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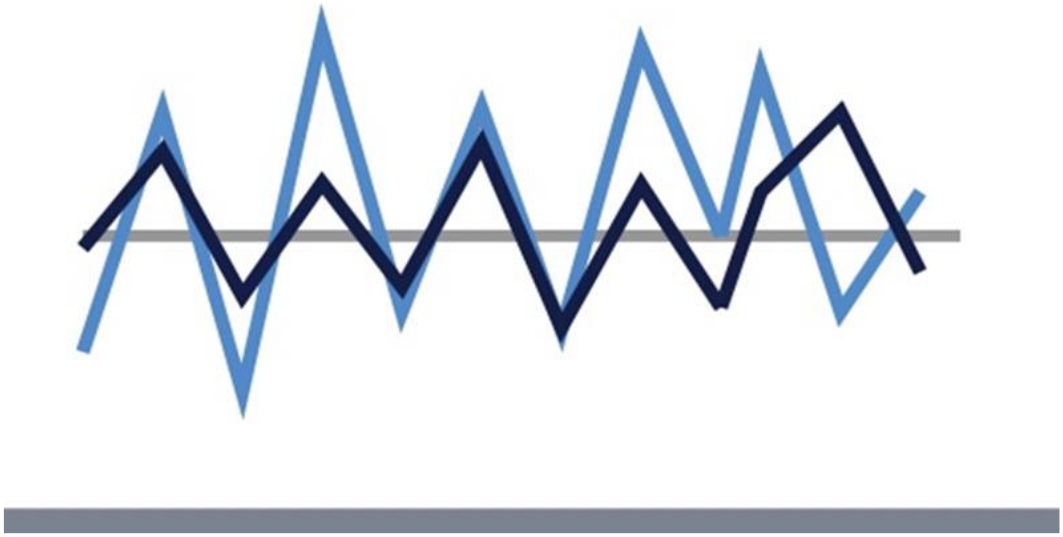

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# A Review of Social Protection System in Sri Lanka

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## Abbreviations

| | |
|---|---|
| ADB | Asian Development Bank |
| APPF | Approved Provident and Pension Fund |
| CBSL | Central Bank of Sri Lanka |
| CSPS | Civil Service Pension Scheme |
| DCS | Department of Census and Statistics |
| EAP | Elderly Assistance Programme |
| EPF | Employees' Provident Fund |
| ESCAP | The Economic and Social Commission for Asia and the Pacific |
| ETF | Employees' Trust Fund |
| FAO | Food and Agriculture Organization |
| FCG | Fertilizer Cash Grant |
| FPS | Farmers' Pension Scheme |
| FTZ | Free Trade Zones |
| GDP | Gross Domestic Production |
| HDI | Human Development Index |
| IFAD | International Fund for Agricultural Development |
| ILO | International Labour Organization |
| IPS | Institute of Policy Studies |
| LKR | Sri Lankan Rupees |
| MDPHCI | Multi-Dimensional Poverty Head Count Index |
| PAMA | Public Assistance Monthly Allowance |
| PGI | Poverty Gap Index |
| PHCI | Poverty Head Count Index |
| RGDP | Real Gross Domestic Production |
| SDG | Sustainable Development Goal |
| SLBFE | Sri Lanka Bureau of Foreign Employment |
| SLPI | Sri Lanka Prosperity Index |
| SPGI | Squared Poverty Gap Index |
| SSB | Social Security Board |
| UNICEF | United Nations International Children's Emergency Fund |
| UNRISD | The United Nations Research Institute for Social Development |
| USA | United States of America |

| | |
|---|---|
| WB | World Bank |
| WFP | World Food Programme |
| WHO | World Health Organization |
| WWOP | Widows, Widowers and Orphans Pensions |

## Abstract

*Sri Lanka is one of the leading economies in South Asian region in terms of human development. High level of human development in Sri Lanka is associated with the social protection system as Sri Lanka has a long-standing history of its well-established social protection system. It is said that human development and economic development are highly correlated with social protection system of a country based on its importance as a human right and investment. However, there are some drawbacks in the existing social protection system that need to be reformulated. Therefore, the objective of this paper is to discuss the drawbacks of the existing social protection system in Sri Lanka. One of the main identified drawbacks is neglecting some of persistent and newly emerging issues in Sri Lankan economy such as demographic changes, gender gap in the labour force, unemployment risk and less attention on informal sector. Inadequacy of the benefits, unsustainability of some of the social protection programmes, coordination issues among the programmes and political influence are among other core problems of the existing system. Minimization of such emerging problems and gaps in the existing social protection system, both at micro and macro level, is imperative. Therefore, Sri Lanka's social protection system should call for a revision to address the aforementioned risks. Those risks are associated with; 1) High youth and women unemployment rates in Sri Lanka, 2) Fast aging population, 3) Existing gender gap in the labour force participation, 4) Geographical variations in the quality of the educational services, 5) High out-of-pocket expenses on health amidst health facilities are universally free, 6) Higher percentage of informal sector employment without any job security and old age income security, 7) High frequency of natural disasters, 8) Human animal conflicts, 9) Lower social security coverage for out-bound migrant workers, 10) High-income inequality and vulnerability. All these issues being concerned, the adequacy and sustainability of the existing social protection system is questionable.*

*Based on review of existing system it can be recommended some consideration to enhance the social protection system in Sri Lanka. Considering the demographic changes, it is suggested to introduce national wide old age social security system with adequate benefits. Indexation the existing pension benefit with inflation rate so as to get adequate benefit at the old age is also important. Further, it is worthwhile to introduce new social protection programmes to cover the unemployment risk, gender gap and informal sector. In addition, it is necessary to increase the benefit of poverty alleviation programmes so that the poor can come out of the poverty in considerable time duration. Further, current social security system must focus only the needy people to reduce the pressure on government expenditure. Thus, it is obligatory to increase the level of coordination among the programmes and keep them out from the unnecessary political interventions. New reforms should consider validity of contributory pension scheme to mobilize labour across the sectors and reduce the government expenditure as well. Although Sri Lanka has universal free healthcare and education system the quality and quantity of those system is questionable with rising needs and changing global situation. Therefore, it is highly recommended to improve the quality and coverage of the existing programmes.*

***Keywords**: Social Protection, Social Insurance, Social Assistance, Risks, Socio-Economic Development*

## 1. Introduction

The term social protection refers to preventing, managing, and overcoming situations that adversely affect people's well-being (United Nations Research Institute for Social Development (UNRISD), 2010). According to the World Bank (WB), social protection consists of policies and programmes designed to reduce poverty and vulnerability by promoting efficient labour markets, diminishing people's exposure to risks and enhancing their capacity to manage economic and social risks such as unemployment, exclusion, sickness, disabilities and old age (WB, 2001). More generally social protection can be defined as provision of financial, non-financial assistance or/and in-kind transfers to enhance individual's life style so as to achieve equality and social justice. This is one among the many targets of United Nation's Sustainable Development Goal (SDG) No.10, which aims provide greater equality among communities.

