can further strengthen the development of its children, they will not reach their full potential, and thus their future productivity, as they enter the workforce, will be compromised. Addressing this challenge is particularly urgent, since Sri Lanka is now a rapidly ageing society. As Figure 7 indicates, the dependency ratio between those of working age (20-64 years) and older persons (65 years and over) is falling dramatically: currently, for every older person in Sri Lanka, there are 5.5 working age adults, but this will fall to less than 2.5 by 2050. Therefore, if children do not become more productive in their future work life, Sri Lanka's future economic growth and economic development will be compromised. This will not only impact on the future of today's and tomorrow's children but will also compromise the well-being of older generations.

Figure 7: Support ratio between those of working age (20-64 years) and older people (65 plus years)



Source: Based on UN DESA Population Projections.

²⁴ Demographic and Health Survey (2016).

²⁵ WHO (2002).

²⁶ Note that their current married status may not be 'married'.

²⁷ Osofsky (1999).

2.2 The ineffectiveness of poverty targeting and the need for universality

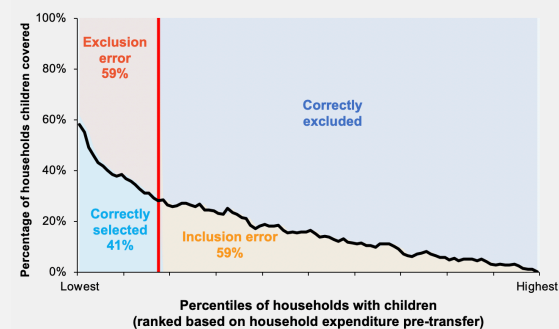
As indicated in the previous section, there is an urgent need to invest in Sri Lanka's children, and a universal child benefit should be a key state instrument for providing children with the support they require. Yet, it is often argued that priority should be given to the poorest children and, indeed, some countries design their child benefit schemes to target families living in poverty. This section demonstrates that, while targeting the poorest children may be cheaper, it is not only much less effective than a universal child benefit, but it is also less able to reach a country's poorest children.

First and foremost, it should be recognised that **every child has the right to benefit from social security, as well as the right to a standard of living that is adequate for the child's development, including food and housing.** These human rights are enshrined in the Convention on the Rights of the Child, to which Sri Lanka is a signatory.

Second, there is irrefutable international evidence that shows that, if the aim of a child benefit is to reach the poorest children, the only way to achieve this is not through poverty targeting but through a universal benefit. A recent comprehensive analysis of poverty-targeted programmes across low- and middle-income countries has demonstrated that the lowest exclusion errors among intended recipients is 44 per cent. In other words, even the programme considered to have the lowest exclusion error – Brazil's *Bolsa Família* programme – still leaves out almost half of the people who should be receiving benefits. In fact, countries such as Indonesia and Pakistan that have invested significantly in improving the targeting performance of their programmes through a targeting mechanism known as a proxy means test (PMT) have exclusion errors that are higher than 70 per cent.²⁸ Implementing programmes that exclude so many of a country's poorest people infringes upon the core aim of the Sustainable Development Goals (SDGs) of 'leaving no-one behind,' to which Sri Lanka is very committed.

Sri Lanka's Samurdhi programme is a good example of how incorporating poverty targeting within a social security scheme is ineffective. Figure 8 shows that Samurdhi excludes 59 per cent of households with children who should be eligible for the programme. While some would conclude that this means that measures should be taken to enhance the targeting effectiveness of Samurdhi, there is little evidence that this is possible and that Samurdhi is, in fact, performing as well as might be expected.²⁹

Figure 8: Targeting effectiveness of the Samurdhi programme among households with children



Source: Based on HIES (2016).

²⁸ Kidd & Athias (2019).

²⁹ Ibid.

International evidence indicates that by far the most effective means of minimising targeting errors is to offer universal benefits. For example, in Mongolia, only 2 per cent of children were excluded from its universal child benefit while coverage among the poorest children was almost 100 per cent.³⁰ Therefore, if Sri Lanka wants to ensure that the poorest children are reached by a child benefit, it will be necessary to make it universal.

There are also further challenges with poverty targeting that need to be taken into account. In the Philippines, a World Bank study has shown that a poverty-targeted child benefit has caused an increase of 11 percentage points in stunting among children not receiving the benefit.³¹ The authors suggest that the most likely reason for the increase is that families who received the benefit started to purchase more protein-rich food (such as meat), which increased the cost of protein. As a result, families not receiving the benefit – many of whom were just as poor as the recipients – reduced the amount of protein they purchased and, instead, bought more rice for their children, since this had not increased in price. The lack of protein thereby contributed to a greater stunting rate for children in non-recipient households.

Targeting child benefits to poor families creates poverty traps since parents may fear that a higher income will mean that they lose their benefit. Consequently, enrolling on a poverty-targeted programme may be a disincentive to looking for work, or finding work in the formal sector (see Box 1). Universal child benefit schemes do not create such perverse incentives since families are able to retain the transfer even if their incomes rise: in effect, they continue to be rewarded if they gain work, whereas a poverty targeted benefit effectively punishes them for their success.

Box 1: Poverty-targeting and work disincentives

A common phenomenon in many high-income countries is that poverty-targeted programmes can disincentivise recipients from seeking work. If, by entering the labour market, people face losing their benefit, they are likely to forgo the work opportunity, and instead, remain on the poverty-targeted benefit.

There is growing evidence within low and middle-income countries of work disincentives resulting from poverty-targeted programmes, such as Samurdhi. For example, in Georgia's Targeted Social Assistance Scheme (TSA), women receiving the TSA were 9-11 percentage points more likely to be economically inactive compared to those in non-participant households. In Uruguay, formal employment fell by 20 per cent among women who received the targeted child benefit, while entry into formal employment was 27 percentage points lower for beneficiaries than for non-beneficiaries. Finally, in Argentina, the rule that women receiving the child benefit have to be in the informal economy has encouraged many recipients to remain in informal labour.

In contrast, in 2010, Iran introduced – as a compensation scheme for the removal of oil subsidies – a universal household benefit offering high transfer values. Analysis has shown that the scheme has not discouraged people from working.

Sources: Amarante et al. (2011); Kits et al. (2013); Vásquez & Maurizio (2014); Salehi-Isfahani & Mostafavi-Dehzoeei (2017).

³⁰ *ibid.*

³¹ Filmer et al. (2018).

One of the main challenges with poverty targeting is that it undermines trust in government. It is well-established that governments build trust among citizens – and enhance their popularity – by delivering high quality public services. However, poverty targeted programmes can destroy trust in government due to high exclusion errors and selection decisions that often appear arbitrary or corrupt to citizens. In contrast, universal social security benefits deliver a high-quality service since everyone who should access the scheme is able to do so. As a result, universal programmes create a positive impression of government and, over time, strengthen the social contract between the State and its citizens. Indeed, one of the great conundrums of social security is why so many governments in low- and middle-income countries implement poverty-targeted programmes – such as Samurdhi – that ultimately are likely to make them less popular and less trusted. A universal programme becomes a relevant programme for everyone, as it is not something that “only the poor” care about. As Amartya Sen (1995) has clearly stated: “Benefits meant exclusively for the poor often end up being poor benefits.” If the main taxpayers are included as recipients in a child benefit, they are more likely to support their taxes being used to finance the scheme, thereby facilitating a higher level of investment and a more sustainable and higher quality benefit.

