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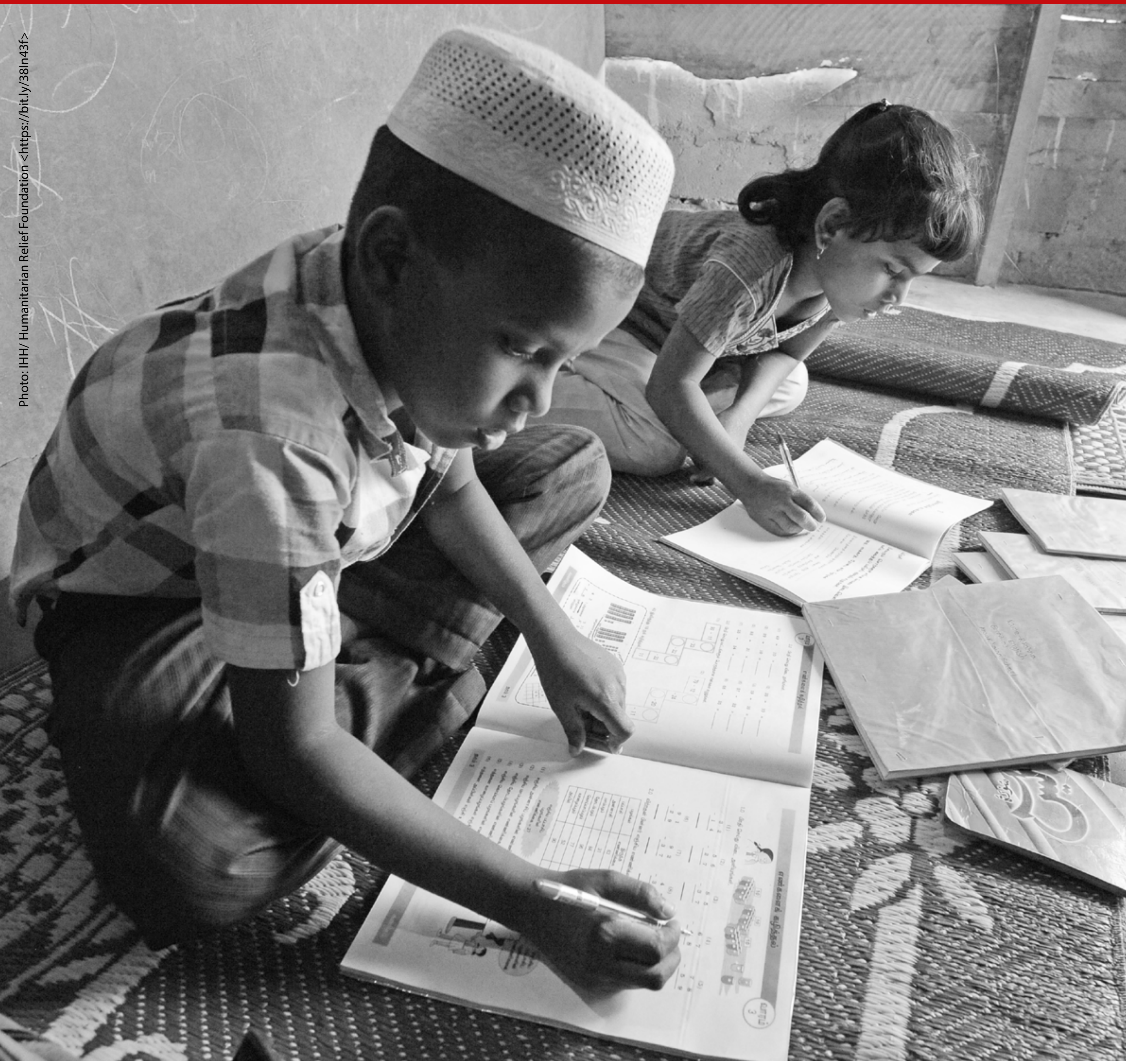

Public expenditure analysis for social protection in Sri Lanka

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PUBLIC EXPENDITURE ANALYSIS FOR SOCIAL PROTECTION IN SRI LANKA

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ACRONYMS AND ABBREVIATIONS

CKDU	Chronic Kidney Disease of Unknown Cause
DHS	Demographic and Health Survey
EAP	Elderly Assistance Programme
GDP	Gross domestic product
GFS	Global Finance Statistics (IMF)
HIES	Household Income and Expenditure Survey
IMF	International Monetary Fund
IPC-IG	International Policy Centre for Inclusive Growth
LKR	Sri Lankan Rupees
MIC	Middle-income country
MoF	Ministry of Finance
MoH	Ministry of Health
PAMA	Public Welfare Assistance Allowance
PER	Public expenditure review
ROSA	Regional Office for South Asia
SA	Social assistance
SP	Social protection
UCB	Universal child benefit
UCT	Unconditional cash transfer
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
VAT	Value-added tax

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EXECUTIVE SUMMARY

This report provides a public expenditure analysis of social protection in Sri Lanka. As policymakers gradually (re-)assess social protection systems in the wider context of recovery from the COVID-19 pandemic, it is becoming increasingly important to have clear information on the existing country-level programmes. Appraising existing policy and planning for the future creates an opportunity to design social protection strategies based on the demographic and socio-economic challenges facing countries. Detailing the characteristics of current programmes allows policymakers to evaluate the coverage, adequacy (or generosity) and life-cycle aspects of national social protection programmes. This document adopts a definition of social protection focusing on non-contributory (social assistance) and (semi-)contributory schemes (social insurance).

The report starts with a brief social and human development vulnerability assessment. Although the country has achieved significant socio-economic development following many years of conflict, challenges remain to achieve greater levels of well-being, equity and protection for its citizens. Economic vulnerability is largely linked to many Sri Lankans working in informal and precarious jobs that do not offer social security benefits. Meanwhile, the country still presents very high and stagnant levels of wasting and stunting among children. The COVID-19 crisis has likely exacerbated many of the vulnerabilities described above, as many people found themselves with no or reduced income, resorting to negative coping strategies to cover basic needs.

This is followed by an overview of the fiscal outlook in Sri Lanka, highlighting key indicators on debt, government expenditure and tax revenues, and comparing the statistics with other middle-income countries (MICs) in South and Southeast Asia. Prior to the pandemic, tax revenues in Sri Lanka had already shown a steady decrease in revenue as a percentage of gross domestic product (GDP) from 12.4 per cent in 2015 to 11.6 per cent in 2019. In 2019 and prior to COVID-19, the Government of Sri Lanka made important changes to its tax system, including lower income tax rates and new value-added tax (VAT) exemptions for consumer goods. The composition of government expenditure shows a significant shift, as capital expenditure has decreased at the expense of rising interest payments (both domestic and foreign), which jeopardise the country's fiscal space. These trends have worsened due to the economic impacts of the pandemic, showing the need for a serious strategy for public finances and fiscal space, to avoid spiralling public debt.

The public expenditure review (PER) of social protection programmes focuses on the main non-contributory (social assistance) and (semi-)contributory (social insurance) schemes that are financed by the government. This section analyses the main social assistance programmes in Sri Lanka. Successive governments have recognised the need to protect the most vulnerable population and support poor people through food subsidies and income supplementation programmes. The PER focuses on 12 social assistance programmes (*Samurdhi*, *Thriposha*, Poshana Malla, school feeding programmes, the Public Welfare Assistance Allowance, the Elderly Assistance Programme, assistance for persons with disabilities, the allowance for patients with Chronic Kidney Disease of Unknown Cause, free/subsidised school materials, scholarships and bursaries for education, season transport tickets for students, and flood and drought relief) and two social insurance schemes (public pensions, and compensation for deceased people and persons with disabilities) financed by the government.

The PER finds that the Government of Sri Lanka spends approximately 0.63 per cent of GDP on social assistance, but 1.97 per cent on social insurance (primarily public pensions), despite having far fewer beneficiaries of social insurance schemes. To improve the equity of the social protection system, budget allocations should consider prioritising public spending on poverty reduction and life-cycle interventions that have a greater impact on poor people.

Descriptive and incidence analyses of the main social protection programmes in Sri Lanka using the 2016 Household Income and Expenditure Survey (HIES) largely confirm the pro-poor distribution of social assistance interventions and the pro-rich distribution of pension income. The section also considers programme coverage across districts and cases of households reporting multiple programmes. In addition, simulations for a universal child benefit for children aged 5 years and under shows a considerable increase in social protection coverage in the HIES, and a pro-poor distribution of the benefit, since more children live in families among the poorest quintiles.

Based on the findings from the report, here are some prospective recommendations for social protection in Sri Lanka.

- Increase expenditure on social protection—especially social assistance—by increasing taxation and reprioritising existing government expenditure.
- Expand coverage of social protection to include households not currently covered by social assistance or social insurance.
- Improve the inclusion of poorer households in certain programmes, including through geographical targeting.
- Considering fiscal space limitations, geographical targeting can be adopted as a gradual approach towards the introduction of universal schemes.
- Reform *Samurdhi* to improve efficiency and programme transparency.
- Use existing programmes as a starting point for devising new and/or expanded social protection programmes.
- Consider a universal child benefit and other life-cycle initiatives to expand social protection coverage.

1. INTRODUCTION

This report provides an overview of public expenditure on social protection in Sri Lanka. As policymakers gradually (re-)assess their social protection systems in the wider context of recovery from the COVID-19 pandemic, it is becoming increasingly important to have clear information on existing country-level programmes. Appraising existing policy and planning for the future creates an opportunity to design social protection strategies for the challenges facing different countries. These challenges include aging populations, demographic bulges among the young, and guaranteeing the necessary well-being of children and/or segments of the population uncovered by either social assistance or social insurance schemes. Detailing the characteristics of existing programmes allows policymakers to evaluate the coverage, adequacy (or generosity) and life-cycle aspects of national social protection programmes.

Although this study occasionally discusses the recent developments of social protection programmes, with some being adapted and/or expanded in response to the COVID-19 crisis, the focus remains principally on the social protection landscape in Sri Lanka **excluding** COVID-19 interventions. UNICEF Sri Lanka is currently creating a separate document mapping the social protection measures taken by the Sri Lankan government in response to the pandemic. However, the focus in this document is exclusively on programme information prior to COVID-19, including figures on expenditure, coverage and the distributional incidence of programmes in Sri Lanka.

This document adopts a definition of social protection that includes non-contributory and (semi-)contributory schemes. Following the definition from the Core Diagnostic Instrument (CODI) of the Inter-Agency Social Protection Assessment (IPSA), social protection is conceived as a "set of policies and programs aimed at preventing or protecting all people against poverty, vulnerability, and social exclusion throughout their lifecycles, with a particular emphasis towards vulnerable groups". Non-contributory schemes provided in cash or in kind, providing universal, categorical or poverty-targeted benefits are commonly referred to as **social assistance**; while (semi-)contributory schemes, which are in part financed by the employer, are referred to as **social insurance** (IPSA 2014). In the case of Sri Lanka, public expenditure on pensions for public-sector workers is categorised as social insurance. Social protection also distinguishes itself from general health and education programmes, although targeted schemes (e.g. vouchers and subsidies) promoting better health or educational outcomes for poor and vulnerable groups can be considered a subset of social protection.

The structure of the report is organised as follows. The analysis starts with a brief social and human development vulnerability assessment. This is followed by an overview of the fiscal outlook in Sri Lanka, highlighting key indicators on debt, government expenditure and tax revenues, and comparing the statistics with other middle-income countries (MICs) in South and Southeast Asia. Then follows the public expenditure review (PER) of social protection programmes, focusing on the main non-contributory (social assistance) and (semi-)contributory (social insurance) schemes that are financed by the government. Along with expenditures for 2020, the PER includes information on programme characteristics (eligibility criteria, ministry/agency responsible, sub-components etc.), number of beneficiaries and other relevant information.

The report next provides descriptive and incidence analyses of the main social protection programmes in Sri Lanka, using the 2016 Household Income and Expenditure Survey (HIES)—the latest available HIES data at the time of producing this study—to assess not only the distributional incidence of the different programmes across households ranked by expenditure, but also the coverage across districts, cases of households reporting multiple programmes, and simple simulations of including a universal child benefit (UCB) for children aged 5 years and under using the HIES. Finally, the report provides concluding remarks that summarise the main takeaways and provides some preliminary policy recommendations based on key findings.