Social protection can be categorized into main three groups: labour market policies, social insurance and social assistance programmes. The policies and programmes which aim to enhance employment, efficient operation of labour market and protection of workers are considered as labour market policies. Direct employment generation through public work programmes, loan-based programmes, labour exchanges and other employment services, unemployment benefits and skills development and training are coming under labour market policies (Asian Development Bank (ADB), 2010). Social insurance mainly focuses on mitigating the risk associated with unemployment, disability and work-related hazards and health problems. Pension schemes, unemployment benefits, health insurance and other social insurance such as maternity, disability benefits are included in the social insurance category (Ranson, 2002). Social assistance mainly targets to provide cash or in-kind transfer and other related assistances to vulnerable people or households which do not have any other support (Howell, 2001). Many programmes such as old-aged assistance programmes, health assistance, child protection, assistance for substance users, family allowances and welfare and social services targeted on sickness, vulnerability and disability are included in the social assistance category.

Considering Sri Lanka, it has a quite well-established social protection system that origin from pre- independence period. Sri Lankan social protection system originally was informal, and it was converted to a formal system later. Immediate and extended family, neighbors, and/or community took responsibility of providing social protection under the informal social protection system at the beginning. This transformation from informal to formal system was based on the structure of Britain's Post-War approach of welfare and was developing continuously (International Labour Organization (ILO), 2004). At present, thirty per cent of Sri Lankan population is covered by at least one social protection programme (Food and Agriculture Organization (FAO), International Fund for Agricultural Development (IFAD), United Nations International Children's Emergency Fund (UNICEF), World Food Programme (WFP) & World Health Organization (WHO), 2020).

Owing to the aforementioned fact, Sri Lanka is one of the leading economies in the South Asian region in terms of high socio-economic development. This is according to the Sri Lanka Prosperity Index (SLPI), which measures economic and business climate, well-being of the people and development of socio-economic infrastructure. SLPI has improved to 0.78 in year 2018 from -0.75 in year 2010, reflecting a vast improvement in socio-economic condition in the country (Central Bank of Sri Lanka (CBSL, 2019). Price stability increment of informal sector wages, improvement of health facilities, quality of education, purity of the environment, improvement of infrastructure facilities such as availability of electricity, transportation and information and communication technology can be seen as the main contributing factors to the high level of the SLPI in recent years.

Economic growth of the country has also increased substantially in past few decades, even though its real term Real Gross Domestic Production (RGDP) accounted -1.7 per cent in 2020 due to COVID-19 outbreak (CBSL, 2020). Nonetheless, CBSL has projected 5 per cent RGDP growth rate for 2021 (CBSL, 2020). The sectoral contribution to Gross Domestic Product (GDP), on the other hand, reflects some improvement making the services sector contribution more than half of the GDP. As shown by CBSL statistics, contribution of the service sector, industrial sector and agriculture sector to the GDP account 58.2 per cent, 27.4 per cent, and 7.4 per cent respectively (CBSL, 2020). Human Development Index (HDI) of Sri Lanka, which measures the

various aspects of improvement in the human life, accounts 0.78 per cent in 2018 and is higher than the other neighboring countries (CBSL, 2020)[1]. Unemployment rate also gradually decreased over the time and in 2019, it was 4.8 per cent (CBSL, 2020). Owing to the fact that Sri Lanka provides universally free education up to university level, it has higher literacy rate. The literacy rate (of those who are 10 years and above) in 2018 was 92.5 per cent (CBSL, 2020). The percentage of people who did not attend school has been declined over time from 41.8 per cent to 3.3 per cent during 1953-2016 period (CBSL,2020). On the other hand, the crude birth rate of Sri Lanka is continuously declining and improve the life expectancy of the people in the country emphasizing the importance of free health service. At present, the average life expectancy was at 76.8 years in 2019 (CBSL, 2020). Poverty Head Count Index (PHCI) and Poverty Gap Index (PGI) were 4.1 per cent and 0.6 per cent respectively in 2016 indicating the socio and economic development of the country (Department of Census and Statistics (DCS), 2017).

Even though the socio-economic condition of Sri Lanka is favorably high, there are some persistent and newly emerged issues, which are to be addressed in order to be in line with high-income countries. In this setting, addressing the issues related to the existing safety net programme in the country is vital. Generally, social protection can be identified as a partial revenue, which contributes any countries' socio-economic development. It is actually considered as a basic human right, and an investment that contributes for higher socio-economic development. Owing to its importance, social protection is included in the world development agendas, such as Sustainable Development Goals (SDGs).

Several targets of SDGs have recognized aims related to social protection.

SDG (1.3) - 'implement nationally appropriate social protection system and measure for all including floors and by 2030 achieve substantial coverage of the poor and the vulnerable'.

[1] HDI in India, Bangladesh and Nepal.

SDG (5.4) - ‘recognizes and value unpaid care and domestic work through the provision of public services infrastructure and social protection policies and the promotion if shared responsibility within the household and the family as nationally appropriate’.

SDG (10.4) - ‘adopt policies especially fiscal wage and social protection policies and progressively achieve greater equality’.

In addition, SDG2, SDG3 and SDG4 are directly related with social protection.

SDG (2) – Zero Hunger; ‘providing good and humanitarian relief, establishing sustainable food production.’

SDG (3) – Good Health and Wellbeing; ‘better, more accessible health systems to increase life expectancy.’

SDG (4) – Quality Education; ‘inclusive education to enable upward social mobility and end poverty.’

As described above, even though Sri Lanka has a well-established social protection system, it still can be criticized in terms of its coverage, benefits, and covered contingencies. Therefore, reform is needed for the existing social protection system that aims for addressing the limitations. Therefore, continuous evaluations are needed on this regard, as there can be seen various newly emerged issues related to the system itself and the society in general. These emerging issues are in various forms and spread across sectors in the country. High youth and women unemployment rates, fast aging population, existing gender gap in the labour force participation, geographical variations in the quality of the educational services, high out-of-pocket expenses on health, higher percentage of informal sector employment without any job security, old age income security, high frequency of natural disasters, human animal conflict, lower social security coverage for out-bound migrant workers and high income inequality and vulnerability, to name a few. Therefore, the objective of this study is to discuss, in detail, the limitations and issues associated with the existing social protection system in Sri Lanka and suggest some policies that can be considered reforming existing system.

## 2. Literature Review

Existing studies of the social protection system of Sri Lanka have identified noticeable weaknesses in all three core areas. Although the Sri Lankan labour market enjoys some employment protection and social security, the segment that benefits most are the formal sector few of whom are likely to be poor. Sri Lanka's social protection schemes provide some measures of protection; however, they offer limited coverage, inadequate benefits, and have targeting errors, weak administrations and regulation, and, crucially, their financial sustainability is in question.

Limited coverage can be seen in social safety nets, some of the vulnerable groups like poor and disabled are not covered adequately. Disability payments are mostly focused on soldiers and leaves out other poor disabled groups and fiscal constraints that limits coverage including conflict and disaster relief programmes (Abeykoon & Elwalagedara, 2008). According to Economic and Social Commission for Asia and the Pacific (ESCAP) (2010), in Samurdhi programme, although men and women had equal access, on paper, disproportionately more women stated they did not receive benefits, particularly for livelihood-related issues. This was particularly evident in Jaffna due to the patriarchal values of public officials who make beneficiary selection decisions at the local level. Thus, patriarchal considerations could be contributing to the discretionary character of the Samurdhi beneficiary selection process in Jaffna (ESCAP, 2010). Not only the government social protection programmes, but also the other social protection programmes also are suffering from the limitation of limited coverage. (Galappatige et al., 2011) highlighted that the products offered by micro insurance institutes are mainly limited to life, health, and credit insurance, with coverage on a few risks such as deaths, funeral expenses, hospitalization, and accidents. However, with coverage on surgery, medicines, life cycle events, education, poverty, income loss, agriculture are negligible or none. It is rare to find one provider covering all family related shocks, while the family related shocks are the main types of risks the household experience (Galappattige et al., 2011).