Poverty-targeted benefits are also much more challenging and expensive to implement than universal benefits. While universal benefits use very simple criteria, poverty-targeted schemes are complex and require applicants to be assessed against multiple criteria, with much more demanding – and expensive – administrative resources required. For example, in 2009, Pakistan spent US\$60 million on its highly inaccurate proxy means test, while in 2015, Indonesia spent US\$100 million on a similarly inaccurate proxy means test that only surveyed 40 per cent of households nationally. In reality, these proxy means tests should be repeated on an annual basis since household incomes fluctuate continually, although this never happens due to their high costs. A universal child benefit, in contrast, can be implemented at a very low administrative cost and could even be combined with providing all new-born children with a birth certificate, thereby saving money on the latter.

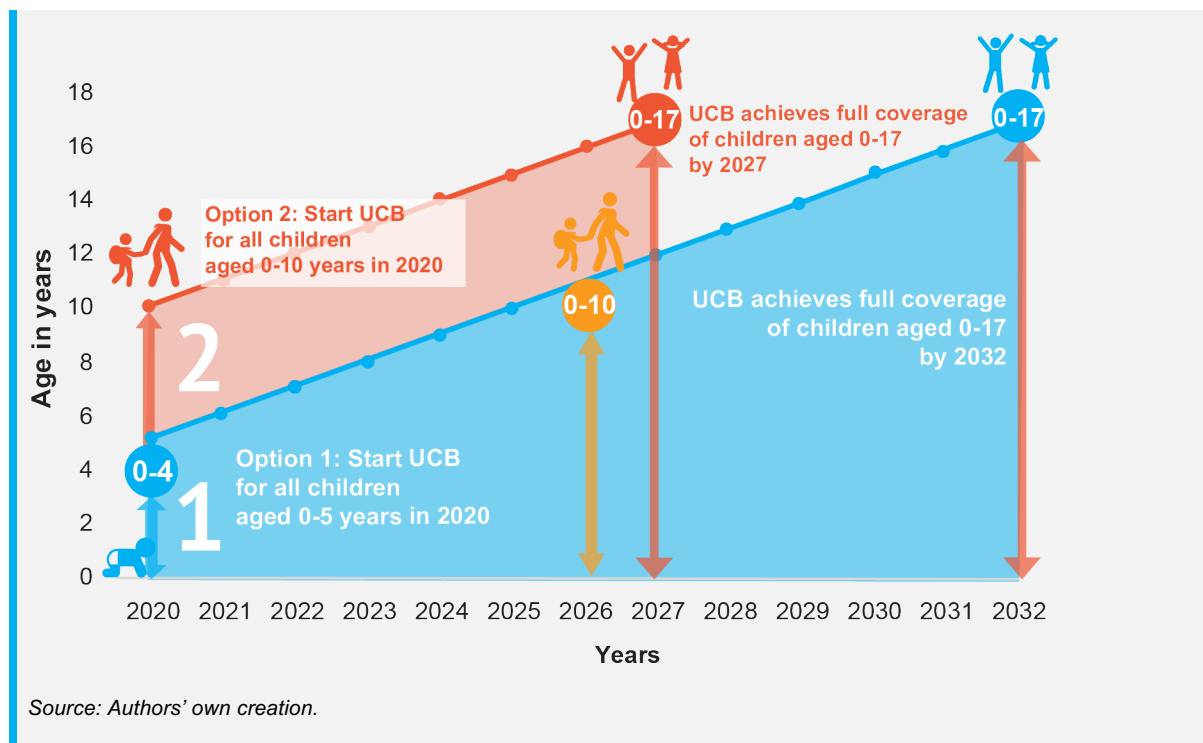
3 Options for universal child benefits in Sri Lanka

The options outlined in this paper propose moving to a fully universal programme for all children over time. While the best child benefit option for Sri Lanka would be to offer it to all children (0-18 years of age) as soon as it starts, this is unlikely to happen due to understandable concerns about fiscal space. Therefore, the options proposed in this paper enable a more gradual – and fiscally feasible – introduction of a Universal Child Benefit. The proposed options also maintain the principle of universality, to avoid the many pitfalls of poverty-targeted programmes. Both options proposed in this paper begin by offering the benefit only to young children in 2020 and grow the scheme over time by not removing any children until they reach their 18th birthday (as demonstrated by Figure 9). Prioritising the youngest children makes sense given the importance of investing in children during the first 1,000 days from conception.

Box 2: The costs and benefits of a universal benefit for all children aged 0-17 years

The immediate introduction of a child benefit for all of Sri Lanka's children would be a very positive and progressive move by the government. While the cost of doing this may seem relatively high, it would nonetheless be below the current level of investment by South Africa in its Child Support Grant and by Mongolia in its universal Child Money scheme, when it was first introduced in 2012. For example, providing a benefit of LKR 2,500 per month to all children aged 0-17 years in 2020 would cost 1.04 per cent of GDP, falling to 0.49 per cent of GDP by 2035. It would have significant impacts, for example, immediately reducing the proportion of the population living under the US\$5.50 (PPP) poverty rate from 37.1 per cent to 31.5 per cent.

Figure 9: Options for growing the age of eligibility to the child benefit, over time



The two options proposed in this paper are summarised in Table 1. They represent *transfers per child* (below 5 years old or below 10 years old initially). In other words, for example, a family with two children would receive the transfer value of LKR 2,500 per month multiplied by two (LKR 5,000) and a family with four children would receive four times the amount (LKR 10,000). Of course, there are many other feasible options using different ages of eligibility and transfer values, but the two examples given below propose distinct ages of eligibility and, as a result, vary in terms of the initial level of investment required. They should be regarded as indicative proposals and, if the government decides to take the Universal Child Benefit forward, could be adjusted and/or further refined.

Table 1: Details on the two proposed options for a Universal Child Benefit in Sri Lanka

	Option A	Option B
Initial age of eligibility	0-5 years	0-10 years
Transfer value	LKR 2,500 per month	LKR 2,500 per month
Transfer value as a % of GDP per capita	3.8%	3.8%
Number of children covered in 2020	1,995,000	3,694,000
Proportion of all children 0-17 years covered by 2024	54%	85%
Proportion of all children 0-17 years covered by 2032	100%	100%

The ages of eligibility for the two options are, initially, 0-5 years and 0-10 years and, as indicated above, the scheme will grow gradually with children remaining on the programme until their 18th birthdays. All new entrants to the programme will therefore be new-born children. The first option will reach all children aged 0-18 years by 2032 and the second by 2027.³²

The transfer value for both options is proposed as LKR 2,500 (US\$14) per month, for each child, which would be indexed to inflation to ensure that the child benefit retains its real purchasing power. When compared with other countries with child benefits, LKR 2,500 per month is slightly on the low side of what would be regarded, internationally, as a decent value child benefit. Its value as a percentage of GDP per capita is 3.8 per cent which, as Figure 10 indicates, is below countries such as South Africa and Nepal, but above Brazil, Georgia, Mongolia and the United Kingdom.³³ While a higher value transfer would have greater impacts on children, society and the economy, by using a lower value, the overall level of investment required is reduced.