2. COUNTRY PROFILE

2.1 Vulnerability context

Sri Lanka is an MIC with per capita gross domestic product (GDP) of USD4,020 (purchasing power parity—PPP) in 2020 and a population of approximately 21 million people. The country has achieved significant socio-economic developments following many years of conflict, although challenges remain to achieve greater levels of well-being, equity and protection for its citizens. Sri Lanka's progress over the past 30 years is represented through its Human Development Index, which increased from 0.629 in 1990 to 0.782 in 2019 (a 24.3 per cent increase). During this period, life expectancy at birth increased by 7.5 years, mean years of schooling increased by 2.3 years, and expected years of schooling increased by 2.8 years (UNDP 2020, 2). Further, Sri Lanka performs moderately well on the World Bank's Human Capital Index, with a pre-pandemic overall score of 58 per cent—the best score in South Asia. Still, such a score means that "a child born in Sri Lanka today will only be 60 per cent as productive as she would be with full education and health when she reaches 18 years old" (Aturupane et al. 2021, 5).

According to the national poverty line, only 4.1 per cent of Sri Lankans are poor. Yet living standards remain low (World Bank 2017). Based on international poverty lines, which allow for comparisons between countries, while extreme poverty (USD1.90 PPP per day) is close to zero (0.4 per cent in 2019), moderate levels of global poverty persist, with 8 per cent of the population living on USD3.20 or less per day, and 42 per cent of the population living on USD5.50 or less per day (World Bank 2021). This level of vulnerability is likely linked to the fact that most adults in the bottom 75 per cent of the population in Sri Lanka either work in the informal economy or are not participating in the labour market (UNICEF Sri Lanka 2020). The lack of social security benefits offered to informal workers is an important challenge. According to a 2020 report by the World Bank on informality in Sri Lanka, "the precarious nature, low quality, and low wages of many informal jobs lead to higher poverty and vulnerability (World Bank 2020b, 11).

This vulnerability can be seen on several fronts that impact children and, consequently, human development: according to the latest Demographic and Health Survey (DHS), the country still presents very high and stagnant levels of wasting (at 15.1 per cent of children under 5 years) and stunting; further, among the bottom 70 per cent of households, average spending on food is over 40 per cent of total consumption (HIES 2016), which demonstrates that incomes are limited. Yet, on any given day, 39 per cent of young children across Sri Lanka are unable to consume iron-rich foods (UNICEF Sri Lanka 2020).

In the past, the health care system focused especially on maternal and neonatal health, which contributed to the great progress observed in maternal and child health indicators in the country. The Ministry of Health (MoH) has observed the impending challenges of a rapidly aging population, and thus the need to gradually reprioritise care services for elderly people (MoH 2017). This may lead to concerns of de-prioritisation of investment in maternal and child health, and a subsequent reversal of the gains made so far.

The country's public health care and education systems are free and universal (excluding preschool education), which are major achievements for Sri Lanka, and have helped to achieve progress on many fronts. Still, challenges remain in both sectors. In education, greater emphasis is needed on the quality of public schooling to improve learning and provide the skills needed for young people to find jobs with good and decent working conditions. This is particularly relevant in the context of a rapidly aging society.

The country is undergoing significant demographic changes: fertility rates are declining, and longevity is increasing; as a result, the proportion of Sri Lankans over 60 years of age is expected to increase from 14 per cent in 2017 to 22 per cent in 2037 (Attygalle 2019). To effectively support their parents and grandparents once they reach old age, children of today will have to become much more productive, given the dramatic fall in the dependency ratio between those of working age (20–64 years) and older persons (65 years and over). Currently, for every older person in Sri Lanka, there are 5.5 working-age adults, but this will fall to fewer than 2.5 by 2050.

In terms of disabilities, the latest available Census of Population and Housing (2012) indicates that 8.6 per cent of the Sri Lankan population older than 5 years—or approximately 1.6 million people—have some form of difficulty/impairment (seeing, hearing, walking, cognition, self-care, communication), including more women than men. Among children and adolescents aged 5–19, 5 per cent—or approximately 250,000—have some form of difficulty. Twenty per cent of children of primary school age (5–9 years) were not receiving any form of formal education. The vast majority (71 per cent) of people over 15 years old with disabilities are economically inactive, with over a third of them being unable or too old to work (although men are three times more likely to be economically active than women). Only about 6 per cent of this economically inactive population receive an income or a pension, with men significantly more likely to receive one than women. Further, incidence of impairment increases with age: one in every four people aged 60–69 years old has an impairment, while half of those over 75 year of age are impaired in one way or another. Finally, Kandy, Nuwara-Eliya and Ratnapura districts show the highest rates of impairment, while Colombo district shows the smallest (DCS 2012). The DHS 2016 asked mothers of children aged 2–5 years whether their child/children had a developmental difficulty in any of 10 specific areas. It reports that 23 per cent of children aged 2–5 years had at least one of the 10 functional disabilities (DHS 2016).

The COVID-19 crisis has likely exacerbated many of the vulnerabilities described above, as many people found themselves with no or reduced income, resorting to negative coping strategies such as withdrawing money from savings, and pawning or selling assets to cover basic needs. The World Bank (2021) estimates that more than 500,000 people were pushed into poverty in 2020, with an increase of 27 per cent in the USD3.20 per day poverty rate, compared to 2019, which more than reverses the progress made since 2016. Nationally representative telephone surveys conducted by the United Nations Children's Fund (UNICEF) and the United Nations Development Programme (UNDP) in 2020 and 2021 confirm these outcomes. In the latest round (July–August 2021), results show that while there has been a recovery of jobs, most household income levels have not recovered to pre-COVID levels: 68 per cent of households reported a reduction in income compared to a year ago. Moreover, there has been a large increase in the proportion of households that have reduced their overall food consumption (43 per cent reported reducing food consumption). This reduction seems strongly related to income loss or reduction. Even households that did not reduce overall food consumption shifted their consumption basket towards cheaper foods, particularly away from meat, fish, eggs and dairy products (UNICEF Sri Lanka 2021b).

2.2 Fiscal and macroeconomic context

2.2.1 Composition of tax revenues

Tax revenue in Sri Lanka had already shown a steady decrease prior to the pandemic, with revenue as a percentage of GDP diminishing from 12.4 per cent of GDP in 2015 to 11.6 per cent in 2019. Table 1 presents the composition of taxes based on data from the 2020 Annual Report published by the Ministry of Finance (MoF 2020). What stands out most is the dramatic decrease in total tax revenue from 11.6 per cent of GDP in 2019 to 8.1 per cent in 2020: a significant change due to important changes to fiscal policy (especially income tax) and the effects of COVID-19.

Since 2019 (and prior to COVID-19), the Government of Sri Lanka has made important changes to its tax system. As of 1 January 2020, income tax rates were lowered—with the highest marginal rate decreasing from 24 per cent to 18 per cent—along with new exemptions to income tax and withholding tax, and the repeal of the Pay As You Earn (PAYE) scheme (for details, see CBSL 2019, 236–237). Other changes to the tax system before the onset of the pandemic included new exemptions and lower rates of VAT, especially for hospitality and international services; the removal of the National Building Tax; and a general increase in rates for excise and custom duties (CBSL 2019, 237–241). These reforms are crucial for fiscal space for social policy, as income tax is an important and progressive tool to increase public funds.

Despite low levels of revenue from **income tax** and **VAT** (2.8 per cent and 3.0 per cent of GDP, respectively) prior to COVID-19, there was an upward trend in revenue observed for both taxes, which are both key sources of revenue for a modernising tax system. The decline in revenues for 2020 was severe, as income tax revenue decreased to 1.8 per cent of GDP (a 36 per cent decrease), and VAT to 1.6 per cent (a 47 per cent decrease). While the decrease in VAT in revenue was to some degree necessary to help households cope during COVID-19, the decline in income tax reflects largely the above-mentioned income tax reforms.[1]

Before 2020, revenues from **both excise and import duties** had decreased significantly between 2015 and 2019—from 4.5 per cent to 2.7 per cent of GDP in the case of excise duties, and from 1.2 per cent to 0.7 per cent of GDP for import duties. In 2020, excise duties decreased to 2.2 per cent of GDP, while import duties increased to 0.8 per cent.

Table 1. Composition of tax revenues in Sri Lanka, 2015–2020 (percentage of GDP)

Source of revenue	2015	2016	2017	2018	2019	2020*
Total tax revenue	12.4	12.2	12.5	11.9	11.6	8.1
Income tax	2.4	2.2	2.1	2.2	2.8	1.8
VAT	2.0	2.4	3.3	3.2	3.0	1.6
Nation Building Tax	0.4	0.5	0.5	0.5	0.5	0.0
Excise duties	4.5	3.8	3.5	3.4	2.7	2.2
Import duties	1.2	1.3	1.0	0.7	0.7	0.8
Ports and Airports Development Levy	0.5	0.7	0.8	0.8	0.7	0.8
Special Commodity Levy	0.5	0.5	0.5	0.5	0.5	0.6
Other	0.8	0.9	0.8	0.7	0.7	0.5

Note: *2020 data are provisional.

Source: MoF (2020).

2.2.2 Composition of government spending

We turn now to the composition of government spending. Table 2 presents public expenditure in Sri Lanka between 2015 and 2020, based on data from the MoF's 2020 Annual Report (MOF 2020). Prior to 2020, total government spending remained fairly constant as a percentage of GDP. However, there was a significant shift in composition, even before 2020. Recurrent expenditures (A) remained roughly constant over the period, despite an increase in 2019, whereas capital expenditures (B) decreased markedly—from 5.4 per cent of GDP in 2015 to 3.3 per cent in 2020. Despite a somewhat stable trend overall, recurrent expenditures (A) show different trends among their sub-components. Prior to 2020, expenditures on goods and services had decreased from 6.8 per cent in 2015 to 5.6 per cent in 2019. Conversely, interest payments by the government increased strikingly—from 4.4 per cent to 6.0 per cent of GDP over the same period—while transfers and subsidies to households, subnational governments, public enterprises and other institutions remained mostly consistent. The rising share of government spending on interest payments (both domestic and foreign) jeopardises the country's fiscal space, considering its current level of public debt. Issues of limited fiscal space are further exemplified by payment delays in 2019 (arrears), which were passed on to the 2020 spending budget and added pressure to Sri Lanka's fiscal space.

1. Between 2015 and 2019, the other sources of revenue in Sri Lanka had mostly either remained constant or decreased over time. Revenues from the Nation Building Tax (NBT)—a 2 per cent tax on domestic goods and services, the Ports and Airports Development Levy (PAL), the Special Commodity Levy (SCL) and the category 'other taxes' had remained mostly constant over time as a percentage of GDP. However, the government announced the elimination of the NBT effective as of 1 December 2019 (thus no revenue for 2020). To partially compensate for the loss in revenue, the standard rate of the PAL—an import tariff administered by Sri Lanka Customs—was increased from 7.5 per cent to 10 per cent. However, the increase in revenue from the PAL was 0.1 percentage point (from 0.7 per cent to 0.8 per cent of GDP) for 2020, and thus did not compensate for the elimination of the NBT (0.5 per cent of GDP in 2019).