The Samurdhi programme has been widely criticized for lapses in its targeting – both inclusion errors and exclusion errors. According to Thilakaratna and Jayawardene (2015), except in the

districts of Hambantota, Nuwara Eliya, Batticaloa, Ampara and Ratnapura, less than a half of the poor households receive Samurdhi benefits. Such exclusion errors are particularly higher in the districts of Trincomalee, Jaffna, Mannar, Kilinochchi, Mulativu and Colombo where only 25 per cent of poor households receive Samurdhi benefits (Thilakaratna & Jayawardene, 2015). Damayanthi & Champika (2014) emphasized that the government needs to pay attention to re-set the income level of beneficiaries' selection according to the current economic conditions of the country, as threshold income level considered by the Samurdhi Authority of Sri Lanka (Sri Lankan Rupees (LKR) 1,500.00 per month, per family) is no longer applicable. Further, they recommended revisiting the microfinance programme of the Samurdhi by increasing maximum loan amount, simplifying the loan conditions, planning to resolve the problems related to small groups and introducing a personal loan system for those having good loan history.

Even though, the existing literature has identified the limitations of the social protection programmes in Sri Lanka, these studies do not emphasize the importance of addressing these limitations with proper analysis of current needs of the country. The current working paper fills this gap in the literature.

## 3. Social Protection System in Sri Lanka

Sri Lanka is known as a welfare state since independence in 1948, as every successive government that came into the power allocated welfare provision to the public because it is a major part of their political survival (Lakshman, 1997). Even today, the percentage of welfare provision takes the central theme of political campaigns disregarding their political ideology. Based on that percentage the market structure of the country fluctuates between center-left and center-right economic policies.

Looking back to the history of the social protection system, it started with the British colonial expansion of the plantation sector regime who started importing labourers from India for the plantation sector. With the expansion of the plantation economy, a strong middle class and upper middle class was formed (in civil services, planters, and landowners), thus income gap of urban rural and estate sector became huge and the living standards of both rural and estate population were lowered (Alailima, 1997). Thus, the government decided to provide cash

benefits to those who conduct marginal lifestyle, extend free health services countrywide and a comprehensive social protection system for wage earners, provident fund system for old age security. Under that ordinance, establishment of a formal mandatory pension scheme for civil servants in 1901 is significant (ILO, 2008). Under the second sentence of the Ordinance Number 2 of 1947, Minutes of Pensions became a part of written law in Sri Lanka. In 1972, Minutes of Pensions was reformed. The Widows' and Orphans' Pension Fund Ordinance was legalized in 1898[2] and at the beginning; this scheme was opened only for male public workers. With the introduction of Widowers and Orphans' Pension (WWOP) scheme in 1983, it opened for public sector female workers also. In 1981, Minutes of Pensions for Armed forces, Navy forces and Air forces were implemented. Public servants in three forces also can contribute to the Widows' and Orphan's Pension Fund. Further, Public Service Provident Fund Ordinance was established in 1942 with the objective of providing old age benefits for every non-pensionable employee in the service of the government. In summary, pension scheme for government workers consists of three components: Civil service Pension Scheme (CSPS), WWOP scheme, and Armed Forces Pension Scheme. Currently these pension schemes are operated by the Department of Pensions, which was established in 1970. Before 1970, these schemes were under the purview of the Sri Lanka Treasury. As at 2020 October, 652,960 former civil servants and their dependents covered by the Public Service Pension Scheme (PSPS) (www.pensions.gov.lk).

Retired public sector servants are entitled for monthly allowance according to their basic salary and period of service. Employees are eligible to retire and avail of pension benefits at the age of 55 years. In order to benefit from the Pension Fund, the public service officials should have 120 months of unbroken service in a permanent pensionable post. However, this service period is different for some specific employment categories such as judges in Supreme Court, Court of Appeal, and High Court, Court officers, Secretaries to Government Ministries, etc. Pension scheme pays 65- 85 per cent of the last salary received at the time of retirement. WWOP scheme covers the survivors of the pensionable civil servants specially their surviving spouse, orphaned children or permanent disabled children. Civil servants have to contribute between 6 -7 per cent of their monthly salary to WWOP scheme. Armed Forces Pension Scheme covers

[2] This ordinance provides a clue to state that civil servants pension scheme was operating even before 1901.

the members of armed force. This scheme also has WWOP covering scheme. The PSPS is financed from government budget except the employees' contribution for WWOP. In summary, although it was introduced formal contributory social insurance pension scheme in 1950s, it could not be able to improve as a universal system due to several factors such as nature of job type such as informal and irregular work, child labour, institutional constraints, and lower rate of economic growth (ILO, 2008).

To assure the old age income security for private sector workers, The Employees' Provident Fund (EPF) was established under the Act No. 15 of 1958 is known as the 'little peace of mind' for the employees of institutions and establishments of the private sector, state sponsored corporations, statutory boards, and private business. The objective of the EPF is to assure financial stability of employees at their old age rewarding their contribution of economic growth. It is compulsory to include the entire employees to EPF system at the recruitment, irrespective of the type of employment excluding household employee (ADB, 2019). Therefore, all employees either permanent, temporary, apprentices, causal or shift workers are considered to be covered. Further, it is prohibited for employers to compensate for them self by reducing wages by law. Approved Provident and Pension Fund (APPFs) and Approved Contributory Pension Scheme was also established according to the EPF Act of 1958. Employers can contribute towards the APPF instead of the EPF. New recruitment for this scheme was stopped in 1996, while only the existing APPFs were allowed to continue. Funds collected from EPF are invested in a single pool and annual payments for the beneficiaries are financed from the return of this investment, based on their individual account balance. EPF is the largest social security scheme in Sri Lanka with assets of LKR 2,289 billion at the end of 2018. Total number of member account as of 2018 was 18.6 million. This scheme also a contributory system without wage ceiling. According to the EPF Act, an employee is required to contribute a minimum of 8 per cent and the employer a minimum of 12 per cent of the total monthly salary of the employee. Members can withdraw their EPF account fund balance including interest rate after reaching the age of 50 for females and 55 for males. The account balance can be withdrawn before reaching the recommended age if the member become disabled, migrated, joined a pensionable employment or upon marriage for female employees.

Members can nominate beneficiaries to be eligible to receive refunds if the member dies before reaching the prescribed age.

As further improvement of this scheme, Employee Trust Fund (ETF) was introduced on 1st March 1981 under the Ministry of Labour and currently operates under the Ministry of Finance, Economy and Policy Development. All private and semi- government sector employers contribute 3 per cent of the gross salary of their employees monthly to this fund. Apart from that, a range of welfare benefits are offered by this programme during their employment. A main objective of establishing the Fund was to provide non-contributory welfare benefits to its members. Currently 10 benefit schemes are in operation. These benefits are granted irrespective of the balance in the members account and no deductions are made from their accounts for the benefits paid while the members account is credited with the full interest and dividend declared by the fund each year. Table 1 illustrates those benefit schemes.