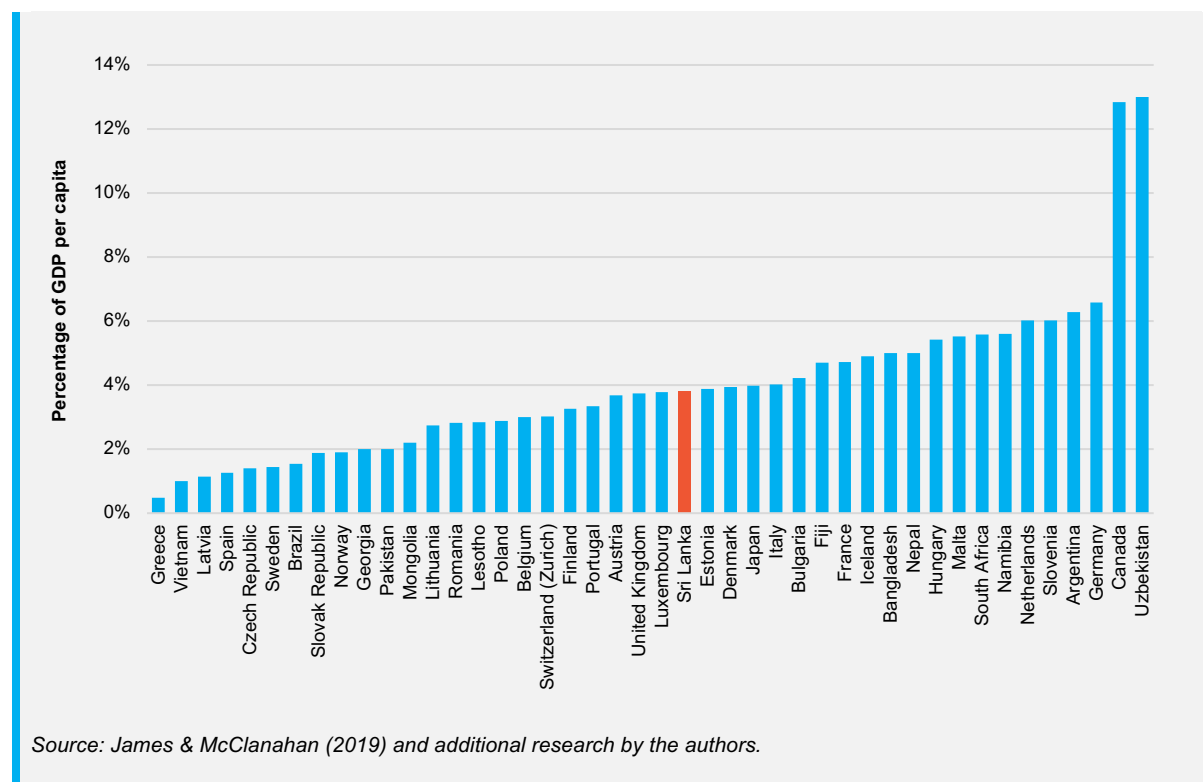
Box 3: Transfer value proposed for the Universal Child Benefit compared to those of Samurdhi

Although the proposed transfer value for the Child Benefit is relatively low when compared to many other countries – see Figure 9 – it is larger than what is currently provided by the Samurdhi programme. Samurdhi provides LKR 3500 per month to a family of 4 or more members, LKR 2500 per month for a family of 3 to 4 members, and LKR 1500 per month for a family of 1 or 2 members. So, for children, transfer values range between Rs 830 in a family of three to LKR 580 in a family of six. The proposed Universal Child Benefit of LKR 2500 would, therefore, offer a substantially larger transfer and, consequently, greater impacts would be expected. It is worth remembering that families in the poorer wealth deciles are likely to have more children, and so benefits calculated by household number and not by the number of children can result in lower transfers per child for poorer households.

³² The proportion of children in the population is adjusted each year in line with the medium projections by UN DESA. See: <https://population.un.org/wpp/>

³³ While various measures could be used to determine the most appropriate value of a child benefit, the advantage of using percentage of GDP per capita is that it takes into account the capacity of countries to finance the benefit.

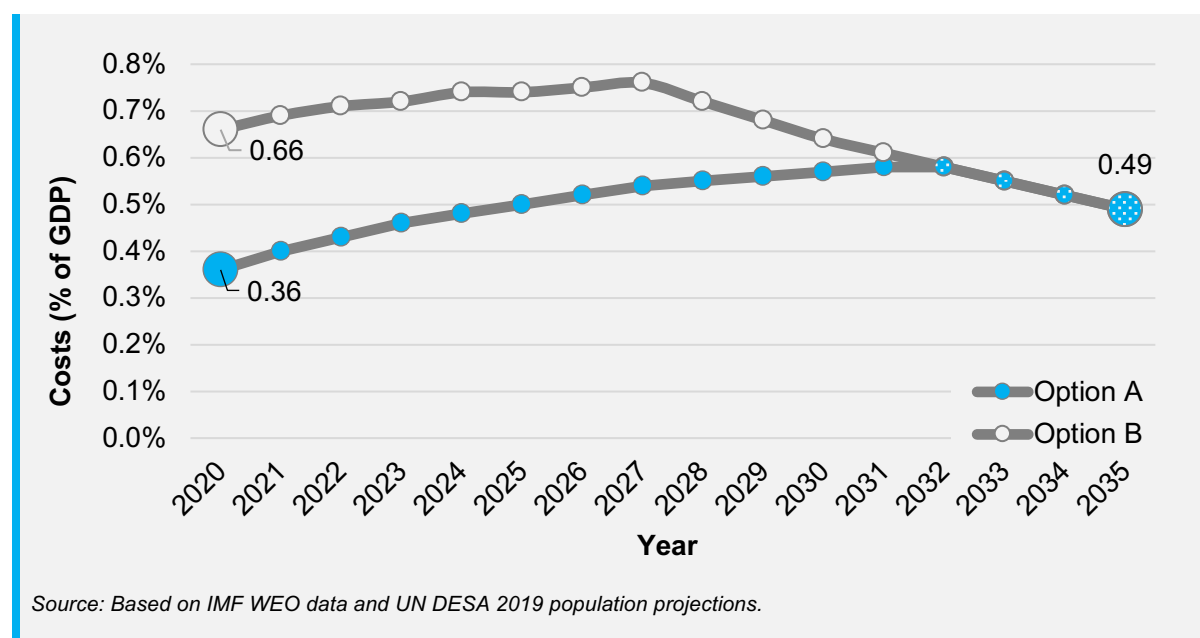
Figure 10: Value of the proposed child benefit for Sri Lanka, in an international comparison (measured as a percentage of GDP per capita).