Table 2. Composition of government spending in Sri Lanka, 2015–2020 (percentage of GDP)

Source of expenditure	2015	2016	2017	2018	2019	2020*
A) Recurrent expenditures (A1+A2+A3+A4)	15.5	14.7	14.5	14.5	16.1	17.0
A1) Expenditures on goods and services	6.8	6.0	5.5	5.3	5.7	6.5
Salaries and wages	5.1	4.8	4.4	4.4	4.6	5.3
Central government	1.6	1.5	1.5	1.5	1.6	1.8
Provincial councils	1.4	1.2	1.1	1.1	1.2	1.6
Defence	1.6	1.5	1.4	1.3	1.3	1.3
Police and public security	0.6	0.5	0.4	0.4	0.5	0.6
Other purchases of goods and services	1.7	1.3	1.1	1.0	1.1	1.2
A2) Interest payments	4.8	5.1	5.5	5.9	6.0	6.5
Domestic	0.7	0.8	1.0	1.3	1.6	1.8
Foreign	4.1	4.2	4.5	4.6	4.4	4.8
A3) Subsidies and transfers	3.9	3.5	3.4	3.3	3.7	4.8
To households	3.2	2.8	2.8	2.7	3.0	4.1
o/w pensions	1.4	1.4	1.4	1.4	1.5	1.7
Samurdhi	0.4	0.3	0.3	0.3	0.3	0.4
Fertiliser subsidy	0.5	0.2	0.2	0.2	0.2	0.2
Other subsidies and transfers, including POEs	1.0	0.8	0.9	0.9	1.0	1.8
To non-financial public enterprises	0.3	0.2	0.2	0.2	0.2	0.1
To other institutions	0.4	0.5	0.5	0.5	0.5	0.6
A4) Arrears	-	-	-	-	0.8	-0.8
B) Capital expenditure (B1+B2+B3)	5.4	4.8	4.8	4.3	6.1	3.3
B1) Acquisition of fixed capital assets	2.9	2.7	2.6	2.4	2.6	3.2
B2) Capital transfers	2.5	2.1	2.2	1.8	1.6	2.1
B3) Arrears	-	-	-	-	2.0	-2.0
C) Lending minus repayments	0.0	0.0	0.1	-0.1	0.0	0.0
TOTAL (A + B + C)	20.9	19.5	19.3	18.7	22.2	20.3

Note: *2020 data are provisional. Figures are rounded to nearest decile. Subcategories do not always round up.

Source: MoF (2020). GDP data from CBSL (2020).

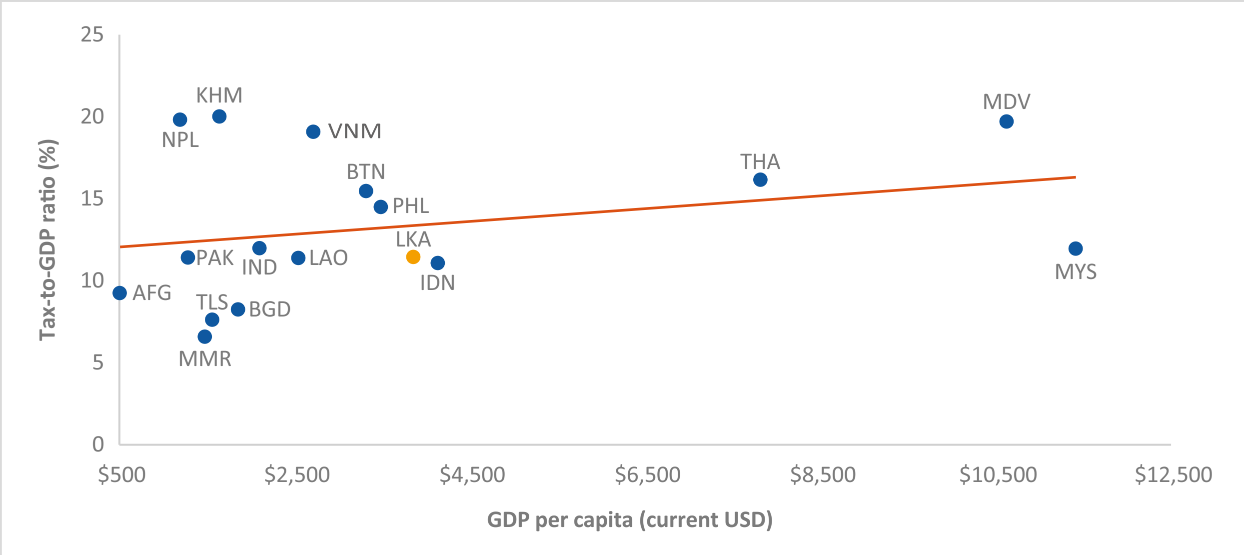
2.2.3 Fiscal space overview

To assess the fiscal space in Sri Lanka, a comparative method is adopted, drawing on both lower- and upper-middle-income countries in South and Southeast Asia. In July 2020, the World Bank downgraded Sri Lanka to a lower-middle-income country, with per capita GDP of USD4,020 (against a threshold for upper-middle-income status of USD4,050), after previously reaching per capita GDP of USD4,060 in 2019. We, therefore, choose MICs in geographical proximity as our comparison group. This overview focuses on tax revenues, public debt and current expenditure on public employees as a measure of reprioritisation. However, more in-depth analysis and policy discussions are both needed for a more detailed examination, which could also explore potential efficiency gains through policy reform.

Tax revenues

The International Monetary Fund (IMF) Government Finance Statistics (GFS) is the database used for tax-to-GDP ratios. In 2019, Sri Lanka's tax-to-GDP ratio was 11.52 per cent, compared to a mean of 13.3 per cent for our sample of 17 countries. Figure 1 presents a scatterplot of tax-to-GDP ratios (y axis) and GDP per capita in current USD (x axis) across MICs in South and Southeast Asia. Despite significant variation across countries, Sri Lanka's tax-to-GDP level lies below the average trend line.

Figure 1. Tax-to-GDP ratios across MICs in South and Southeast Asia, 2019 or latest year

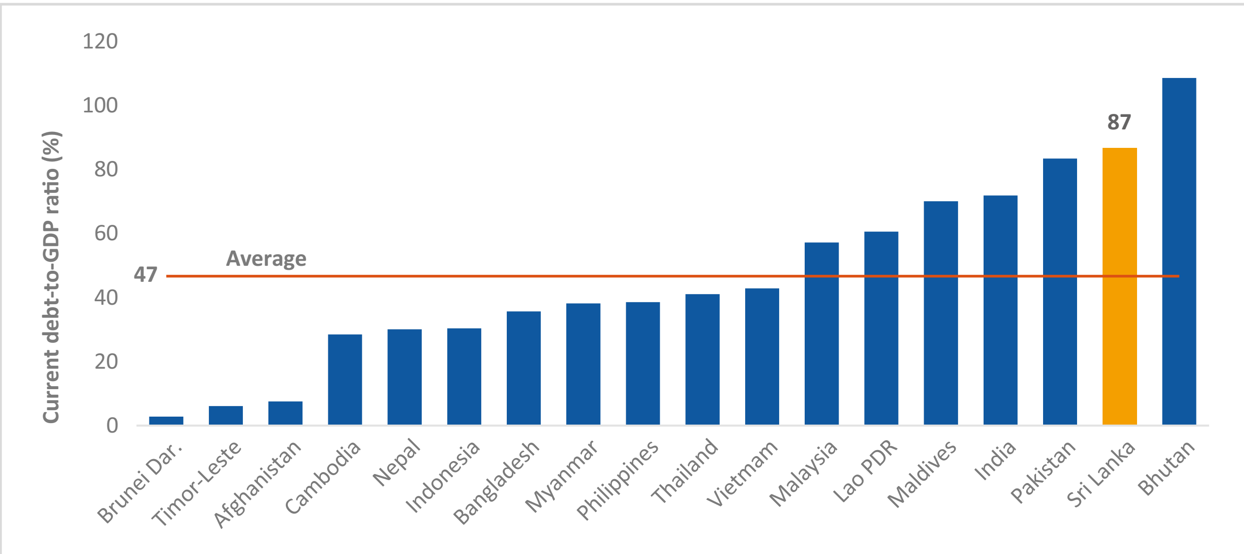


Source: Tax-to-GDP ratios: IMF GFS database; GDP per capita: World Bank World Development Indicators.

Public debt

Deficit financing, which explores a country's potential to increase fiscal space by engaging in borrowing to finance expenditures, is measured using the country's debt-to-GDP ratio. Figure 2 shows debt-to-GDP ratios across our sample **prior to COVID-19** (these values have since increased). Sri Lanka has the second-highest level of debt to GDP from the sample, at 87 per cent of GDP, while the sample average is 47 per cent of GDP. As a benchmark, the IMF recommends that developing countries cap their debt-to-GDP ratio at 40 per cent to promote debt sustainability. Even for pre-pandemic levels, this makes deficit financing extremely problematic for Sri Lanka. Moreover, the situation has worsened following COVID-19: Sri Lankan debt-to-GDP ratio for 2020 stood at 100 per cent.

Figure 2. Debt-to-GDP ratios in MICs in South and Southeast Asia, 2019



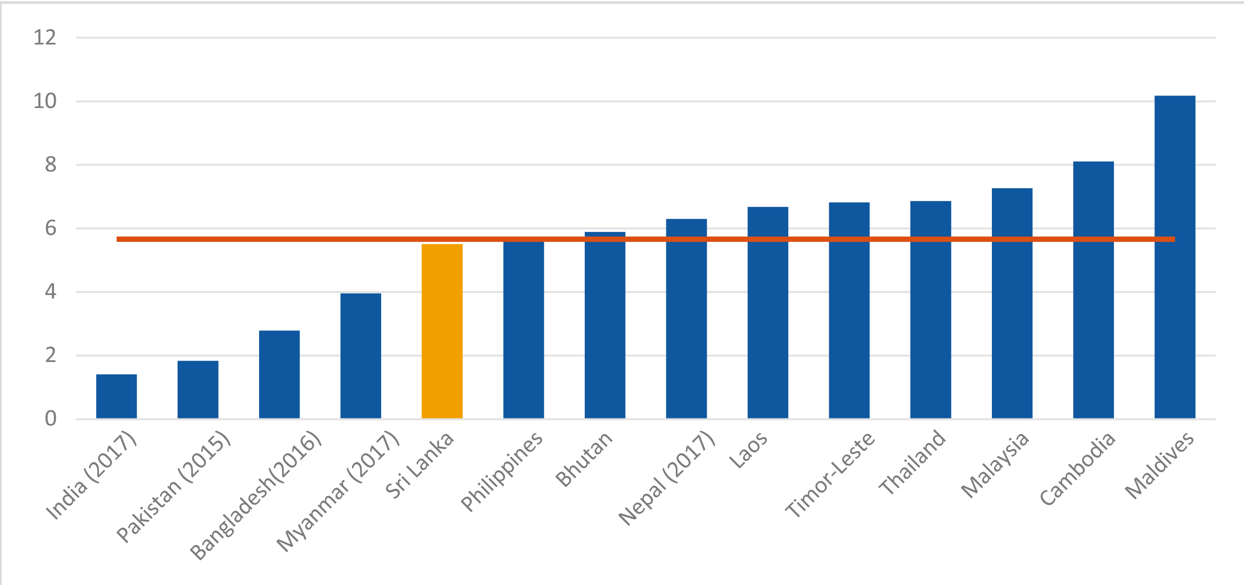
Source: World Bank Cross-Country Fiscal Space Database, Fall 2020 version. Data for all countries are for 2019, except for Lao People's Democratic Republic (2018).

Reprioritisation of expenditures

The third component of the fiscal space analysis focuses on the reprioritisation of current government expenditures. There are many ways in which government reprioritisation can be measured, and no consensus. The focus here is on the amount the government spends on its staff as a percentage of GDP. The IMF's GFS database on revenues allows us to compare government expenses across 14 MICs in South and Southeast Asia for 2018. To estimate annual expenditure on public employees, the following equation is used:[2]

Using this formula, Sri Lanka was found to spend 5.5 per cent of its GDP on public employees. Figure 3 compares the result from Sri Lanka with the other MICs from South and Southeast Asia with available data. The sample average is 5.7 per cent of GDP, putting Sri Lanka slightly below the average value, but significantly higher than other countries in South Asia.

Figure 3. Total government expenditure on public employees, 2018 or latest year (percentage of GDP)



Source: IMF GFS database.

3. DESCRIPTION OF SOCIAL ASSISTANCE PROGRAMMES

This section analyses the main social assistance programmes in Sri Lanka. Successive governments have recognised the need to protect the most vulnerable population and support poor people through food subsidies and income supplementation programmes. Key reforms to the social protection system have included the following:

- From the 1940s to the 1970s, Sri Lankan governments prioritised universal social programmes, including a large food subsidy programme (rice ration) that was introduced during the Second World War (Moore 2017, 16).
- In 1978, the rice ration was replaced by the Food Stamp scheme, which was introduced as a cash subsidy for low-income groups in the form of food stamps to procure a basket of nutritious food commodities (rice, flour/cereal, sugar, infant milk foods, dried fish and pulses).