**Table 1: Different Benefit Schemes of ETF**

| Benefit scheme | Value (LKR) |
|---|---|
| Death benefits | 100,000 |
| Permanent disablement | 200,000 |
| Eye lens implant | 15,000 each eye |
| Heart surgery assistance | 300,000 |
| Kidney transplant assistance | 300,000 |
| Hospitalization scheme | 25,000 per year (Rs. 50,000 for life time) |
| Grade 05 scholarships | 15,000 each for 9000 scholarships per year |
| GCE (A/L) Examination | 12,000 each for 5000 financial grants per year |
| 'VIYANA' Housing loan scheme | Up to Rs.2,500,000 at concessionary rates of interest |

Source: http://www.etfb.lk

Currently, formal sector female employees are entitled for paid maternity leave (three months) after childbirth. This benefit is offered for the working women according to the Maternity Benefit Ordinance, which was introduced in 1939. However, at the beginning, Maternity Benefit Ordinance provided maternity benefit of six weeks leave for all permanent employed women.

Health and education services in Sri Lanka can be identified as universal social protection programmes. Free health policy was implemented in 1951[3]. Provision of higher level of health facilities started in 1930s, even before the free health policy due to Malaria epidemic in 1934-1935. Another key element of the Sri Lankan social protection system is the provision of universal free education up to the completion of University Education. In 1938, Sri Lankan education system converted to a formally free programme with the grant of universal franchise in 1931.

Moreover, Sri Lankan social protection system has been enhanced to cover the deprived groups of the country. The Poor Law Relief System were introduced in 1939 (ILO, 2008). Under this system, different programmes have been introduced and reformed at different periods. With the aim of assuring the food security of the poor, the Food Ration System was introduced in 1940. This food subsidy programme was universal and provided basic food needs in a discounted price such as rice, sugar, wheat flour, and milk powder. These social protection policies introduced in post-independence era was mainly financed by the tax collected from the plantation sector. As an adverse effect of the slow economic growth in 1960s, in 1970, the social protection policies were changed by cutting down social protection expenditure. As a result, a direct income transfer programme, aimed at a targeted population replaced longstanding food price subsidy scheme (Edirisinghe, 1987). In other words, food price subsidy programme was converted to food stamp programme. However, due to fiscal and balance of payments burdens, food subsidy was curtailed. This curtail was in three phases. In the first phase, mean test was conducted and restricted the eligible families for the rice subsidy to whose monthly income is less than LKR 300. In the second phase, food ration was converted to food stamp which could be used to purchase rice, sugar, wheat flour, and milk powder. Third phase was the elimination of subsidies on food prices. Eligibility for the food stamp was based on household income, size, and the composition.

In 1989, a new poverty alleviation programme, named 'Janasaviya' was introduced. In 1995, Janasaviya programme was replaced with Samurdhi Programme which is still functioning. As

[3] https://lk.one.un.org

well there were many other social protection programmes introduced time to time to maintain the social equity and fairness. For informal sector workers, three pension schemes were introduced in 1980s: Farmers' Pension Scheme, Fishemen's Pension Schema and Pension Scheme for Self-Employed. In 1987, the Farmers' Pension Scheme and Social Security Benefit Scheme were introduced to protect and to provide old age benefits to the workforce in agriculture sector. This system was expanded in 1990 and in 1996 to include fishermen and self-employed workers respectively. Pension scheme for the self- employed people was established under Social Security Board (SSB) Act No. 17 of 1996 and Gazette No. 948/10 to encourage people to remain in their occupation, encourage youth to be self-employed, to improve the savings habits and to provide a relief at their old age. This scheme mainly focusses on low-income self-employed people aged between 15-59 years old, and those who do not get benefit from any other pension or provident fund scheme.

Continuation of the social security system in the country became a political priority since independence. Owing to the fact, Sri Lankan leaders have selected social development in preference to economic growth. Therefore, successive governments from time to time introduce new additions, while continuing the existing programmes on the objective of redistribution of wealth and alleviate poverty. Especially, after ending of prolonged ethnic conflict in the country in 2009, various new coverages have introduced into the existing social security system. One of them is the senior citizen allowance[4], which introduced to the elders those who are not covered by any social protection programme. The Senior Citizens Allowance was established in 2012. This programme is designed for the elderly people over 70 years and living alone or with a spouse but not with children. Households with monthly income less than LKR 3,000 are eligible to receive Rs 2,000 monthly allowance under this programme. In addition, considering the needs of elderly people, government initiated a welfare programme for those who are older than 100 years with LKR 5,000 monthly allowance since 2017 (CBSL, 2019).

In addition to the aforementioned programmes, a number of other programmes are providing social protection for school children, lactating mothers, pregnant women and the disabled and

[4] Named as "Wadihiti Saviyata Jeshta Purawasi Deemanawa"

the people who are suffer from chronical illness so as to ensure basic human rights. Although Sri Lanka has universal free education system, number of other facilities are also provided for schoolchildren to encourage all children to have education. Some of those benefits are free textbooks, cash for school uniform or other school materials, subsidized transport, health insurance scheme, and scholarships. Only in some schools, mid-day meal is also provided. Lactating and pregnant mothers are entitled to nutritional food such as 'Threposha' (initiated in 1973) and 'Poshana malla', which is a basket of nutritional goods, initiated in 2006 and converted into food stamp worth LKR 2,000.

In addition, fertilizer subsidy given to farmers is also imperative at this juncture. This subsidy has been giving to farmers since 1962, however, it changed to Fertilizer Cash Grant (FCG) by providing financial assistance. Under the FCG programme, priority was given to paddy. Paddy farmers were entitled to subsidy of LKR 25,000 per hectare per year subjected to a maximum of LKR 50,000 per year.

In such a way, so far Sri Lankan governments have facilitated social security for people across different segments of the country. However, by carefully evaluating each programmes, there can still be seen limitations/ drawbacks in the existing social protection programmes. Those limitations are explained in the following section of the paper.

## 4. Shortcomings of the Existing Social Protection System in Sri Lanka

Despite commendable achievements in social indicators and having a comprehensive social protection system, still there are some drawbacks in the system, which require attention of the policy makers. Some of those identified shortcomings are no or lack of coverage, inadequacy of benefits, uncertainty of programmes, less coordination between supply parties, poor targeting due to political favoritism.

### 4.1. No Coverage / Lack of Coverage

The paper has identified that gender gap in workforce and employment, unemployment risk, demographic transition, and less coverage of informal sector and migrant workers are the main areas, which have not been properly addressed by the current social protection system.

### 4.1.1. Gender Gap

Gender gap in labour force participation is one of the major problems in the country. Sri Lanka has the 14th largest gender gap in labour force participation globally (Jennifer et. al, 2017). By definition, labour force participation rate is the percentage of the currently employed or actively seeking employment population of the total working age population. However, within the labour force, female representation is quite low compared to male representation. Recent tendency of the labour force participation by each gender in Sri Lanka is shown in the Table 2.