4 Levels of investment required for a Universal Child Benefit in Sri Lanka

Both options for a Universal Child Benefit presented in this paper are affordable for Sri Lanka. Option A could be established for only 0.36 per cent of GDP in 2020, while Option B would require 0.66 per cent of GDP. This compares with the 0.51 per cent of GDP that Sri Lanka is investing in the Samurdhi programme, which as has been discussed, is not effective for families with children.³⁴ As Figure 11 demonstrates, over time – even with no children leaving the programme until they reach 18 years of age – the level of investment required for both options would rise only slowly. The highest level of investment required for Option B would be in 2027, at only 0.76 per cent of GDP, and for Option A, this would be in 2032, at 0.58 per cent of GDP. Further into the future, the budget required would fall year on year as a percentage of GDP, in part due to the fall in the population of children as a proportion of the population.

Figure 11: The level of investment required annually for the Universal Child Benefit options over time, as a percentage of GDP³⁵



It would be difficult to consider either of the two child benefit options as a high cost for an upper middle-income country like Sri Lanka. Compared to investments made by other countries in universal child benefit schemes, both options presented in this paper are very low cost. In 2012, Mongolia, for example, invested 1.4 per cent of GDP in its universal child benefit, while in 2016, South Africa invested 1.26 per cent of GDP in a child benefit that reached just over 60 per cent of children.³⁶ Indeed, Option A is in line with the level of spending of the Philippines on its Pantawid programme which, at 0.4 per cent of GDP, only reaches 25 per cent of children.³⁷

³⁴ Source: personal communication with a member of the Government of Sri Lanka. LKR 39 billion is spent on Samurdhi transfers and LKR 40 billion on administration costs.

³⁵ The costings assume that GDP growth will be 4.5 per cent of GDP per year, in line with IMF projections for the period 2020-2026.

³⁶ Kidd (2018); Kidd et al. (2018).

³⁷ Kidd & Damerau (2016).

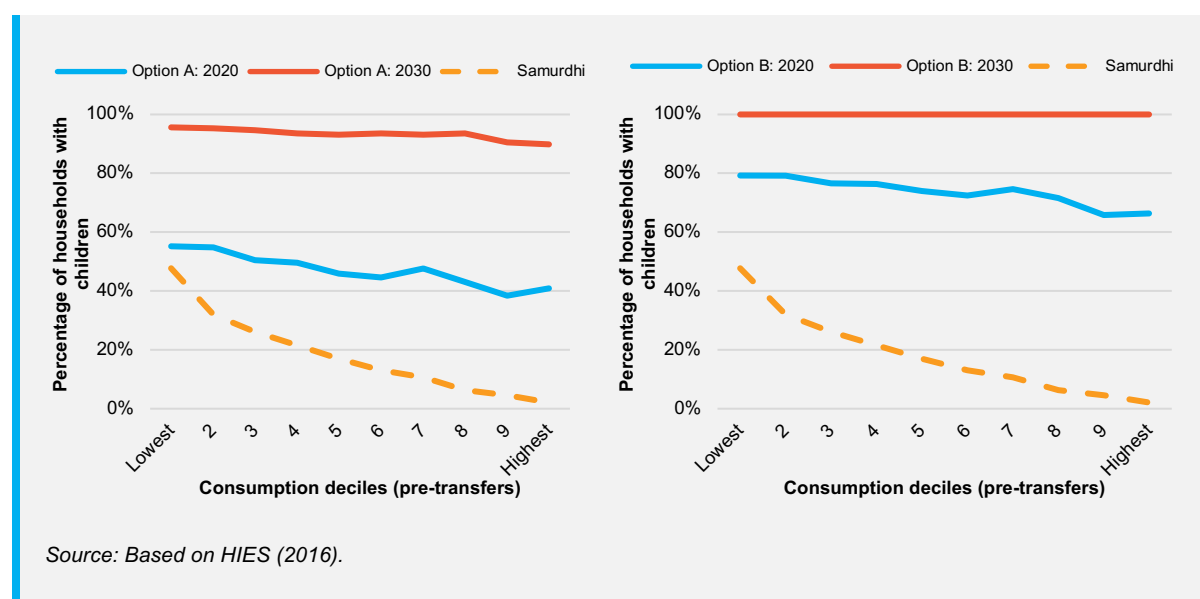
5 Impacts of the Universal Child Benefit options

The proposed universal child benefit options would transform the lives of millions of children across Sri Lanka and be much more effective than the current Samurdhi scheme at giving Sri Lanka's children the best start to life. Many more children – and households – would be reached when compared to Samurdhi and household consumption would increase, thereby improving the home environment for children. Further, there would be significant impacts on poverty, as well as significant national level impacts, including on the country's economic growth and social cohesion. These potential benefits are discussed in more detail below.

Coverage of households by the child benefits

A Universal Child Benefit would reach almost all intended children – including the poorest – and any exclusion would be negligible. In contrast, as indicated above, Samurdhi excludes 59 per cent of the poorest children in Sri Lanka, which means that it fails to reach the majority its intended recipients. However, it is also notable that even when the age of eligibility for the Universal Child Benefit is restricted to younger children, it would still be more effective than Samurdhi in reaching households with children of all ages, including those living in extreme poverty. Figure 12 shows the current coverage of Samurdhi across the welfare distribution and compares it to the coverage by the two options in 2020 and 2030, across all households with children aged 0-17 years in Sri Lanka. Even the Universal Child Benefit for 0-5 year olds would reach many more households than Samurdhi – including having higher coverage among the poorest households – and, over time, with both options, the coverage would increase dramatically. Importantly, the poorest households with children in Sri Lanka would, by 2030, experience almost universal coverage. So, *despite targeting the poorest households with children, Samurdhi is much less effective at reaching the poorest households than a Universal Child Benefit, even when it is restricted to young children.*

Figure 12: Coverage of households with children by Option A and Option B in 2020 and 2030, compared to present-day Samurdhi