2. 'Employment-related social benefits' are defined as "social benefits payable in cash or in kind by government or public sector units to their employees or employees of other government or public sector units participating in the scheme" (IMF 2014, 136).

- In 1989, the food stamp scheme was replaced by the national poverty alleviation programme, *Janasaviya*.
- In 1995, *Janasaviya* was amended to the *Samurdhi* ('Prosperity') programme.
- In 2012, *Samurdhi* was temporarily replaced by the name *Divineguma*, which in many ways represents a continuation of the programme, except that prior to 2012, the subsidy/welfare component included a food stamp component which was replaced by a cash transfer. The name of the programme reverted to *Samurdhi* in 2017 (Tilakaratna and Sooriyamudali 2017).

In addition to these changes, further assistance programmes have been adopted over the years to address other contingencies and/or target other vulnerable groups, such as *Thriposha*, the food allowance for pregnant mothers, school feeding programmes, the Public Welfare Assistance Allowance (PAMA), the Elderly Assistance Programme (EAP), and programmes offered by the National Secretariat for Persons with Disabilities. These programmes are discussed in the mapping below, and a brief description of each follows.

Table 3. Summary of the main social protection programmes in Sri Lanka

Programme	Programme type(s)	Number of beneficiaries	Budget (LKR millions)	Target population
Samurdhi	UCT, various*	1,770,086 families (2020)[3]	52,472 (2020)	Poor households
Thriposha[4]	Food	>900,000 (2017)	1,122 (2020)	All pregnant and lactating mothers; malnourished children under 5 years
Food allowance for pregnant women/ *Poshana Malla*[5]	Voucher	238,034 (2020)	4,761 (2020)	All pregnant and lactating women
School feeding programmes	Food	1,164,895 (2020)	5,390 (2019)	Children in school
Public Welfare Assistance Allowance (PAMA)	UCT	580,720	969.5 (2015)	Low-income or destitute families, often with elderly people, persons with disabilities, widows and orphans
Elderly Assistance Programme (EAP)/Senior Citizens' Allowance[6]	UCT	416,667 (2020)	9,868 (2020)	Elderly people (70+) earning less than LKR6,000/month
Assistance for persons with disabilities	UCT	32,000 (June 2019) 72,000 (since July 2019)	4,292.8 (2020)	People with disabilities with low income
Allowance for patients with kidney disease	UCT/health fee waivers	25,320 (2019) 39,169 (2020)	1,776 (2020)	Kidney disease patients with low income

Note: HS: Health care services; UCT: Unconditional cash transfer; **Samurdhi* includes social insurance contributions, housing assistance, nutrition programmes, a microfinance scheme and livelihood development programmes. School feeding programmes include nutrition programmes and milk for preschool children.

3. Data from CBSL (2020).

4. *Thriposha* Lanka (under the Ministry of Education) and MoF (2020).

5. CBSL (2020).

6. National Secretariat for Elders and MoF (2020).

Samurdhi

Samurdhi is the flagship social assistance programme in the country. It provides monthly cash support to low-income families, along with several other benefits. It is supposed to be not only a poverty alleviation programme but a multifaceted and holistic programme to develop the rural economy, reduce poverty, address malnutrition and promote organic farming techniques (Kelegama 2016). Its mission is to establish 2.5 million healthy and economically empowered household economic units, covering all the villages in Sri Lanka (UN and IPS 2014).

Until 2014, *Samurdhi* was administered by two entities: the Department of Commissioner General of *Samurdhi* (DCGS) and the *Samurdhi* Authority of Sri Lanka (SASL). In 2014, the DCGS, SASL and three other institutions[7] were integrated to form the Department of Divineguma Development (under the Divineguma Act 2013 No. 1). The programme name *Samurdhi* was briefly replaced by *Divineguma*, with no notable changes to the cash transfer or other programmes/components (Tilakaratna and Sooriyamudali 2017), before reverting back to the original name in 2017.

The programme includes activities such as home-gardening, cultivation of fruits and vegetables, encouraging fishery and animal husbandry, eco-friendly living patterns, cottage industries and services, as well as good community health practices. Compulsory savings, social security and housing fund contributions, and microfinance schemes are other key components (Alderman et al. 2018). The *Grama Niladhari*, *Samurdhi* development officers, agriculture research and production assistants, and public health midwives together handle the ground-level implementation of the programme (Kelegama 2016).

However, there are certain **concerns about the effectiveness and efficiency of the programme**. Budget estimates from the government for 2019 estimate that welfare (transfer) components of the programme (LKR50 billion) made up 77 per cent of total expenditure, while 20 per cent of expenditure (LKR12.83 billion) was spent on personal emoluments (Department of *Samurdhi* Development and GoSL 2020)—a very large amount considering that administrative costs for more efficient cash transfer programmes can be less than 5 per cent (Ortiz et al. 2017). Other concerns include exclusion of poor households, and a lack of clear eligibility criteria and transparency.

The year-to-year budget of the *Samurdhi* programme increased significantly from LKR15 billion in 2014 to LKR37 billion in 2015 (excluding human resource expenditure). This followed reforms to the *Samurdhi* programme in 2015, when the monthly benefit allowance was doubled to a maximum of LKR3,500 per beneficiary household (see Table 4). Meanwhile, empowered families benefiting from the programme sub-components (including rural infrastructure, livelihood, social development and housing microfinance programmes) have received LKR420 per month since 2015 (World Bank 2020a). The higher level of expenditure on *Samurdhi* has remained consistent in recent years at around LKR40–45 billion, with expenditure estimated at LKR44.66 billion for 2019, and LKR52.43 billion for 2020 (MoF 2020). In 2020, the programme covered over 1.7 million families.

Table 4. *Samurdhi* monthly allowance per beneficiary

Beneficiary category	2012–2014	Since 2015
Fewer than 3 members	LKR750	LKR1,500
3 members	LKR1,200	LKR2,500
4 or more members	LKR1,500	LKR3,500
Empowered families	LKR210	LKR420

Source: World Bank (2020a).

7. Namely, the Upcountry Peasantry Rehabilitation Department, the Sri Lanka Upcountry Development Authority and the Southern Development Authority.

Using the Human Capital Index, the World Bank (2020a) found that in the regions where poverty is high, more people benefit from the targeted *Samurdhi*. This finding is corroborated by the results from the 2016 HIES at the district level presented in the next section. Around 11 per cent of people in the Eastern province, 8.9 per cent of people in the Northern province and 8.1 per cent of people in Sabaragamuwa province receive *Samurdhi* benefits. In contrast, the Western province, where the poverty Human Capital Index is also lowest, recorded the lowest coverage of *Samurdhi*.

Thriposha National Supplementary Food Programme

Thriposha is a highly nutritious supplementary food, distributed free of charge to all pregnant and lactating (up to 6 months) mothers and undernourished children (aged 6–59 months), with the aim of improving their nutritional status. Its main components are maize and soya beans, with the addition of milk powder, vitamins and minerals. The *Thriposha* National Supplementary Food Programme started in 1973. Originally implemented by the MoH, it has been administered by the State Ministry of Women and Child Development, Pre-School & Primary Education, School Infrastructure & Education Services (which is currently under the Ministry of Education) since August 2020. It aims to maintain satisfactory weight gain during pregnancy to reduce incidence of low birthweight; maternal mortality; nutritional anaemia among pregnant women; third-degree protein energy malnutrition (PEM) by 90 per cent, and second degree PEM by 50 per cent in infants and preschool children; infant mortality; and underweight in children under 5 years of age (ADB 2012).

Beneficiaries are entitled to 1,500 g (two x 750 g packets) of *Thriposha* per month (50 g per day). A daily portion of 50 g of *Thriposha* covers a significant proportion of the requirements of a child aged 6–23 months, and decreases the cost to the household of a nutritious diet for this child by 57 per cent (WFP 2018).

In 2020, *Thriposha* experienced considerable obstacles related to the production process, due to a lack of maize following the price ceiling set by the government at LKR55 per kg. As a result, the manufacturing plant closed for several weeks in mid-2020 (LankaNewsWeb 2020), while the programme expenditure almost halved from LKR2.187 billion in 2019 to LKR1.112 billion in 2020 (MoF 2020, 380).

The literature highlights some serious concerns about the effectiveness of the programme. The World Bank (2020a) suggests that the programme reconsider the targeting of food supplementation for cost-effectiveness. This conclusion was based on the findings from a World Food Programme (WFP) technical mission in 2016 and 2017.

Meanwhile, findings from the National Nutrition and Micronutrient Survey of Pregnant Women in Sri Lanka show that although 91 per cent of pregnant mothers had received *Thriposha*, only 11 per cent of them consumed it as prescribed (MRI 2013). While presenting more encouraging results than the MRI study, Kanthilanka et al. (2017) still found that of the 90 per cent of pregnant women receiving *Thriposha*, only 57.5 per cent consumed it daily. According to the World Bank (2020a), to improve cost-efficiency and cost-effectiveness, the programme should reconsider the targeting of food supplementation. For instance, it could prioritise distribution to at-risk pregnant women rather than all women, particularly considering the rates of overweight among women of childbearing age in the country, and to malnourished children under 5 years of age. This could gain the government some fiscal space for other social protection programmes.

Food allowance for pregnant women/Poshana Malla

The State Ministry for Women and Child Development administers nutrition vouchers for pregnant and lactating women. When first introduced in 2006, the programme aimed to improve the nutritional status of pregnant and lactating mothers in low-income families by providing a nutrition relief card to obtain a 'nutrition food package' worth LKR500 for 20 months (8 months of pregnancy and the first 12 months of the infant's life). In 2015, the programme was expanded into a universal programme, and all pregnant women registered with the MoH could apply for the food allowance voucher. Benefits were also increased to LKR2,000 per month for 10 months (for approximately 6 months of pregnancy and the first 4 months of lactation), amounting to a total of LKR20,000 per beneficiary.

Table 5. Pregnant mothers' food assistance programme

	2009–2014	2015 to date
Food allowance	LKR500 for 20 months	LKR2,000 for 10 months
Target group	Pregnant mothers who are living in *Samurdhi* beneficiary families registered with the MoH	All pregnant mothers who are registered with the MoH

Source: World Bank (2020a).

The total expenditure on *Poshana Malla* was LKR5.28 billion in 2019, which was an increase of approximately LKR5 billion from 2014, when it was LKR279 million. In 2020, however, expenditure decreased to LKR4.76 billion.

School feeding programmes

Sri Lanka launched its first school feeding programme in 1931, and the current policy originates from 2002 (World Bank 2015). The stated aims of the programmes are to ensure that students stay healthy, active and energetic (Ministry of Education 2011).

Currently, there are three main school feeding programmes in Sri Lanka: meals for children in grades 1–5, whereby providers are contracted to deliver meals to schools; the Glass of Milk programme, which provides a glass of milk or yogurt to children in grades 1–5; and the Morning Meal for Preschool Children. Furthermore, the MoH provides iron tablets, folic acid, vitamins and deworming medicine as a complement to the programme (World Bank 2015).

In 2017, an estimated 1,105,605 students in 7,871 schools benefited from the school meal programme for grades 1–5, while 112,088 students from 414 schools benefited from the Glass of Milk programme (WFP 2017). Another estimate by Lister et al. (2017) found that 1,125,890 students in 8,149 schools benefited from the school meal and Glass of Milk programmes combined in 2015, covering almost 80 per cent of all government schools. The Glass of Milk programme was implemented in approximately only 10 per cent of schools, and was halted due to COVID-19. The MoF (2020) estimates that 1,079,097 children benefited from school nutrition programmes, and 85,798 from the morning meal for preschoolers.

Government expenditure on school feeding programmes in 2019 amounted to LKR5.390 billion, with LKR5.063 billion for nutrition programmes and LKR327 million for the morning meal programmes. The budgets for both programmes, however, decreased significantly in 2020 due to school lockdown measures, with the combined programme expenditure decreasing to LKR2.375 billion (a 56 per cent decrease from 2019).