**Table 2 : Labour Force Participation Rate 2014 to 2019 (%), by Gender**

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| Total | **53.2** | **53.8** | **53.8** | **54.1** | **51.8** | **52.3** |
| Male | 74.6 | 74.7 | 75.1 | 74.5 | 73.0 | 73.0 |
| Female | 34.6 | 35.6 | 35.9 | 36.6 | 33.6 | 34.5 |

Source: CBSL (2020)

As shown by data, female labour force participation rate is very low accounting 33 - 34 per cent, and the number is same during the last five years' period. Before 1977, it was significantly at a low level. However, it increased significantly during the second half of the 1990s due to the establishment of Free Trade Zones (FTZs). The female labour force participation appeared to be 31.7 per cent in 1995, and 85 per cent of workers were from the ETZs (Rodrigo, 1996). In 2019, female labour force participation was 34.5 per cent while male labour force participation was 73 per cent. Perception of employers, willingness to work, ethnicity, family barriers are among the many reasons responsible for this low figure. At the age of 25 - 34 years is the main age category that most of Sri Lankans were able to get formal job opportunities after finishing higher education. On the other hand, most of Sri Lankan girls get married at this age category, preventing them to work for salary because of family responsibilities. Table 3 shows the labour force participation rates by age groups and gender in 2019.

**Table 3 : Labour Force Participation Rates by Age Groups and Gender in 2019**

| Age | Labour Force Participation Rate (%) | | |
|---|---|---|---|
| | **Total** | **Male** | **Female** |
| Total (15 or above) | **52.3** | **73.0** | **34.5** |
| 15-24 | 30.7 | 39.8 | 21.7 |
| 25-34 | 67.1 | 93.7 | 44.7 |
| 35-54 | 69.2 | 95.1 | 47.0 |
| 55-64 | 53.8 | 77.7 | 33.5 |
| 65 | 23.5 | 38.5 | 11.7 |

Source: DCS (2019)

As can be seen in the Table 3, labour force participation rate of the age group 15-24 is lower compared to the other age categories, irrespective to the gender difference. This may be because many are studying at this age. Further, data illustrates a significant gender gap in labour force participation at all age groups. Gender gap is considerably high in the age category of 25-34 years and 35-54 years. However, lower labour force participation may lead to higher risk at their old age because they are not entitled for any formal pension system or any other old aged social protection system as the existing system does not have such a coverage. Even though this risk is common for both male and female, but critical for female as their labour force participation rate is significantly lower than male.

This data points out that most females are economically inactive compared to males. Economically inactive population can be defined as the persons who are not actively participate in income earning activities during the reference period and those who are mainly engaged in studies, household duties, retired or old, and/or disabled etc. (DCS, 2019). According to the labour force survey conducted by the Department of Census and Statistics 73.7 per cent of female, which accounts 5.8 million, are economically inactive in 2019. Table 4 summarises the reason for people being economically inactive.

**Table 4 : Reason for being Economically Inactive by Gender in 2019**

| Reason | Total | Male | Female |
|---|---|---|---|
| Engaged in studies | 21.1 | 39.2 | 14.6 |
| Engaged in household activities | 47.2 | 4.3 | 62.4 |
| Retired/ old age | 20.3 | 33.7 | 15.5 |
| Physical illness | 8.2 | 16.6 | 5.2 |
| Other | 3.3 | 6.1 | 2.3 |

Source: DCS (2019)

Reasons given here for being economically inactive are engaged in studies, engaged in household activities, retired or old age, disability and illness. The data indicates that a significant percentage of female is not participating in economic activities to earn an income because of unpaid household activities, which are not even counted for GDP calculation. However, the opportunity cost of these unpaid household activities is really high, especially for educated women. Further, current economically inactive situation may lead to higher risk in their old age as well as when they sick or disable without proper social protection. Therefore, social protection system must cover people in this category since they bear high opportunity cost for unpaid social responsibilities.

As previously mentioned in the paper, family responsibilities and social and cultural factors are the major reasons for this lower level of female labour force participation. Females are more vulnerable if they do not have income sources. Therefore, the current social protection system should focus on this problem of gender gap in the labour force participation.

#### 4.1.2. Unemployment Risk

Even though unemployment rate has declined dramatically over the last few decades in Sri Lanka, among some groups such as youth, female, and educated persons, it is considerably high. Table 5 shows the unemployment rate in Sri Lanka for the period of 2014 to 2019.

**Table 5 : Unemployment Rate in Sri Lanka, during 2014-2019**

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| **By gender** | | | | | | |
| Male | 3.1 | 3.0 | 2.9 | 2.9 | 3.0 | 3.3 |
| Female | 6.5 | 7.6 | 7.0 | 6.5 | 7.1 | 7.4 |
| **By age group** | | | | | | |
| 15-19 years | 21.4 | 24.1 | 27.1 | 21.0 | 26.5 | 26.0 |
| 20-29 years | 13.6 | 14.2 | 14.2 | 13.5 | 15.0 | 15.3 |
| 30-39 years | 2.7 | 3.1 | 2.4 | 2.7 | 3.0 | 3.1 |
| 40 and above | 0.9 | 1.0 | 0.8 | 0.9 | 0.7 | 1.2 |
| **By level of education** | | | | | | |
| Grade 5 and below | - | - | - | - | - | - |
| Grade 6-10 | 3.4 | 3.4 | 3.3 | 2.8 | 2.9 | 3.3 |
| GCE (O/L) | 5.9 | 6.4 | 5.8 | 5.9 | 5.2 | 6.5 |
| GCE (A/L) and above | 8.2 | 9.2 | 8.3 | 8.1 | 9.1 | 8.5 |
| **All** | **4.3** | **4.7** | **4.4** | **4.2** | **4.4** | **4.8** |

Source: CBSL (2020)

Unemployment rate is higher among female compared to male, indicating again a significant gender gap in terms the employment rate in the country. Female unemployment rate was 7.4 per cent in 2019, which is more than two times higher than that of males. Together with the aforementioned reasons, lower level of female recruitments is the one of the affected factors for high level of unemployment among female. However, female headed households and widowers are more vulnerable for the risks associated with the stages of their life cycle. The absence of proper income source is more critical in their old age if they are not entitled for any formal social protection programme.

Another fundamental problem in the workforce is higher rate of youth unemployment. Even though 26 per cent of 15-19 years old persons are unemployed, it cannot be considered as a serious problem as the majority of young people in this age group is engaged in studies. However, the unemployment rate was 15.3 per cent among the age category of 20-29 years old young people in 2019. There are several reasons for this higher rate of youth unemployment: mismatch between educational qualification and employment opportunities, lack of professional experience, lack of practical knowledge, English language difficulty and

seeking only government jobs or white color jobs. The other problem is the higher unemployment rate among well-educated people. Compared to the other educational level, unemployment rate is high among those who have GCE A/L or above. Unemployment rate among people who have the highest educational qualifications was almost double (8.5%) as the general unemployment rate in Sri Lanka in 2019. Above-mentioned characteristics in the labour force call for special attention of social protection system. Unfortunately, existing social protection system in Sri Lanka does not cover unemployment risk, while most of the developed countries cover the unemployment risk. Hence, to achieve high economic growth and reduce social problems, it is necessary to initiate an unemployment compensation programme in the country.