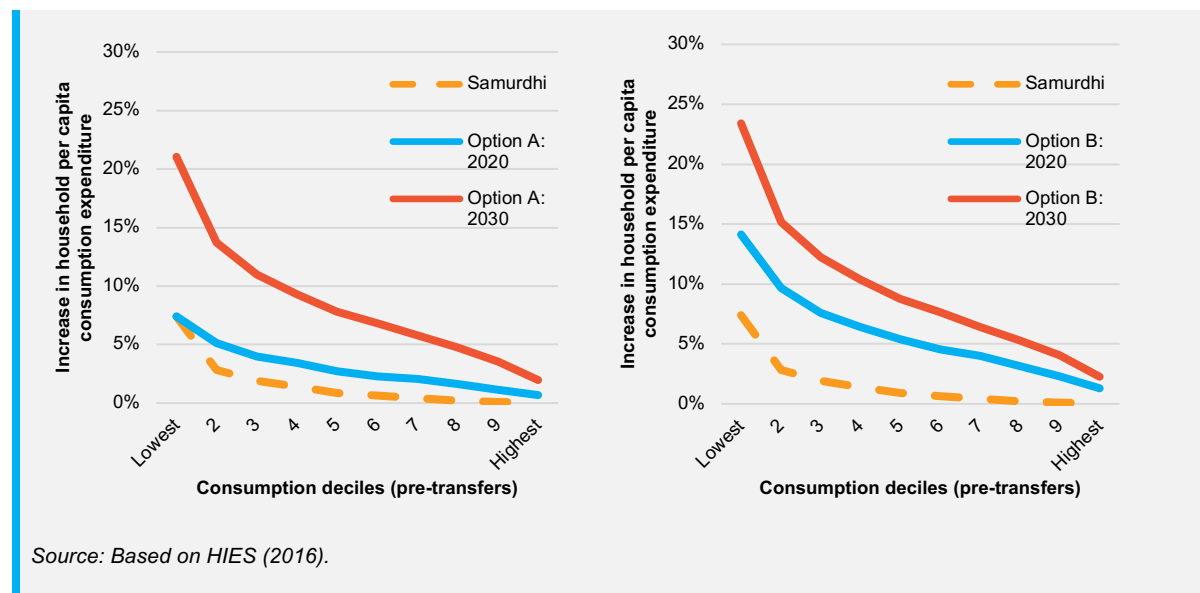


Impacts on household consumption and the home environment

Both child benefit options would significantly increase consumption among recipient households. With Option A – in 2020, when only children aged 0-5 years receive the benefit – the average increase in consumption among recipient households would be 6.5 per cent and 13.4 per cent among the poorest 10 per cent of households with children. In Option B, in 2020, the increase would be much higher since children aged 0-10 years would benefit and the average increase in consumption would be 8 per cent and 17.8 per cent among those in the poorest 10 per cent. However, by 2030, household consumption would increase significantly, since even more children would be receiving the benefits: for example, in Option B, the average increase in consumption would be 9.7 per cent and 23.4 per cent among the poorest decile of recipients.

When examining the impact on consumption across all households with children, both child benefit options would perform much better than Samurdhi, as shown by Figure 13. Even among the poorest households with children, the increase in consumption from Samurdhi is only 7.4 per cent while the average increase across all households with children is only 1.6 per cent. Yet, Option A – even when it only reaches children aged 0-5 years – would perform as well as Samurdhi among the poorest 10 per cent of all children and much better for the total number of children across all the deciles. Further, once the age of eligibility for the child benefits rises, the increase in consumption across all households with children becomes much more significant. For example, under Option B, by 2030, the average increase in consumption would be 9.7 per cent and 23.4 per cent among the poorest children.

Figure 13: Increase in consumption among all households with children by Options A and B, compared to Samurdhi



The fact that a Universal Child Benefit would significantly enhance consumption among those on middle – but still insecure – incomes is particularly important. As explained earlier, the majority of Sri Lanka's children are living in households with insecure incomes. Indeed, by 2030, those on middle incomes would benefit from a 7-8 per cent increase in consumption under both Options A and B. These increases in household consumption would mean that families would be able to increase their investments in their children, which would significantly enhance their wellbeing. Among young children, the rate of stunting would likely fall, as has happened in other countries that have invested in child benefits: for example, in South Africa, the Child Support Grant has had a significant impact

on children's height.³⁸ As children reach adulthood, the reduction in stunting will – as explained earlier – translate into higher lifetime incomes. In fact, in South Africa, it has been estimated that the increase in lifetime earnings resulting from its child benefit's impact on stunting is 60-130 per cent greater than the cost of the scheme during a child's early years.

Higher incomes for families will translate into improved diets and a better home environment for children. Families will be able to purchase more nutritious foods for their children. Parents will be less stressed and better able to spend time with their children and support and stimulate them, while also being able to purchase the books and games that are important for child development. There is good evidence that higher incomes and social security benefits reduce domestic violence, which is also very positive for children.³⁹ Children will also be healthier: for example, children in South Africa are less likely to be ill if they enrol on the child benefit at a young age.⁴⁰ There is, in fact, concrete evidence that children who receive South Africa's Child Support Grant perform better at school while international research has shown that higher incomes are known to be closely associated with enhanced educational attainment.⁴¹

Despite the strong evidence of the positive impacts of child benefits, there are always some who fear that the cash will be misused by parents. Yet, this is no more than a myth. Across a range of child benefits worldwide, there is irrefutable evidence that the vast majority of parents use the cash they receive to enhance their children's wellbeing. Of course, in any country there will always be a tiny proportion who misuse a child benefit to purchase, for example, tobacco and alcohol, but these occurrences are extremely rare, even if they are often jumped upon by opponents of social security schemes to support their arguments. If 3 or 4 parents out of every thousand misuse the benefit, this should not be used as an excuse to deprive the vast majority of parents who care for their children and who, on a day-to-day basis, make enormous sacrifices for them. In fact, in many countries, a conscious decision has been made to pay the child benefit to the female carer, since they are much more likely to invest the funds in the wellbeing of their children. This also results in the further benefit of empowering women, giving them a greater and more equal say in family and community affairs. Indeed, a number of studies have indicated that women may be less likely to be subjected to domestic violence, if they are recipients of a cash benefit.⁴²

Impacts on employment and income generation

Child benefits do not just support children. They also facilitate their parents' and carers' engagement in the labour market, either through employment or by investing in their own income generating activities. Indeed, one of the key explanations for why parents with insecure incomes are reluctant to invest in income-generating activities is their fear of taking risks. They worry that, if their investment is lost – for example, if the animals they purchase die – or they become ill and can no longer run their small business, they will end up not being able to provide for their children. Therefore, they are averse to taking risks and less likely to invest in small enterprises. If an entrepreneurial culture is to be further fostered in Sri Lanka, families with children need to be encouraged to take investment risks, as greater risk often translates into greater rewards.

³⁸ Agüero et al. (2007).

³⁹ Buller et al. (2013).

⁴⁰ DSD, UNICEF & SASSA (2012).

⁴¹ Considine & Zappala (2002); Hirsch (2007); DSD, UNICEF & SASSA (2012).