Public Welfare Assistance Allowance or Pin Padi

The PAMA—also known as *Pin Padi*—is a programme that originated in 1939 with the goal to provide income support to 'the destitute' (UNESCAP 2015). It is implemented by provincial councils, and targets elderly people, people with disabilities, widows and orphans, with 580,720 individuals in seven of the country's nine provinces in 2015. Programme expenditure for 2015 was LKR969.5 million (World Bank 2016).

Most recipients are older persons or single-headed households without an income; many are women. Benefits range from LKR250 to LKR500 per month, depending on the number of dependents (up to five) (Ministry of Social Services 2013; Tilakaratna, Galappattige, and Jayaweera 2013). Data for the PAMA need to be collected at the provincial level, as no national ministry collects this information.

Elderly Assistance Programme

The Sri Lankan government provides financial support to some older persons living in poverty, known as the EAP. Legal frameworks include the Protection of the Rights of Elders Act No. 9 (2000) and the Amendment of Act No. 9 by Act No. 5 (2011) (MoSEW 2016; 2017). The EAP aims to protect and promote the rights of elderly people through unconditional and means-tested cash transfers (World Bank 2016). The National Secretariat for Elders, currently under the MoH (State Minister of Primary Health Care, Epidemics and COVID Disease Control), is charged with administering the programme. The EAP was formed in 2012 by including beneficiaries of *Samurdhi* and the PAMA aged 70 years or older (in several stages, however, as not all people aged 70 years or older were included either, perhaps due to budgetary constraints). However, current beneficiaries are not necessarily former beneficiaries of *Samurdhi* or PAMA; thus beneficiaries of the PAMA, the EAP and *Samurdhi* may overlap in some areas (Tilakaratna, Galappattige, and Jayaweera 2013; interviews with the National Secretariat for Elders).

Recipients are elderly people (70 years old and older) in low-income households with monthly income below LKR6,000. They receive LKR2,000 per month, and there is a mandatory contribution of LKR100 per month to a social security fund. There were an estimated 416,667 beneficiaries in 2020. The government budget for the programme was LKR9.868 billion in 2020. This is significant, considering that the programme budget was only LKR554 million in 2012.

National Secretariat for Persons with Disabilities programmes

The National Secretariat for Persons with Disabilities, currently under the MoF (State Ministry of *Samurdhi*, Household Economy, Micro Finance, Self-Employment Business Development), manages a range of programmes/interventions to promote the welfare of people living with disabilities. These include: a monthly financial support benefit; self-employment, housing, medical, education and school material assistance; toolkits for self-employment; an allowance for disabled vocational trainees; and assistive devices (World Bank 2016).

In terms of monthly financial support, the National Secretariat for Persons with Disabilities implements two cash transfer programmes: one for persons with disabilities, and another for patients with Chronic Kidney Disease of Unknown Cause (CKDU). Under these programmes, eligible persons in households with a monthly income below LKR3,000 receive a monthly payment of LKR5,000 (State Ministry of *Samurdhi* 2021).

The monthly assistance for persons with disabilities increased from LKR3,000 to LKR5,000 in July 2019. In the same month, the number of beneficiaries increased from 32,000 to 72,000. Programme expenditure increased from LKR2.810 billion in 2019 to LKR4.292 billion in 2020, following the increase in coverage and benefit amount.

Eligibility for the allowance for patients with CKDU is based on severe cases (registered at government hospitals and receiving continuous treatment from a specialist), with priority given to stage IV and V patients. Coverage increased from 25,320 people in July 2019 to 39,169 in September 2020, as the programme was extended to all those who were on the waiting list. The cost of the programme subsequently rose from LKR1.451 billion in 2019 to LKR1.776 billion in 2020.

3.1 Additional social assistance programmes

This section summarises additional social assistance programmes and related schemes that were not included in the overview of the main social assistance programmes in the mapping by Arruda et al. (2020). Expenditure figures for these programmes are taken from the MoF 2020 Annual Report (MoF 2020, 380: Table 31).

Free school materials: The government provides a range of free school materials to all public school students at primary and secondary levels. In 2019, the government spent LKR4.807 billion on school and *Dharma* (Buddhist religious education) textbooks, and LKR3.789 billion on free school uniforms.

Season tickets for schoolchildren and university students: Heavily subsidised transport tickets help encourage school attendance among children and students (Tilakaratna, Kiringoda, and Wanigasinghe 2021). Programme expenditure was LKR5.400 billion in 2020.

Scholarships and school bursaries: In 2019, the Sri Lankan government provided a combined LKR2.571 billion for *Mahapola* scholarships (undergraduate studies), grade 5 scholarships and bursaries. In 2020, the value increased to LKR2.997 billion.

Flood and drought relief: The government spent LKR406 million on flood and drought relief in 2019, and LKR237 million in 2020—considerably less than the LKR5.854 billion spent on the programme in 2017 and LKR5.279 billion in 2018.

3.2 Social insurance programmes

This section focuses on social insurance programmes that the government is responsible for financing through general revenues. The programmes listed below represent the main social insurance schemes where the government is liable as the employer.

Public pension schemes: Contributory and semi-contributory schemes are available to public-sector workers, and, through separate pension schemes, to (some) farmers and fishermen. Public-sector pensions are primarily financed through public expenditure (employers' liability), and they are mostly non-contributory. In 2020, expenditure on public pensions amounted to LKR257.8 billion (MoF 2020, 101), up from LKR227.2 billion in 2019 and LKR170 billion in 2017. According to data from the Department of Pensions, there were 660,934 recipients of public-sector pensions in 2020 (MoF 2020, 198).

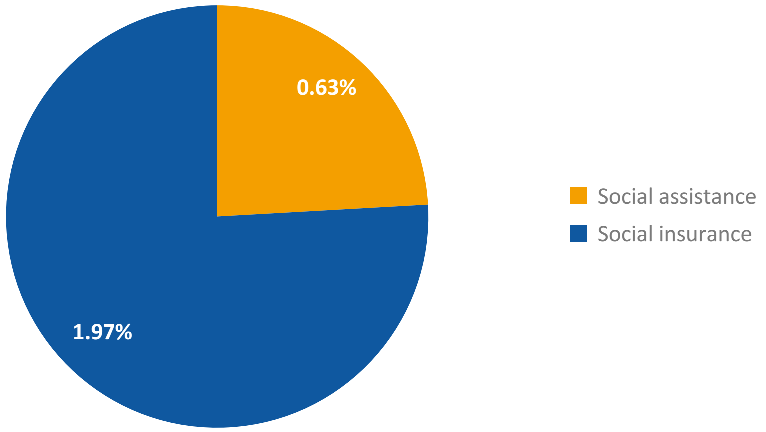
Soldiers' death and disability compensation: The Department of Pensions provides a disability pension to armed forces personnel injured on duty. A lump sum of the amount equivalent to 5 years of salaries is paid, along with the disability pension until the recipient reaches the age of 57. Widows, orphans and/or dependants of armed forces personnel who die while on duty are also eligible to receive a pension (ILO 2016). The government spent LKR33.637 billion in 2019 and LKR37.460 billion in 2020 on soldiers with disabilities (MoF 2020).

4. PUBLIC EXPENDITURE REVIEW FOR SOCIAL PROTECTION

Table 5 summarises the government expenditure on the different social protection programmes covered in the section overview. Included in the table are the social protection categories (social assistance and social insurance); programme expenditure in LKR millions for 2020 (except for the public welfare allowance for 2015); programme expenditure as a percentage of total expenditure on social assistance; expenditure as a percentage of total expenditure on social protection; expenditure as a percentage of current government expenditure; and, finally, expenditure as a percentage of GDP.

The total amount spent on social assistance programmes is estimated at LKR93.77 billion, while LKR295.26 billion was spent on social insurance in 2020. Figure 4 presents the percentage spent on each category in a pie chart, with values indicating total expenditure as a percentage of GDP. Government spending on social insurance (public pensions, and death and disability compensation for soldiers) makes up approximately 1.97 per cent of GDP, while social assistance programmes make up 0.63 per cent of GDP.

Figure 4. Government expenditure by category of social protection, 2020 (percentage of GDP)



Source: Authors' elaboration.

Table 6. Public expenditure on social protection in Sri Lanka, 2020

Programme	Social protection category	Expenditure in LKR millions	Expenditure as % of total SA	Expenditure as % of total SP	As % of current government expenditure	Expenditure as % of GDP
Samurdhi	SA (various)	52,434	59.3%	13.5%	2.06%	0.35%
Thriposha	SA (food)	1,122	1.3%	0.3%	0.04%	0.01%
Food allowance for pregnant women (Poshana Malla)	SA (food)	4,751	5.4%	1.2%	0.19%	0.03%
School feeding programmes	SA (food)	2,375	2.7%	0.6%	0.09%	0.02%
Public Welfare Assistance Allowance (2015)	SA (UCT)	969.5	1.1%	0.2%	0.04%	0.01%
Elderly Assistance Programme	SA (UCT)	9,868	11.2%	2.5%	0.39%	0.07%
Assistance for persons with disabilities	SA (UCT)	4,293	4.9%	1.1%	0.17%	0.03%
Allowance for patients with CKDU	SA (UCT)	1,776	2.0%	0.5%	0.07%	0.01%
Free/subsidised school materials	SA (in-kind)	7,546	8.5%	1.9%	0.30%	0.05%
Scholarships and bursaries for education	SA (subsidy)	2,997	3.4%	0.8%	0.12%	0.02%
Season tickets for students	SA (subsidy)	5,400	6.1%	1.4%	0.21%	0.04%
Flood and drought relief	SA	237	0.3%	0.1%	0.01%	<0.01%
Public pensions	Social insurance	257,800	291.7%	66.3%	10.12%	1.72%
Soldiers' death and disability compensation	Social insurance	37,460	42.4%	9.6%	1.47%	0.25%
Total		389,029	-	100.0%	15.27%	2.60%

Note: PAMA expenditure is for 2015.

Source: MoF (2020, 380: Table 31); public pension data from MoF (2020, Table 6.1); assistance for persons with disabilities obtained from the National Secretariat for Persons with Disabilities.

Table 6 presents public expenditure on social protection between 2015 and 2020. Nominal expenditure in LKR millions is presented, with values as a share of GDP in parentheses. The table highlights important differences in spending when comparing the main social assistance programmes to other programmes and, most strikingly, public pensions. Over the six-year period, expenditure as a share of GDP for *Samurdhi* remained relatively consistent (0.35 per cent in 2015 and 0.37 per cent in 2020), although the increase in 2020 also reflects an increase in response to COVID-19. Conversely, public expenditure on public pensions increased significantly between 2017 and 2020, from 1.28 per cent to 1.72 per cent of GDP. Figure 5 presents and compares government treasury expenditure on *Samurdhi* and on public pensions between 2017 and 2020. It highlights the larger relative increase in expenditure on pensions (almost 53 per cent in nominal terms) than on *Samurdhi* (32 per cent) over the same period. This demonstrates the increasing fiscal pressure on financing public pensions. For further comparison, the number of public pensioners is estimated at 660,934 (MoF 2020, 198), while there were roughly 1.7 million *Samurdhi* beneficiary families in 2020 (MoF 2020, 108).