#### 4.1.3. Informal Sector

Informal sector plays a significant role in the Sri Lankan economy by creating employment, increasing production and generating income. Informal sector can be identified based on several criteria such as registration of the organization, account keeping practice and number of employees (DCS, 2019). There are several criteria for an institution to be considered as formal.

1. If the institutions registered in EPF or in the Department of Inland Revenue
2. If the institution keeps accounts.
3. If number of regular employees greater than or equal to 10

(DCS, 2019)

All other institutions, which do not satisfy any of the above conditions, are considered as informal sector. Table 6 desegregates the informal and formal sector employment by economic sector and gender.

**Table 6: Distribution of Informal and Formal Sector Employment by Economic Sector and Gender in 2019**

| | Informal (%) | Formal (%) |
|---|---|---|
| **Total** | **57.4** | **42.6** |
| Agriculture | 89.0 | 11.0 |
| Non agriculture | 46.7 | 53.3 |
| **By Gender** | | |
| Male | 60.8 | 39.2 |
| Female | 51.1 | 48.9 |

Source: DCS (2019)

Data emphasize that informal sector is very important in economic development process of the country. Although, unemployment rate is low in Sri Lanka, a significant segment of employed population is in the informal sector. The informal sector contribution to the total employment was 57.4 per cent while formal sector contribution is 42.6 per cent in 2019. More than half of males and females are working in the informal sector where there is no job security as well as is vulnerable to any type of risk easily. Table 7 demonstrates the distribution of informal sector employment by major industry groups.

**Table 7 : Distribution of Informal Sector Employment by Major Industry Groups in 2019**

| Industry Group | Informal Employment (%) |
|---|---|
| Education | 13.4 |
| Manufacturing | 44.2 |
| Accommodation and food service activities | 56.5 |
| Construction, electricity, gas steam and air-conditioning | 75.4 |
| Agriculture forestry and fishing | 89.0 |

Source: DCS (2019)

The highest percentage of informal employment is recorded in the agriculture, forestry and fishing industry that is more vulnerable to natural disasters and climate change. The second highest percentage (56.5 per cent) is in the accommodation and food service activities. This group of employment is highly sensitive to seasonal factors. Most recent evidence show that they are more vulnerable to pandemic situation such as COVID-19 as well national conflicts.

Informal working opportunities in the manufacturing sector and construction sector also have a risk of job insecurity because of interruption of supply chain and vulnerable for pandemics and conflicts. To give an example, most of informal sector workers lost their jobs because of the COVID-19 all around the world. Table 8 illustrates the employment status during last five years.

**Table 8: Status of Employment from 2014 to 2019**

| **Status of Employment %** | **Year** | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Public sector employees | 15.5 | 15.1 | 14.6 | 14.4 | 14.5 | 14.9 |
| Private sector employees | 40.9 | 41.0 | 43.3 | 43.3 | 43.4 | 43.0 |
| Employers | 2.7 | 3.1 | 2.7 | 3.0 | 2.8 | 2.6 |
| Self- employed | 32.0 | 32.3 | 31.6 | 31.3 | 32.3 | 32.5 |
| Unpaid family workers | 8.9 | 8.4 | 7.8 | 8.0 | 7.2 | 7.0 |

Source: CBSL (2020)

The data show that a significant percentage of people are employed in the private sector and self-employment. Another significant percentage of people works as unpaid family workers. However, most of the workers in these sectors are not adequately covered by any social protection system except some of the private sector worker are covered by EPF and ETF. Most of private sector workers are entitled for EPF and ETF, which have many drawbacks. Hence, EPF and ETF cannot be considered as an appropriate old-aged security system. Although there is a social protection system for self-employed people, that scheme is not properly working. High default rate is recorded as self-employed persons are not able to continually pay the premium due to irregular income of this sector. Apart from the pension scheme for self-employed, as mentioned above, there are voluntary pension schemes for farmers and fishermen. Nevertheless, those programmes are not popular and aren't functioning well because of high default rate and low benefits. Hence, the available social protection programmes for informal sector workers should be revisited to mitigate the drawbacks incurred in those programmes. These informal sector workers are more vulnerable to any type of risk and therefore there is high probability to fall below the poverty line. Therefore, a sound social protection system is

necessary for informal sector workers. Hence, it is worthwhile to reformulate existing system properly considering their needs.

#### 4.1.4. Migrant Workers

Migrant workers are the other segment of people who do not have proper social protection. However, in Sri Lanka, the major foreign income earners are migrant workers. Sri Lanka's foreign remittance is 702.1 million US dollar in July 2020 (Economynext, 2021). Table 9 shows the migrant workers according to their employment categories for last five years' period.

**Table 9 : Employment Categories of Migrant Workers During 2014 - 2019**

| Skills Category (%) | Year | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Professional | 1.8 | 2.4 | 2.7 | 3.0 | 3.4 | 4.9 |
| Middle level | 6.9 | 2.6 | 3.4 | 3.4 | 3.6 | 2.8 |
| Clerical and related | 9.7 | 4.7 | 4.5 | 4.4 | 4.7 | 4.5 |
| Skilled | 25.7 | 32.8 | 33.1 | 34.1 | 33.0 | 32.3 |
| Unskilled | 26.4 | 29.6 | 29.5 | 28.8 | 24.5 | 25.2 |
| Housemaids | 29.5 | 27.8 | 26.8 | 26.4 | 30.7 | 30.8 |

Source: CBSL (2020)

According to the Table 9, a significant percentage of migrant workers are housemaids. In 2019, out of total migrant workers, 30.8 per cent of workers was housemaids and another 25.2 per cent of migrant workers was unskilled. Both these categories are more vulnerable for any types of risks such as breach of contract, physical and sexual harassments. Moreover, these migrant workers are from poor or vulnerable households and any risk faced by the migrant worker affects the entire family. Other migrant workers that include in professional, middle level, skill workers and clerical related jobs have insurance schemes contributed by both employee and employer or only from employer with adequate benefits. Additionally, Sri Lanka Bureau of Foreign Employment (SLBFE) offers volunteer pension schemes for migrant workers. However, like previously mentioned common drawbacks in the volunteer pension schemes can be seen in the programmes available for migrant workers. Therefore, it is necessary to implement proper social protection system for migrant workers as they play vital role in the Sri Lankan economy. This is necessary in terms of human rights and social equity aspects also.

### 4.2. Income Inequality and Vulnerability

Although poverty is declined over the past decades considerably, vulnerable population clustered just above the poverty line is high creating a risk of falling them below the poverty line. According to the Multi-Dimensional Poverty Head Count Index (MDPHCI) which measure the poverty using ten indicators namely years of schooling, school attendance, nutrition, child mortality, electricity, drinking water, sanitation, floor of the house, cooking fuel and house owned assets under three dimensions namely education, health and living standard which are equally weighted was 2.4 per cent in 2016. According to MDPHCI, 11.9 per cent of population are (2.5 million people) vulnerable and 0.2 per cent of population is severely multidimensional poor in 2016 (CBSL, 2019). Further income inequality is also high in Sri Lanka. Richest 20 per cent households have 50.8 per cent of income and middle 60 per cent of household have 44.4 per cent income while poorest 20 per cent households have only 4.8 per cent income (CBSL, 2020). Even though one of the objectives of social protection programmes is to reduce income inequality, there cannot be found much evidence to show whether the objectives are achieved. A lot of functional error appeared to be in these programmes, especially targeting errors. Owing to the fact, impact of income inequality may show marginal effect.