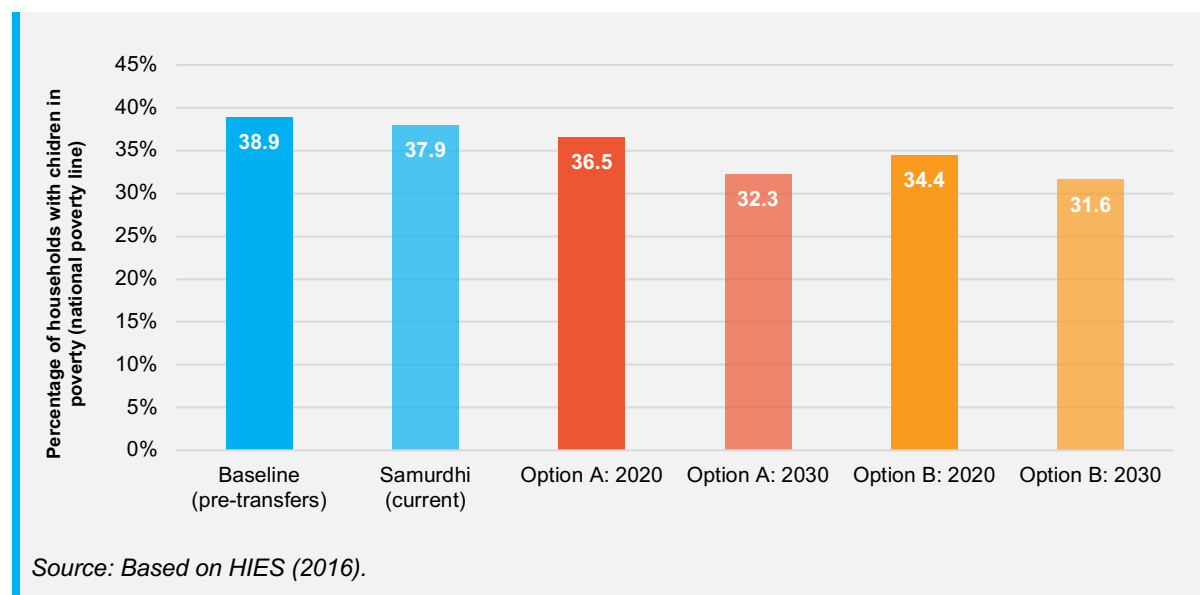
⁴² Angelucci (2008); Handa et al. (2009); Hidrobo & Fernald (2013); Bastagli et al. (2016).

A Universal Child Benefit helps families with children to be free from fear of taking risks. It can be part of the solution in that it will encourage positive risk-taking among families with children since they will know that, if their investment fails, they will still be able to feed their children and keep them in school because of the child benefit. There are many examples from around the world of how giving families regular and predictable cash translates into greater investments in income generating activities.⁴³ In South Africa, for example, in households receiving the child benefit, 18 per cent of parents were more likely to look for work and 15 per cent were more likely to be in jobs.⁴⁴ However, as explained earlier, these benefits will be compromised if the child benefit is targeted at poor families, since a poverty trap may be created if it incentivises parents not to look for work.

Impacts on poverty

The increases in consumption resulting from Universal Child Benefits would necessarily bring about a reduction in national poverty rates.⁴⁵ As Figure 14 demonstrates, the Universal Child Benefit options would have a greater impact on poverty than Samurdhi, despite the fact that Samurdhi is designed to be an anti-poverty programme. When measured against the US\$5.50 (PPP) international poverty line for upper middle-income countries, Samurdhi reduces the national poverty rate from 38.9 per cent to 37.9 per cent. In comparison, even Option A, in 2020 – when only young children receive the benefit – would reduce it to 36.5 per cent. By 2030, the impacts of a Universal Child Benefit would be much greater, with the national poverty rate falling to 32.3 per cent under Option A and 31.6 per cent under Option B.⁴⁶ It is important to note that, of course, the higher the transfer value, the higher the impact on poverty reduction. So, if the government wished to enhance the impacts, it could increase the value of the transfers further.

Figure 14: Impacts of the Universal Child Benefit options and Samurdhi on the poverty rate, using the US\$5.50 (PPP) international poverty line



⁴³ See Kidd (2014) for some examples.

⁴⁴ Samson (2009).

⁴⁵ Please note that when examining potential reductions in the poverty rate by 2030, the analysis only looks at the impact of the Universal Child Benefit. Of course, by 2030, other factors will also affect the poverty rate, so the actual poverty rate may well be different to the results given here.

⁴⁶ The Universal Child Benefit would have an even greater relative impact on the national poverty line, when compared to Samurdhi. While Samurdhi only reduces the national child poverty rate from 5.1 per cent to 4.1 per cent, Option B would reduce it to 1.9 per cent in 2030.

Impacts on resilience building and recovering from shocks

A Universal Child Benefit can support family incomes and economic diversification as economic shocks hit. Sri Lanka is especially vulnerable to a diversity of climate-related hazards, including floods, droughts, landslides, and storms. Extreme climate events can have detrimental effects on livelihoods, for example, through the destruction of livelihood assets (farming tools, fishing boats, water tanks for irrigation) and the destruction of agricultural land which may take several months or years to recover. When shocks occur, a Universal Child Benefit could prevent negative coping strategies, including drawing on scarce assets or being forced to migrate. And, if children and families must move, it could provide support as families arrive and settle or wait to return home. Across all contexts, it can provide a crucial foundation that supports children and their families as they connect to vital support and services.

In fact, the child benefit could provide an effective response to shocks. If a particular region of the country is hit by a crisis, the government could decide to temporarily provide humanitarian support to families by increasing the value of the transfer, and then reducing it to its former levels once the crisis has passed. Indeed, this would obviate much of the need for more expensive forms of humanitarian assistance.

Potential national level impacts of the Universal Child Benefits

According to international evidence and experience, a Universal Child Benefit would have a range of additional national-level impacts, including on economic growth. By investing in its children, Sri Lanka would be able to build a more productive workforce which would enable the nation to compete with its regional and international competitors. Further, by injecting cash into the economy through the Universal Child Benefit, national consumption would increase, which would generate a larger market for entrepreneurs and stimulate greater economic growth.

Importantly, as discussed above, a Universal Child Benefit would strengthen trust in government, in contrast to the poverty-targeted Samurdhi programme, which almost certainly undermines trust. A Universal Child Benefit would be an entitlement that is given to all citizens on an equal basis during their childhood. Due to its simplicity, it will be easy to deliver to families and will be regarded by citizens as a high-quality programme, thereby building trust in government. In turn, this will strengthen the national social contract and, as has occurred across high income countries, citizens will become more willing to pay their taxes since they will see that they are all able to receive something in return from the government. Historically, social security schemes have played a key role in building the social contract and this is particularly important in Sri Lanka where government revenues are a mere 12.9 per cent of GDP.⁴⁷

Finally, the Universal Child Benefit will have significant impacts on inequality. For example, by 2030, Option B would reduce the Gini Coefficient from 0.393 to 0.37, a fall of 5.5 per cent. In reality, the reduction will be higher, as the analysis does not take into account the increase in taxation to finance the Universal Child Benefit. Not only will a reduction in inequality build national social cohesion and a more peaceful society, according to the IMF, it will also increase economic growth.⁴⁸

⁴⁷ Source: IMF's World Economic Database, October 2019 version. See: <https://www.imf.org/external/pubs/ft/weo/2019/02/weodata/index.aspx>

⁴⁸ Grigoli & Robles (2017).