Table 7. Public expenditure on social protection 2016–2020, in LKR millions and as a percentage of GDP (in parentheses)

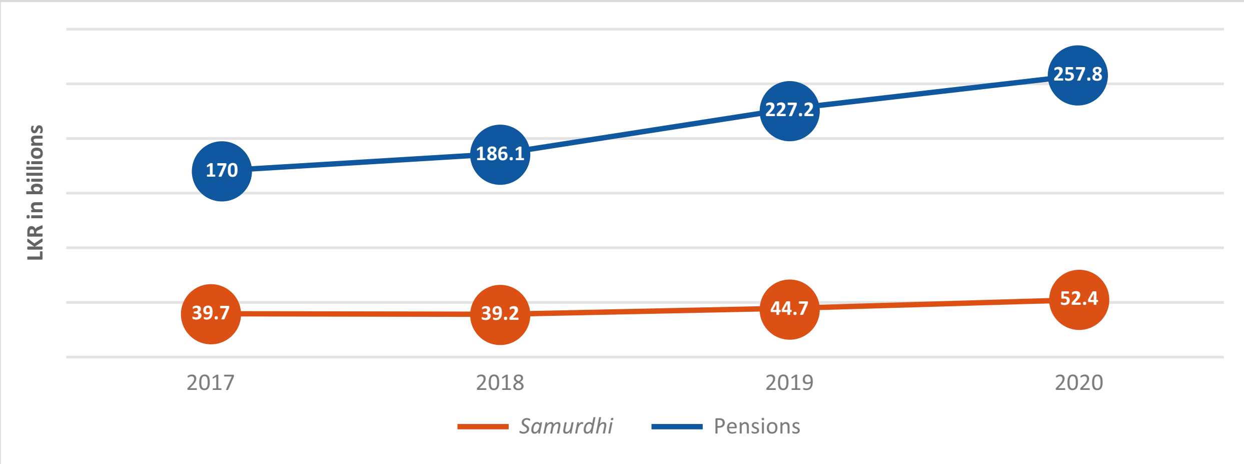
Programme	Social protection category	2015	2016	2017	2018	2019	2020
Samurdhi	SA (Various)	39,994 (0.37%)	40,740 (0.34%)	39,707 (0.30%)	39,239 (0.27%)	44,660 (0.30%)	52,434 (0.35%)
Thriposha	SA (Food)	1,956 (0.02%)	1,351 (0.01%)	1,692 (0.01%)	1,982 (0.01%)	2,187 (0.01%)	1,122 (0.01%)
Food allowance for pregnant women (Poshana Malla)	SA (Food)	2,422 (0.02%)	5,746 (0.05%)	5,408 (0.04%)	5,490 (0.04%)	5,279 (0.04%)	4,751 (0.03%)
School feeding programmes	SA (Food)	4,127 (0.04%)	4,022 (0.03%)	4,601 (0.03%)	5,581 (0.04%)	5,390 (0.04%)	2,375 (0.01%)
Public Welfare Assistance Allowance	SA (UCT)	969.5 (0.01%)	–	–	–	–	–
Elderly Assistance Programme	SA (UCT)	8,039 (0.07%)	9,060 (0.08%)	9,008 (0.07%)	9,590 (0.07%)	9,856 (0.07%)	9,868 (0.07%)
Assistance for persons with disabilities	SA (UCT)	–	–	–	–	2,810 (0.02%)	4,293 (0.03%)
Allowance for patients with CKDU	SA (UCT)	–	487 (<0.01%)	869 (0.01%)	1,318 (0.01%)	1,451 (0.01%)	1,776 (0.01%)
Free/subsidised school materials	SA (in-kind)	6,240 (0.06%)	7,756 (0.06%)	6,955 (0.05%)	1,230 (0.01%)	8,596 (0.06%)	7,546 (0.05%)
Scholarships and bursaries for education	SA (subsidy)	1,390 (0.01%)	1,914 (0.02%)	1,344 (0.01%)	2,136 (0.01%)	2,571 (0.02%)	2,997 (0.02%)
Season tickets for students	SA (subsidy)	1,800 (0.02%)	1,998 (0.02%)	4,923 (0.04%)	5,000 (0.03%)	5,450 (0.04%)	5,400 (0.04%)
Flood and drought relief	SA	271 (<0.01%)	132 (<0.01%)	5,854 (0.04%)	5,279 (0.04%)	406 (<0.01%)	237 (<0.01%)
Public pensions	Social insurance	–	–	170,000 (1.28%)	186,100 (1.31%)	227,200 (1.50%)	257,800 (1.72%)
Soldiers' death and disability compensation	Social insurance	23,433 (0.21%)	26,772 (0.22%)	27,808 (0.21%)	30,359 (0.21%)	33,637 (0.22%)	37,460 (0.25%)

Note: Year is mentioned in parentheses if not 2019. Disability assistance programmes include assistance for people with disabilities and the allowance for patients with CKDU. School feeding programmes include school nutrition programmes and the Glass of Milk programme for preschool children. Free/subsidised school materials include school uniforms, and both school and *Dharma* school textbooks. Scholarships and bursaries for education include grade 5 scholarships, *Mahapola* and bursaries. Expenditure as a percentage of GDP in parentheses.

Source: MoF (2020, 380: Table 31); public pension data from MoF (2020, Table 6.1).

Table 7 compares programme expenditure, number of beneficiaries and average annual benefit amount for 2020 for three programmes: public pensions, *Samurdhi* and the EAP. Average amount per beneficiary for public pensions (LKR390,054) is more than 10 times the average amount for *Samurdhi* (LKR37,453) and the EAP (LKR23,683). This highlights the large discrepancy in terms of adequacy between social insurance and social assistance schemes in Sri Lanka.

Figure 5. Government treasury flows (payments) to *Samurdhi* and pensions, 2017–2020



Source: MoF (2020).

Table 8. Expenditure, beneficiaries and average expenditure per beneficiary for public pensions, *Samurdhi* and the EAP (2020)

Social protection programme	Expenditure (LKR millions)	Number of beneficiaries	Annual average expenditure per beneficiary (LKR)*
Public pension	257,800	660,934	390,054
Samurdhi	52,434	1,700,000	37,453
EAP	9,868	416,667	23,683

Note: *Beneficiaries for public pension schemes and the EAP are individuals, while *Samurdhi* is for families.

Source: Calculations based on data and figures from MoF (2020).

5. DESCRIPTIVE AND INCIDENCE ANALYSIS OF SOCIAL PROTECTION PROGRAMMES

This section provides descriptive information on existing social protection transfers/benefits and a hypothetical universal child benefit (UCB) for all children aged 5 years and under in Sri Lanka, to see how it would compare. This is done using the 2016 Household Income and Expenditure Survey (HIES), which is the latest nationally representative household survey available at the time of writing. The programmes reported in the 2016 HIES include pension income; *Samurdhi*; *Thriposha*; the disability and relief transfer; old-age payments; tuberculosis and kidney disease benefits; educational transfers and scholarships; and school lunch payments. Since we cannot differentiate between contributory and non-contributory pension income, 'pension income' is categorised as social insurance, while the other seven transfers/benefits are categorised as social assistance.[8] Because the data are based on

8. This decision is further justified by the differentiation between 'pension income' and 'old-age payments', the latter of which corresponds to the EAP, which is categorically non-contributory. Moreover, the largely pro-rich incidence of 'pension income' (see Figures 5 and 7) is evidence of the predominantly (semi-)contributory character of the category.

household reports, they are susceptible to misreporting, especially underreporting for in-kind transfers. Moreover, the eight programmes in the HIES do not cover the universe of social protection programmes; thus, total coverage estimates will be underreported, and the increase in coverage from a UCB is likely overestimated.

Table 8 presents coverage for social protection programmes reported in the 2016 HIES, including total values and values across expenditure quintiles from the poorest 20 per cent (Q1) to the richest 20 per cent (Q5) of individuals. Except for pension income (social insurance), social assistance coverage tends to be higher among the poorest quintiles. *Samurdhi*, Sri Lanka's flagship anti-poverty programme, covers 18.8 per cent of the population (including indirect household beneficiaries), but 37.3 per cent of individuals in the poorest quintile and 25.5 per cent in the second-poorest quintile. Although the coverage is clearly pro-poor, an estimated 62.7 per cent of individuals in the poorest quintile do not live in *Samurdhi* households.

A hypothetical UCB for children aged 0–5 years would cover 37.6 per cent of individuals through direct and indirect household beneficiaries, including 50.2 per cent of individuals in the poorest quintile. By including the UCB, the estimated coverage for all social protection increases from 35.1 per cent to 59.4 per cent of the total population, and from 49.6 per cent to 76.9 per cent of those in the poorest quintile. While the estimated increase in coverage might be overestimated (as mentioned above), a UCB would still greatly increase the coverage of social protection, especially among the poorest segments of the population.

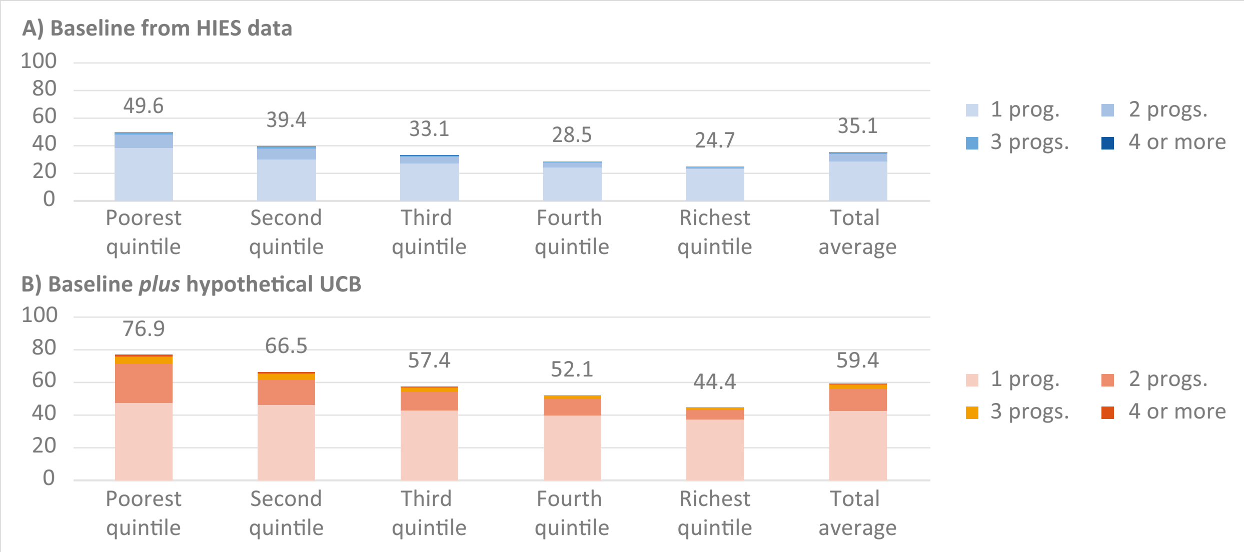
Table 9. Social protection coverage from the 2016 HIES and a hypothetical UCB (percentage of each quintile/total population)

	Total	Q1	Q2	Q3	Q4	Q5
Pensions	7.8	2.0	4.3	6.4	10.3	16.1
Samurdhi	18.8	37.3	25.5	17.3	10.3	3.6
Thriposha	3.7	4.1	4.9	3.9	3.7	2.0
Disability and relief	0.8	1.5	1.1	0.8	0.4	0.3
Old-age payments	5.6	10.3	6.8	5.7	3.5	1.7
Tuberculosis and kidney disease	0.4	0.5	0.6	0.4	0.3	0.1
Educational transfers and scholarships	0.9	0.8	1.1	0.9	1.0	0.7
School lunch payments	4.4	6.0	5.7	4.7	3.5	2.0
All social assistance (excl. UCB)	28.1	48.5	36.0	27.6	19.2	9.1
All social protection (excl. UCB)	35.1	49.6	39.3	33.2	28.5	24.7
Hypothetical UCB for children 0–5	37.6	50.2	42.6	35.6	33.5	26.1
All social protection (incl. UCB)	59.4	76.9	66.5	57.4	52.1	44.4

Source: Authors' elaboration.

To measure duplication and coverage of different social protection programmes, Figure 6 shows household coverage of social protection, measured by the number of transfers received per household by expenditure quintile. Two scenarios are presented: panel A is the baseline scenario from the reported data; and panel B shows programme coverage of the reported data with a hypothetical UCB for children aged 5 years and under. As presented in Table 8, the introduction of a UCB shows a significant increase in social protection coverage, as 76.9 per cent of households in the poorest quintile would be covered by at least one social protection programme (against 49.6 per cent in the baseline scenario). Although the increase in coverage is once again likely overestimated, these findings indicate that, in addition to life-cycle considerations, UCBs can greatly increase social protection coverage.