### 4.3. Demographic Change

Demographic change is currently become a global issue since almost all countries are facing aging problem with low level of population growth. In Sri Lanka, mid-year population growth rate is declined over the time (Table 10).

**Table 10: Annual Population Growth Rate from 2015 to 2019**

| Year | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Population growth rate (%) | 0.9 | 1.1 | 1.1 | 1.1 | 0.6 |

Source: CBSL (2020)

Data shows that population growth rate in Sri Lanka was less than 1 per cent in 2019. Sri Lanka shares the highest percentage of elderly dependents in the South Asian region (CBSL, 2019). As well, Sri Lanka is one of the fastest aging countries in the world (ADB, 2019). Table 11 illustrates the share of population according to age category.

**Table 11: Percentage Distribution of the Population by Age Group During 1971- 2041**

| Year | Age group (Years) | | |
|---|---|---|---|
| | 0-14 | 15-59 | 60+ |
| 1971 | 39.0 | 54.7 | 6.3 |
| 1981 | 35.2 | 58.2 | 6.6 |
| 2001 | 26.3 | 64.5 | 9.2 |
| 2012 | 25.8 | 67.0 | 12.2 |
| 2021 | 19.4 | 63.9 | 16.7 |
| 2031 | 16.1 | 63.2 | 20.7 |
| 2041 | 15.2 | 60.0 | 24.8 |

Source: CBSL (2018)

Data in the Table 11 clearly shows the demographic change that will occur in near future. Aging population (over 60 years old) is increasing while children below 14 years old is declining over the period. According to the population projection conducted by the World Population Prospects (2019), Sri Lanka's total population will increase modestly until 2038 and after that, it will begin to decline, if low fertility rates and low level of inward migration. As estimated by the World Population Prospects, population of Sri Lanka will be 22.2 million by 2038. Before starting to decline, the labour force in Sri Lanka (aged 15-64) will reach its peak in 2027 while the 15-19 age group will reach a peak in 2026. The older persons (65 years or more) will be double by 2040 (ADB, 2019). The share of the population of 65 aged will increase from 9.4 per cent in 2015 to 21 per cent by 2045 and to 35.6 per cent by 2100 (ADB, 2019).

Aging problem has twin effects on economy of Sri Lanka. One is old age security and the other is declining labour force. One of the problems of aging is the increasing dependency ratio, which measures a ratio of population aged 60 years or more to the population aged 15-59 years. Old age dependency ratio has been increasing since early 1970 while fall in the child dependency ration which measure the ratio of population aged less than 15 years to the population aged 15-59 years (ADB, 2019). These two dependency ratios will roughly balance around 2030 and after that old-aged dependency ratio remain higher than child dependency ratio (Figure 1).

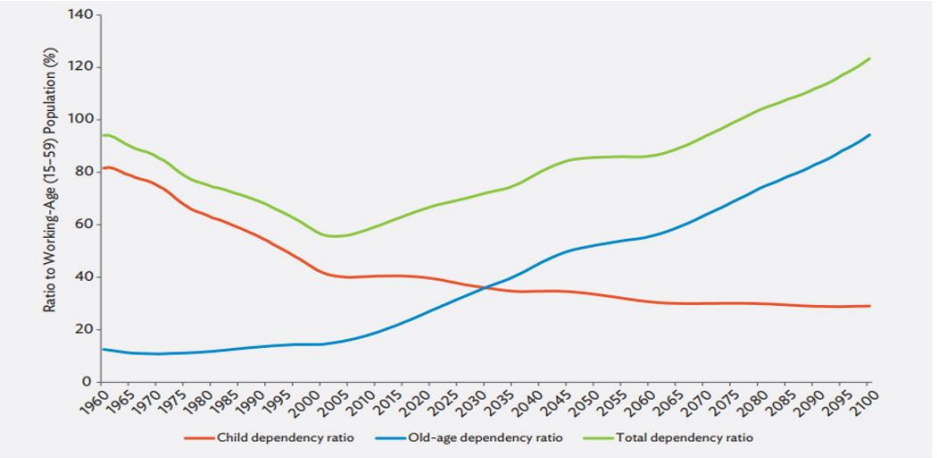


**Figure 1**: **Trends in Dependency Ratio**

Source: ADB, (2019)

Total dependency ratio will increase rapidly from 60 per cent in 2010 to reach 80 per cent by 2040 and then to 120 per cent by 2100. This entire increase is driven by the increase in old-aged dependency ratio.

Another special characteristic of Sri Lankan demographic change is higher life expectancy of females than that of males. Female life expectancy is increasing while male life expectancy stagnated for 3-4 decades from 1970s. Smoking and non-communicable diseases mainly cause for low life expectancy of males in Sri Lanka. Thus, old-aged persons are predominantly females. Table 12 demonstrates the people aged 60 years and over by age groups and gender.

**Table 12 : Percentage of People Aged 60 Years and Over by Age Group and Gender in 2015**

| Age group | Male (%) | Female (%) |
|---|---|---|
| 60-64 | 46.4 | 53.6 |
| 65-69 | 45.1 | 54.9 |
| 70-74 | 42.4 | 57.6 |
| 75-79 | 40.6 | 59.4 |
| 80+ | 39 | 61 |

Source: ADB (2019)

As can be seen in the Table 12, in 2015, female population of over 60 years was higher than male population in that age group. This difference is substantial when the age group 80+years is considered. Out of total 80+ population, 61 per cent was female in 2015. Another

characteristic of demographic changes in Sri Lanka is rapid increased of very old (80 years or above) population. This segment of people more likely to be frail and dependent. The share of those aged 80 and above in the population of those aged 60 and above is estimated to increase from 12 per cent in 2010 to 38 per cent by 2100. The share of the population over 60 years was 9.3 per cent in 2000 and expected to increase up to 16.4 per cent in 2020, 28.1 per cent in 2050 and 42.2 per cent by 2100. The increasing number of 80 years and above population emphasize the importance of increase quantity and quality of social and health care services required for the elders.

Living arrangements of the old people should also be emphasized, as it is important for formulating and revising social protection programmes. Living arrangement of the elders are concentrated with their co-residence. The co-residence rate is higher in Sri Lanka since majority of elders living with their spouse and/or with adult children while very few elders living on their own. However, it is becoming more troublesome to take care of elders, because of reducing family size, increased female participation of labour force and migration for work and due to marriage. As estimated by the DCS (2015), 54 per cent of people internally migrate because of marriage while another 10 per cent migrate because of labour force participation. Table 13 illustrates poverty level among the old people according to their living arrangements and age groups.

According to Table 13, poverty rate is considerably high among old people who live with spouse and children and with children only. This reflects the fact that the economic difficulties of take care of older people by family itself and emphasizes the need of good social protection system for old generation. However, poverty rate is low for older people who live alone than others. The most probable reason for this is people who live alone have their own pension scheme or any other type of wealth. Also, people who are well educated likely to be alone. Some research points out that there is a negative relationship between co-residence with children and level of income and education. The WB (2008) pointed out that poverty among the elderly increases especially after 65-year-old. The percentage of elders living in other arrangements such as elder care homes is higher in urban sector because of availability of elder care home and higher income of some urban elders compared to other sectors.