6 Conclusion

Sri Lanka's children are facing a wide range of challenges which, if not addressed, will have lifelong impacts on their wellbeing while also hindering the nation's long-term progress and competitiveness. The current government is aware of this challenge: in its manifesto for the 2019 presidential election, it recognised that children are Sri Lanka's future and that they need to be supported to become healthy and productive citizens. One of the proposals in the manifesto was the introduction of a child nutrition allowance for families living in poverty. This demonstrates that the government recognises the need to offer children a monetary child benefit, to increase their families' incomes.

However, an allowance for children living in poverty is insufficient and ineffective. The reality is that the vast majority of Sri Lanka's children are living in households with insecure incomes and are in great need of income support. Further, a poverty-targeted allowance will, as has happened with Samurdhi, exclude the majority of children living in poverty and, as a result, will fail to achieve its objective.

This paper has demonstrated that the most effective means of providing income support to families with children living on precarious incomes in Sri Lanka is through a Universal Child Benefit. Both national and international evidence have irrefutably demonstrated that universal benefits are much more effective than poverty-targeted programmes in 'leaving no-one behind.' A Universal Child Benefit would enhance the wellbeing of all children in Sri Lanka and, in the long-term, provide the nation with a stronger and more competitive workforce. It would also strengthen the national social contract, support peacebuilding and build trust in government. It would be a very popular scheme and any government introducing it is likely to reap significant political rewards.

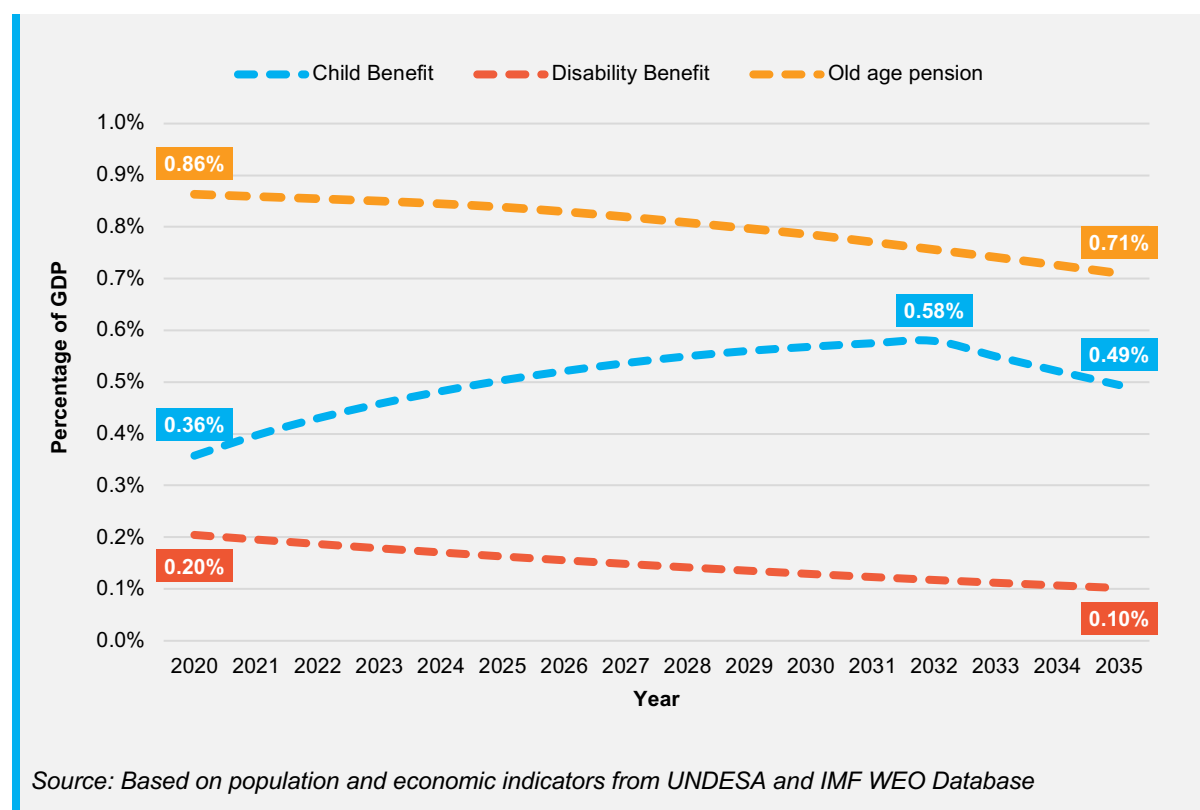
Importantly, a Universal Child Benefit is financially feasible. If initially only introduced for young children, a benefit of LKR 2,500 per month would cost only 0.36 per cent of GDP in 2020. If it were to replace Samurdhi – and the evidence shows that it would be much more effective than Samurdhi – it would not require an increase in budget since, as indicated earlier, Samurdhi currently costs 0.51 per cent of GDP. If children are not removed until their 18th birthday, the maximum cost in the future would not surpass 0.58 per cent of GDP, and this would only be reached in 2032. This would be a small increase over what is currently spent on Samurdhi which, when compared internationally, would be a very low cost for a universal child benefit. Of course, if the government wishes to deliver even greater impacts on child wellbeing and on poverty reduction, it could begin the Universal Child Benefit with a wider age bracket and a higher transfer amount, which would be perfectly feasible if the Samurdhi budget were used.

Alternatively, the savings from Samurdhi could be invested in strengthening the country's social pension and introducing a disability benefit. Figure 15 shows the level of investment required to introduce – on top of the initial Universal Child Benefit – a universal old age pension for every citizen upon reaching the age of 65 years, as well as a disability benefit for all disabled children and working age adults, both at a value of LKR 5,000 per month. The overall level of investment required if they were introduced this year would be 1.4 per cent of GDP and, if they were indexed to inflation, the total cost would still be no more than 1.3 per cent of GDP in 2035. This level of investment is still below what Nepal currently invests in its combined system of old age, widows', disability and child benefits, despite it being a much poorer country than Sri Lanka.

The challenges facing Sri Lanka's children are immense and the need for a Universal Child Benefit is urgent. The time to take action is now!

Conclusion

Figure 15: The level of investment required for a combination of universal child (Option 1), old age and disability benefits between 2020 and 2035⁴⁹



⁴⁹ The old age and disability benefits would each offer LKR 5,000 per person and would be indexed to inflation. The old age pension would be provided to each citizen on reaching 65 years of age. The disability benefit would go to each person with a severe disability up to the age of 65 years, comprising approximately 3 per cent of the that population.

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Annex 1 Methodology

This Annex briefly describes the analysis that was undertaken to simulate the costs and impacts of the universal child benefits.