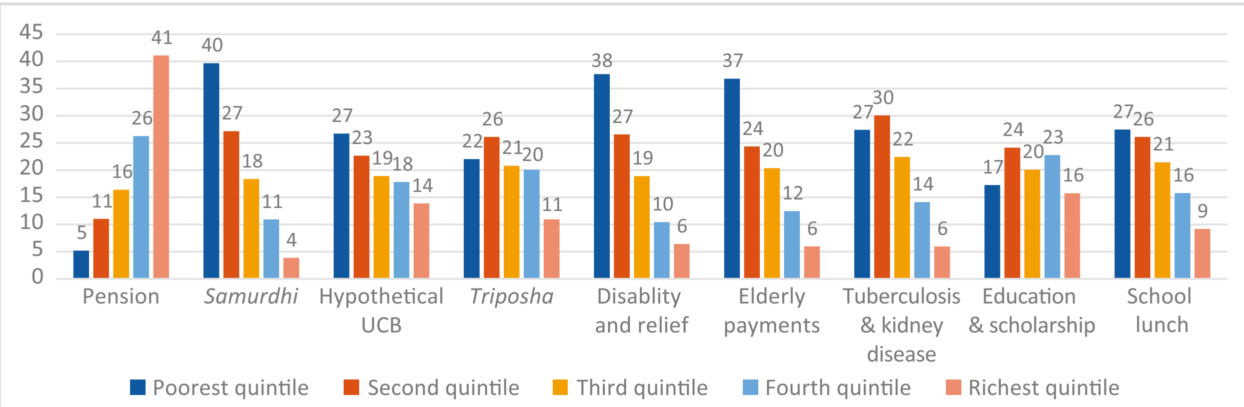
Figure 6. Household social protection coverage by number of programmes



Source: Authors' elaboration based on the 2016 HIES.

While Table 8 and Figure 6 present coverage estimates **for the entire population**, Figure 7 focuses on coverage **among programme beneficiaries**. In addition to reported social protection programmes, Figure 7 also includes beneficiary coverage of a hypothetical UCB. The aim is to establish whether the targeting of the different programmes is relatively more pro-poor or pro-rich. Results show that the distribution of pension income is considerably pro-rich, as 67 per cent of direct and indirect beneficiaries who report pension income are in the top two consumption quintiles—i.e. the richest 40 per cent of the population.[9] Conversely, *Samurdhi* is markedly pro-poor, as 67 per cent of beneficiaries are from the two poorest quintiles—i.e. the poorest 40 per cent of the population. Overall, the coverage of most transfers and benefits tends to be pro-poor, particularly the old-age payments and disability and relief transfers. However, the distribution of educational transfers and scholarships is somewhat neutral. These figures show that certain programmes—for instance, *Samurdhi*—are noticeably pro-poor; however, coverage gaps mean that a significant proportion of low-income individuals and households are not covered by social protection.

Figure 7. Distribution of beneficiaries by expenditure quintile



Source: Authors' elaboration based on the 2016 HIES.

9. The pro-rich distribution of pension income is even greater when reported benefit values are considered: an estimated 79 per cent of total pension income went to beneficiaries in the top two expenditure quintiles.

To visualise geographical variation in social protection coverage, Table 9 presents programme coverage rates across the 25 districts of Sri Lanka using a heat map, which organises, by colour, values for each category from the highest (dark green) to the lowest (bright red). The districts are organised from lowest to highest expenditure per capita (last column) to highlight whether the geographical targeting of different transfers is successful in reaching the poorest areas. Overall, the table confirms that social assistance tends to proportionally reach poorer districts, while the opposite is true for pension income (i.e. richer districts are more likely to receive it). However, there are some exceptions. For example, *Thriposha* and the educational transfers and scholarships have relatively low reported coverage in some of the poorest districts (e.g. Batticaloa, Trincomalee and Ratnapura), whereas, all things being equal, the Nuwara Eliya district is relatively less covered by social protection programmes, despite its (lower) level of expenditure per capita and high incidence of stunting (height-for-age) among children; conversely, the Polonnaruwa district is slightly more covered by social protection, despite its relatively higher levels of expenditure per capita.

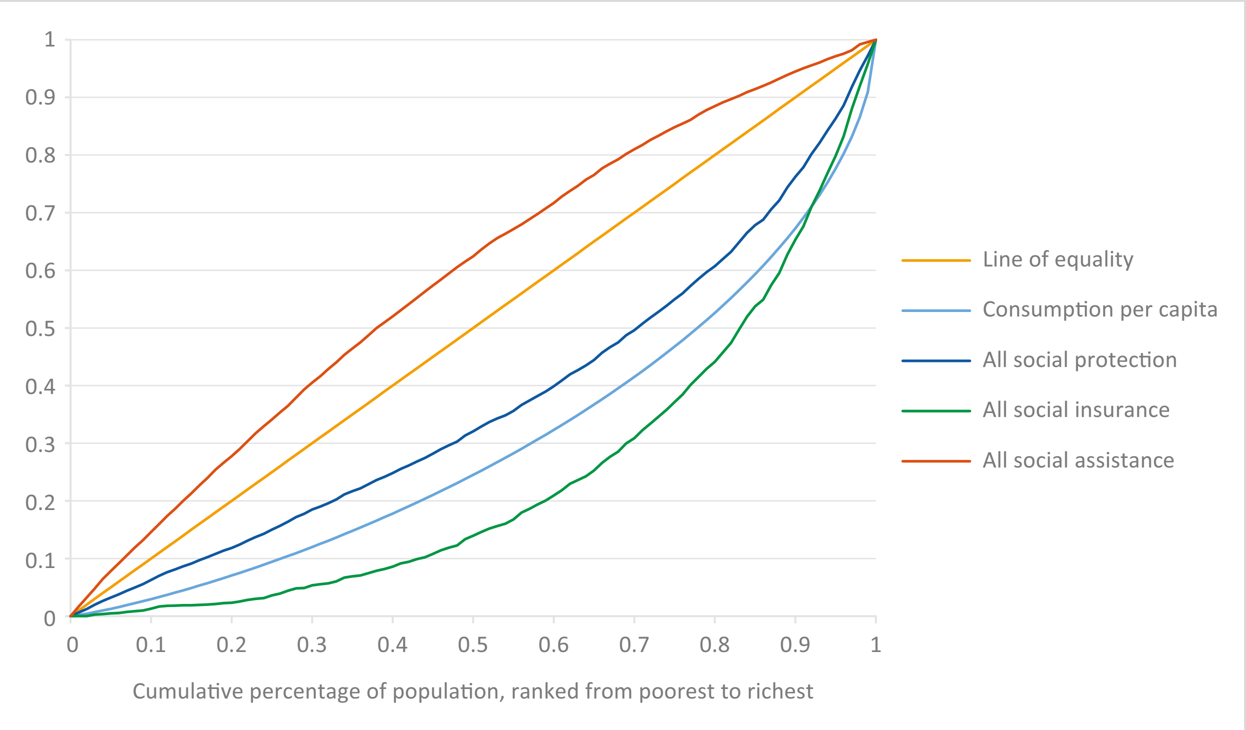
Table 10. District-level social protection coverage from 2016 HIES (percentage of households)

	All social protection	All social assistance	*Samurdhi*	*Thriposha*	Disability and relief	Old-age payments	TB and kidney disease	Educational and scholarship	School lunch	Pension (SI)	Mean cons. p.a. (LKR)	Stunting	Wasting
Killinochchi	66.3	64.4	44.7	2.5	2.5	15.1	0.6	0.3	28.6	2.4	87.982	20.9	16.8
Mullaittivu	70.7	69.4	52.9	3.9	1.8	11.7	1.1	1.1	21.0	1.4	104.819	16.7	21.6
Batticaloa	45.3	41.7	34.9	1.9	0.8	7.3	0.4	0.3	2.7	4.5	107.445	20.6	14.0
Monaragala	49.7	46.2	30.5	8.7	0.6	7.5	0.7	1.8	13.7	3.9	116.434	15.9	25.4
Trincomalee	39.0	35.5	29.2	1.9	0.9	5.8	0.4	0.0	0.7	3.8	120.318	15.5	12.3
Rattnapura	38.1	34.2	27.9	1.0	1.2	5.8	0.1	0.2	1.5	4.5	126.055	17.8	16.0
Jaffna	61.2	56.0	38.2	8.2	1.1	12.8	0.6	2.0	20.5	7.0	126.451	13.7	11.7
Nuwara Eliya	25.4	21.9	12.4	2.9	0.5	2.8	0.2	0.8	4.3	3.8	129.871	32.4	11.8
Ampara	37.5	34.7	26.2	5.7	2.0	5.3	0.3	0.4	4.9	3.7	132.010	21.9	12.4
Baddulla	36.5	29.6	15.2	4.3	1.2	10.5	0.6	0.6	5.4	8.2	132.243	20.6	13.1
Mannar	56.7	53.6	42.4	5.7	1.8	2.9	0.5	2.1	19.8	4.1	135.106	20.8	13.1
Matara	41.0	33.5	24.2	1.6	0.9	5.0	0.2	0.7	6.2	8.4	148.647	15.6	16.8
Kegalle	35.0	26.9	19.7	2.6	0.9	5.6	0.5	1.2	0.7	8.6	154.592	23.1	16.3
Matale	36.8	30.9	20.6	8.5	1.3	6.7	1.2	0.2	4.5	6.5	155.010	14.0	9.9
Polannaruwa	59.4	55.0	17.6	22.3	2.4	4.8	2.5	2.3	25.2	6.6	155.318	11.1	11.4
Vavuniya	54.5	50.0	22.6	8.2	1.5	10.8	1.8	0.3	29.8	5.2	159.688	18.7	16.0
Anuradhapura	41.4	34.5	18.1	5.5	1.5	8.0	2.0	1.6	7.1	8.4	160.626	19.1	19.7
Galle	33.7	26.8	18.9	5.5	0.5	3.8	0.0	1.1	1.5	7.6	171.178	12.5	16.9
Kandy	35.9	25.8	19.7	1.2	0.5	6.9	0.2	0.6	0.1	11.4	171.319	26.0	12.7
Puttalam	23.7	20.0	14.0	1.2	0.9	5.9	0.1	0.6	1.6	4.4	179.331	11.7	17.2
Hambantota	44.8	39.3	22.5	6.5	0.4	3.3	0.5	1.2	12.1	6.8	181.622	11.8	21.8
Kurunagala	39.7	31.4	22.0	4.2	0.2	7.1	0.3	1.0	4.8	9.4	186.355	17.7	13.5
Kaluthara	27.8	18.9	11.6	2.0	0.9	5.8	0.2	1.5	0.4	9.7	197.483	12.5	16.6
Gampaha	25.6	16.9	11.9	1.8	0.7	3.5	0.1	0.6	0.4	9.6	205.397	12.8	15.9
Colombo	19.3	8.8	5.0	2.4	0.0	1.6	0.1	0.7	0.3	10.6	272.823	15.6	11.9
National	35.1	28.1	18.8	3.7	0.8	5.6	0.4	0.9	4.4	7.8	173.995	17.3	15.1

Source: Social protection coverage estimates are from the 2016 HIES; data on stunting and wasting from the 2016 DHS (p. 161).

Figure 8 shows the cumulative share of benefits (in LKR) received by the cumulative share of the population ranked from poorest to richest. These concentration curves plot the cumulative percentage of the social protection benefit (y axis) against the cumulative percentage of the population, ranked by living standards, beginning with the poorest and ending with the richest (x axis). The 45-degree black line indicates a neutral (constant) scenario in which every single person receives the same benefit amount. The figure shows that poor households receive a greater share of all social assistance transfers (orange curve), as the poorest 50 per cent of the population receive a little less than 65 per cent of total transfers. Thus, social assistance is progressive in absolute terms. However, the curve for all social protection (blue dotted curve) lies below the neutral line, indicating that rich households report a greater share of social protection benefits overall. This is explained by the markedly pro-rich distribution of pension incomes (or social insurance), which, denoted by the green curve, is cumulatively more concentrated among rich households than consumption per capita (red curve) until the ninth decile, after which the curves intersect. This overlap indicates that consumption per capita is more evenly distributed than pension income among low- and middle- income groups, but the relationship changes—i.e. pension income becomes, comparatively, more evenly distributed than consumption per capita—among the top (richest) deciles.