Annex 1.1 Projecting transfer costs

The total transfer costs as percentage of GDP are projected using the IMF's World Economic Outlook (WEO) database, UN DESA's Population Prospects 2019 revision data and the selected parameters of the proposed options, namely: age eligibility criteria and monthly transfer values. The WEO database provides GDP projections and real annual economic growth up to 2024. The Population Prospects data provide the projected total number of people in each year going forward by single age groups. The estimated projected annual transfer costs are for the years 2020 to 2035.

The total annual transfer costs in 2020 prices are the product of the following variables: projected total number of individuals that fall under the age-eligibility criterion Pop_t^j , coverage criterion, $Criterion_j$ as the proportion of the total number of individuals i that fall under the age-eligibility criteria in a given year – which in this case is 100 per cent – and annualised transfer values in 2020 prices. Formally, this can be expressed as:

$$Costs_{j,t} = Pop_t^j * Criterion_j * (m_j * 12)$$

The projected annual transfer costs as a percentage of GDP are estimated by dividing the projected annual transfer costs in 2020 prices by the projected GDP of the country in 2020 prices. To project the GDP in real values forward, the projections use the 2020 GDP estimates in the WEO database and the average annual real growth for the period 2020 to 2024 also in the WEO.

Annex 1.2 Simulating impacts

The impact simulations answer “what if” questions in a static and backward-looking manner. Using the nationally representative 2016 HIES, the simulations construct hypothetical scenarios of what would have happened to households if such programmes had been in place in 2016, the year of the survey. The model establishes baseline and counterfactual scenarios in order to infer the absolute effects of introducing different options of a child benefit in Sri Lanka. The model itself is a linear approximation model based on Figari et al (2015) that decomposes household expenditure to isolate the effect of a cash benefit to the household, conditional on a set of household socio-demographic characteristics, as dictated by the defined parameters under each option. Further, by examining the household unit, distributional effects of the simulated impact estimates are also analysed. For instance, the impact estimates are also presented by age groups and welfare quantiles.

Using per capita consumption expenditure as the measure for household welfare and borrowing from the formal framework outlined by Figari et al (2015), household welfare y can be expressed as:

$$y(c, x, m_k) = x + f_k(c, x, m_k),$$

where k denotes whether the households are recipients of the child benefit, c denotes the idiosyncratic characteristics of a given household, and m_k is the benefit parameter. Finally, the household's disposable income is a linear combination of a household's level of per capita consumption expenditure (that is income prior to any cash transfers), x , and transfer,

f_k , of programme k , which is itself a function of the household's income, characteristics and the benefit.

To estimate the change in a household's per capita consumption expenditure (welfare), a household's consumption expenditure under Scenario A (no transfer) is compared against under Scenario B (with transfer)

$$\Delta y = y_B(c, x, \overline{m_k}) - y_A(c, x, m_k),$$

where $\overline{m_k}$ ($\overline{m_k} \geq 0$) refers to the changes in the parameters in each option (k), m_k . This is often described as a "morning-after" change: in other words, policy changes take effect in the same time period and household income and other characteristics do not change.

In practice, we impose a functional form onto f_k

$$f_k(c, x, m_k) = t_k 1_{\{D_k=1|c\}},$$

where t_k is the transfer value, and D_k is a binary variable with 1 representing whether a household is a participant of the child benefit programme under option k , conditional on household characteristics c and 0 representing non-participation. By extension, transfers post-reform can be expressed as:

$$f_k(c, x, \overline{m_k}) = \overline{t_k} 1_{\{D_k=1|c\}}$$

Behind these hypothetical calculations are a number of assumptions. The main assumption is that the model does not incorporate other possible immediate behavioural responses to these potential changes in household income. For example, as a result, in the simulations households do not save any portion of the transfers received. Furthermore, transfers to each household are assumed to be equally distributed among all members of the household.

The simulated impacts are presented for four different sets of outcomes:

- **Programme coverage:** the estimated percentage of the population eligible for the different options, in total and disaggregated by deciles of household expenditure;
- **Impact on purchasing power:** the estimated increase in households' consumption expenditure as a result of the social protection programme(s), disaggregated by deciles of household expenditure;
- **Impact on poverty:** the estimated reduction in levels of poverty among recipients of the universal child benefit and among the general population as measured by the Foster-Greer-Thorbecke (FGT) class of poverty measures
- **Impact on inequality:** the estimated reduction in inequality as measured by the Gini index.

Annex 1.3 Assessment of targeting effectiveness of the Samurdhi programme

The 2016 HIES shows which households received the Samurdhi programme. We used this to undertake an assessment of the targeting effectiveness of the programme, showing the exclusion and inclusion errors. We also prepared graphs that indicate the errors and were able to compare it with the UCB.

Following Brown et al's (2018) annotation, our measure of targeting effectiveness of the Samurdhi scheme (s) in year 2015/16 (t) can be formally represented as

$$TE_{st} = \frac{\sum_i^{N_{st}} w_{ist} 1_{\{D_{st}=0 \mid y_{ist} < z_{st}\}}}{\sum_i^{N_{st}} w_{ist} 1_{\{y_{ist} < z_{st}\}}},$$

where w_{ist} denotes the sample weight of household i in the intended category of scheme s in year t ; households are indexed from 1 to N_{st} , and N_{st} is the total sample size of all households in the intended category, such that $\sum_i^{N_{st}} w_{ist} = 1$; D_{st} is a Boolean variable with 1 representing programme participation at the household level and 0 otherwise; y_{ist} is household i 's level of welfare as measured by income or consumption expenditure; finally, z_{st} is the corresponding level of welfare when the inverse empirical cumulative distribution function of y_{st} , $F^{-1}(p)$, is measured against the scheme's coverage of the intended category, p .⁵⁰ The measure of targeting effectiveness ranges from 0 to 1 with $TE_{st} = 0$ meaning that the programme reached all of its intended recipients. Conversely, $TE_{st} = 1$ would mean that the programme does not reach any of its intended recipients.

In the data analysis, we used the household as our unit of the analysis since Samurdhi is a household programme and used consumption expenditure as our measure of welfare to rank households. In order to account for differences in household rankings pre- and post-programme participation, we deducted from our measure of welfare the monthly per capita transfer value received by the household. Although this is straightforward when using income as the measure of welfare, it is not so when it comes to expenditure given that households may have a non-zero marginal propensity to save. Therefore, we assumed that all transfer values are consumed and that no savings are made. This is a strong assumption and unlikely to happen across all households in the wealth spectrum. However, it is more likely to occur among households in the lower end of the wealth spectrum, which are the households that Samurdhi aims to reach.




We were also able to indicate the simulated impact of Samurdhi, since information is available on the value of the transfers received by households. We compared this with the simulated impacts of the Universal Child Benefit options.

⁵⁰ An alternative measure uses a fixed quantile, p , equal to 0.2 instead of programme coverage.

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