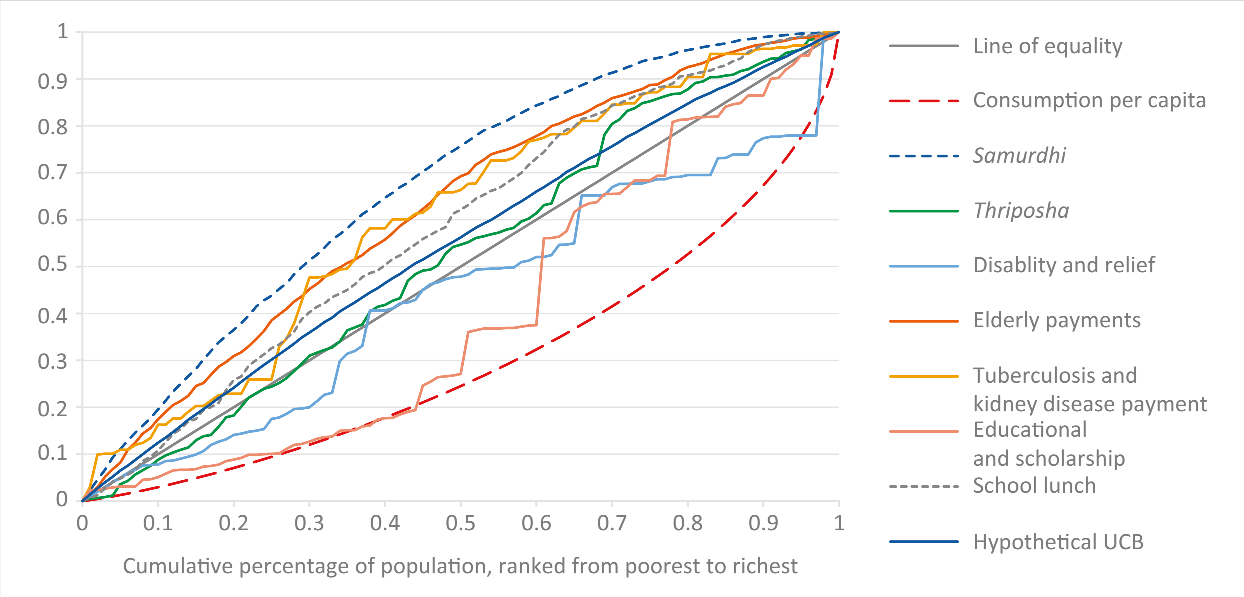
Figure 8. Concentration curves of social assistance, social insurance and social protection (percentage of total benefits)



Source: Authors' elaboration based on the 2016 HIES.

Figure 9 presents concentration curves for individual social assistance programmes from the 2016 HIES, along with a hypothetical UCB for all children aged 5 years and under. In line with the results from Figure 7, *Samurdhi* (light blue striped and dotted curve) is the transfer that is the most strongly concentrated among poor households of the programmes reported in the survey. A hypothetical UCB (dark blue solid line) would cumulatively be more concentrated among poor households than a unified transfer to everyone. Among the seven transfers reported in the 2016 HIES, both disability and relief and school and educational transfers are comparatively less concentrated among poor households (pro-rich) than a hypothetical UCB. Further, compared to the hypothetical UCB, *Thriposha* is more concentrated among rich households until the seventh decile, but this trend reverses slightly for the richest deciles.

Figure 9. Concentration curves of social assistance programmes and a hypothetical UCB (percentage of total benefits)



Source: Author's elaboration based on the 2016 HIES.

6. CONCLUSIONS AND POLICY RECOMMENDATIONS

This policy brief has drawn attention to the state of social protection in Sri Lanka prior to the COVID-19 crisis. The social protection landscape shows a range of programme types, from the multifaceted *Samurdhi* programme, to programmes providing in-kind support such as food (school feeding programmes) and nutritional supplements (*Thriposha*). The PER shows considerable variance in scope across the different programmes, with certain programmes characterised by wider coverage and greater expenditures (e.g. *Samurdhi)*, while others are significantly more moderate in their scope and capacity.

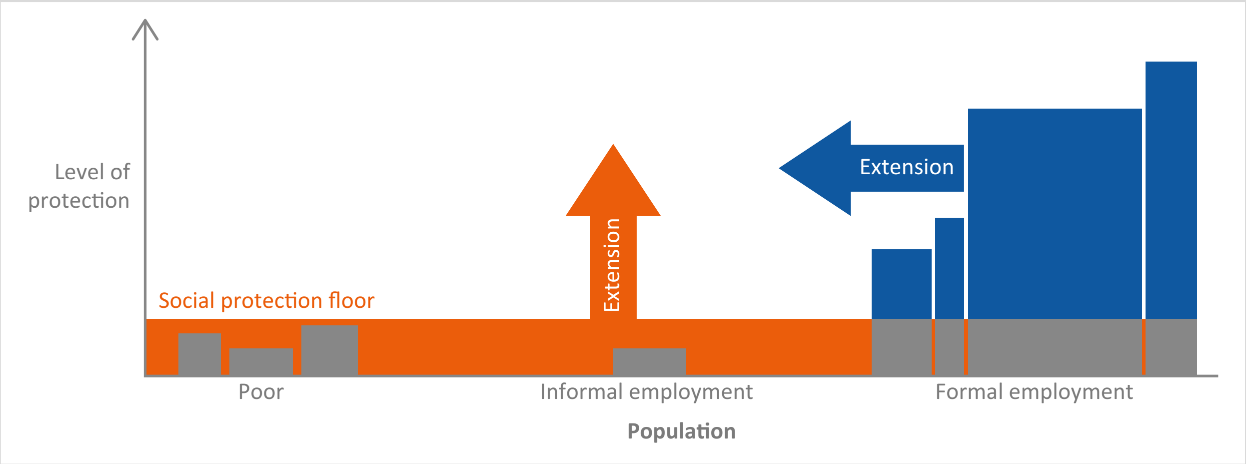
The main social protection programmes equally show interesting differences in terms of objectives and contingencies covered, with considerable variation in the groups targeted across the different programmes, from pregnant women, to elderly people, to children, to poor and vulnerable households (Arruda et al. 2020). This provides an indication of the populations most likely to be excluded from social protection schemes, but also households obtaining inadequate benefits to maintain livelihoods. In the case of Sri Lanka, a large segment of the population uncovered by existing schemes includes households in the informal economy that are not covered by *Samurdhi*, while adequacy is an issue especially for households with children and elderly people without contributory pensions, given the low values of education and scholarship transfers and the PAMA, respectively.

Based on the findings from the report, here are some prospective recommendations for social protection in Sri Lanka.

Increase expenditure on social protection, notably by increasing taxation and reprioritising existing government expenditure. The fiscal overview of Sri Lanka describes a country with high and increasing public debt needing to be serviced. As the government develops a strategy with national and international lenders to reschedule and relieve existing debt, medium- and long-term strategies should be established to progressively lower debt servicing as a percentage of GDP. By doing so, the government will create more and more fiscal space for social expenditures, including social protection. In the short and medium term, increasing tax revenue (especially through progressive personal income taxes) and reprioritising existing expenditures on public-sector employees—including pensions—and the military are valid options to promote fiscal sustainability while limiting negative impacts among those in most need. Reprogramming existing social assistance spending should be considered later, given the already small overall level of spending dedicated to it. If policymakers decide to reprogramme existing social protection expenditures, careful consideration should be given to adequacy as well as the coverage of both target populations and key contingencies potentially left bare from the change. The budget for *Samurdhi* shows a high proportion of expenditure for personnel, which could be reduced to improve programme efficiency.

Expand coverage of social protection, including for the 'missing middle'. While Sri Lanka has decent social protection coverage, performing better than most other countries in South Asia on social assistance receipts and social insurance contributions (IPC-IG and UNICEF ROSA 2020), there is clearly room for improvement. This is especially true when it comes to reaching those households uncovered by either social assistance or social insurance, which tend to be above the poverty line yet depend on informal employment for their livelihood. This group, also known as the 'missing middle', has been made particularly vulnerable during the COVID-19 crisis, especially those employed in sectors that have disproportionally suffered from lockdown measures, such as tourism (ibid.). To better reach this population and create greater resilience in the face of future shocks, more needs to be done to extend both social protection floors and formal employment opportunities. In the case of Sri Lanka, positive steps forward can potentially be taken by introducing new, and expanding existing, universal and life-cycle interventions (such as child grants and basic pensions), and/or extending poverty reduction policies (e.g. *Samurdhi)* to an increasing proportion of the population, starting with poorer groups. Meanwhile, to promote formal employment and thus extend social insurance schemes, lessons can perhaps be learned by examining the experience of the farmers' and fishermen's pension scheme to understand the possibilities and limitations of extending social insurance to other sectors of the economy and, more generally, to workers excluded from social insurance opportunities.

Figure 10. Strategies for the expansion of social protection to workers in the informal economy



Source: IPC-IG and UNICEF ROSA (2020).

Improve the inclusion of poorer households in certain programmes, through means such as geographical targeting. Geographical targeting can be mobilised as part of a gradual approach to expand social protection coverage towards greater universality in the context of limited fiscal space. Figure 7, which presented the incidence of the different social assistance programmes across expenditure quintiles, shows that not all programmes are equally pro-poor in their distribution, with some—i.e. *Thriposha*, education transfers and scholarships, and the tuberculosis and kidney disease benefit—being more neutral or pro-rich. In response, policymakers should assess the reasons why certain programmes do not benefit more poorer households. In the case of education transfers and scholarships, this might mean creating new material support and incentives for children from poorer households to attend school, while supporting supply-side interventions (e.g. physical investment in schools and better teaching in deprived areas). Geographical targeting could also be further leveraged: as highlighted above, reported coverage for *Thriposha* and educational transfers and scholarships is relatively low in some of the poorest districts.

Reform *Samurdhi* to improve efficiency and programme transparency. *Samurdhi* is by far the largest social assistance programme in Sri Lanka. The programme comprises a range of interventions, such as cash and food (in-kind) transfers, social insurance contributions and microfinance. As previously mentioned, high administrative costs (20 per cent of expenditure) limit the efficiency of the programme, considering that administrative costs of more efficient cash transfer programmes in developing countries equal around 5 per cent or less of total costs. Therefore, an in-depth and transparent assessment of the programme would help provide a better picture of programme efficacy (how effective in reducing poverty and promoting transformative changes) and (cost-)efficiency. Lastly, more transparency is needed on the effectiveness of the different sub-components of *Samurdhi*. While microfinance and livelihood programmes can be valuable tools to encourage the transition from provision to promotion, it is important to have independent and periodical assessment of the (cost-)effectiveness of such interventions, as well as greater transparency on eligibility criteria.

Use existing programmes as a starting point for devising new and/or expanded social protection programmes. Although not all social protection programmes are endowed with the same resources or given the same priority, they do provide an initial framework and infrastructure that can be potentially used for either expansion or for forming new programmes. For example, the organisational structure of the food allowance for pregnant women could be used as a basis for introducing new child-sensitive benefits by either supporting the operational side or assisting with complementary (in-kind) interventions. An example would be ensuring that all children are covered for the first 1,000 days of life (from pregnancy until 2 years of age). Other possibilities for reform include greater complementarities between poverty-targeting programmes (e.g. *Samurdhi*) and life-cycle interventions (e.g. EAP). When expanding existing social protection policies or devising new ones, ensuring linkages and complementarities between existing programmes is also a positive step towards a life-cycle approach to social protection.

Consider UCBs and other life-cycle initiatives to expand social protection coverage. Analysis in this study shows that UCBs for children aged 5 years and under would have a strong impact on increasing social protection coverage in Sri Lanka, with greater incidence among poorer households. UCBs are particularly effective in reducing child poverty, while universal approaches can be adapted in terms of selectivity to direct additional benefits to particularly disadvantaged or vulnerable groups (ODI and UNICEF 2020). The Child Benefit Tool[10] developed by UNICEF Sri Lanka and Development Pathways provides estimates and projections until 2035 for coverage and costs of UCBs for children.

10. See: <https://devpathways.shinyapps.io/unicef_sl/>.

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