**Table 13 : Poverty Head Count Index by Living Arrangements in 2016**

| | | PHCI by Age Group | | | |
|---|---|---|---|---|---|
| **Sex** | **Living arrangement** | **60-69 Years** | **70-79 Years** | **80+ Years** | **60+ Years** |
| **Male** | Alone | 2.0 | 0.0 | 0.0 | 1.0 |
| | With spouse only | 0.6 | 3.0 | 4.6 | 1.8 |
| | With spouse and children | 4.4 | 6.0 | 8.7 | 5.1 |
| | With children only` | ` | 3.9 | 4.9 | 4.6 |
| | With spouse and others | 3.0 | 2.6 | - | 2.7 |
| | Other living arrangement | 1.6 | 1.8 | 4.9 | 2.2 |
| | All | 3.6 | 4.4 | 5.8 | 4.0 |
| **Female** | Alone | 1.5 | 0.5 | 1.6 | 1.1 |
| | With spouse only | 1.4 | 4.0 | - | 2.2 |
| | With spouse and children | 4.1 | 10.6 | 1.8 | 5.3 |
| | With children only | 5.3 | 3.7 | 6.1 | 4.8 |
| | With spouse and others | 2.8 | 9.3 | 0.0 | 3.8 |
| | Other living arrangement | 5.1 | 2.7 | 3.6 | 4.1 |
| | All | 4.0 | 4.8 | 4.7 | 4.3 |

Source: ADB (2019)

The income sources of the elders are mainly pension, in kind or cash transfer by children and/or from social protection programmes, while for some elders that is their salary. Most of employees in the informal sector is working until 70 years or above. Retired government employees get pension benefit while retired private sector formal employees get EPF an ETF. Because of higher life expectancy, females get widower's pensions after death of their spouse if their spouses were in civil service. Cash transfer from Samurdhi Programme was the main income source for most of females and males aged over 70 years in 2002 in the rural sector (ADB,2019). However, this number declined in 2016 since Samurdhi beneficiaries of 70 years and over were replaced with Senior Citizens' Allowance Scheme. Senior Citizens Allowance Scheme provides for more than one tenth of individuals over 70 years in the rural sector. Cash and in-kind transfers from children are the other main income source of the elders. Sri Lanka Aging Survey (2006) has indicated that the primary source of income of about half of the elders in Sri Lanka was cash assistance received by adult children (WB, 2008). As well, in-kind transfers

such as food and material goods, received over 75 per cent of elders was form their adult children. In 2016, 18 per cent of the elderly population aged 65 years and above lived in Samurdhi beneficiary households.

According to the PHCI in 2016, 5.8 per cent of elders who are 80 years and above were suffering from poverty indicating the highest poverty ratio (ADB, 2019). The poverty rate inches up among females and males aged 65 and above (ADB, 2019). PHCI for female of aged 75-79 years was 4.9 per cent in 2016. If the income threshold for poverty line calculation is increased up to US $ 3.20 per day, old-aged poverty increases significantly since most of elders concentrate just above the poverty line. Old-aged poverty is high in rural and estate sector compared to urban sector because of most people work in informal sector that is not entitled to pension or any other old aged social security system while most of urban elders received good pensions and they are financially literate (ADB, 2019). These figures and factors indicate the importance of addressing the country's old-aged poverty using the effective social protection system. Table 14 shows the percentage of elders who are 60 years or above with pension coverage.

**Table 14 : Pension Coverage of the Population aged 60 and above in Sri Lanka 2012**

| Social Protection | Percentage of Elders |
|---|---|
| Public servant's pension | 20 |
| Informal pension | 5 |
| Other (PAMA) | 18 |
| Other Elderly Assistance | 7 |
| No pension | 50 |

Source: CBSL (2018)

As can be seen in the Table 14, half of the elderly population do not have old age income security. Possible reasons for this lower level of pension coverage may be lower level of labour force participation and higher percentage of informal sector employment. As mentioned above, the labour force participation rate in Sri Lanka is around 50 per cent and around 60 per cent of the labour force belongs to the informal sector. Only 20 per cent of old aged people is entitled for public servant's pension scheme that is the only one pension scheme currently functions properly with adequate benefits compared with other old aged social security

programmes. Five per cent of elderly people have informal pension scheme. Out of all elderly people 18 per cent is entitled for Public Assistance Monthly Allowance (PAMA) and 7 per cent is entitled for Elderly Assistance Programme (EAP) which were designed especially for the low-income elderly population in Sri Lanka.

With consideration of declining of family support and people who worked on informal sector without any pension or other old age support, emphasize the need of common old age social protection system for all. This should be done with a special care as it affects fiscal expenditure and thereby raising the government expenditure.

### 4. 4. Inadequacy of Benefits and Sustainability of Social Protection Programs

Although Sri Lanka has well organized social protection system, one of the main drawbacks of current system is inadequacy of benefits and sustainability of programmes. The main objectives of social protection system are smooth life cycle of people, diminishing people's exposure to risks such as unemployment, health and old aged problems, and enhance their economic and social life. Therefore, each social protection programme must consider these core objectives. Assets and livelihood building programmes should organize to increase the expected income and to minimize the negative variance of income. Risk sharing programmes must properly address the risks and should contribute to mitigate those risks. Social protection programmes that cover old age security must offer adequate benefit to cover old age problems. Poverty alleviation programmes can play a major role in mitigating most of these risks, faced by poor, with the provision of income.

Samurdhi programme which started in 1995 is the main poverty alleviation programme currently functioning in Sri Lanka. The households, which have monthly income below LKR 6,000, are entitled for Samurdhi benefits, which are varies according to the family size. Table 15 shows the details about Samurdhi benefits and according to family size.

**Table 15: Distribution of the Samurdhi Allowance**

| Number of members | Value of | Compulsory | Social | Housing | Amount |
|---|---|---|---|---|---|
| 4 or more | 3,500 | 300 | 100 | 50 | 3,045 |
| 03 | 2,500 | 200 | 100 | 50 | 2,150 |
| Less than 03 | 1,500 | 100 | 100 | 50 | 1,250 |
| Empowered families | 420 | 270 | 100 | 50 | - |

Source: Department of Samurdhi Development (2018)

According to family size, the value of subsidy varies from LKR 420 to LKR 3,500. All households need to contribute for compulsory savings account, social security fund, and housing lottery fund from their subsidy. All beneficiaries have to contribute to compulsory saving account according to the value of subsidy. The main objective of compulsory savings is to promote saving habit among poor people. Compulsory savings can be withdrawn for higher education, emergency hospitalization and any investment requirement. Every family has to contribute equal amount of money (LKR 100 per month) for social security fund. The Samurdhi social security fund has been started and is being maintained under the Department of the Commissioner General of Samurdhi with effect from 01.01.1997 through trusteeship deed No. 8. This fund aims to support economically destitute families in sudden money requirements such as death of family members, marriage, and hospitalization. Every family should contribute LKR 50 to the Housing Lottery Fund regardless of the subsidy amount. Housing Lottery Fund is used to fulfill the housing requirements of beneficiaries. Apart from the monthly allowance, households are entitled to lump sum benefit to cover unexpected risks and other ad hoc expenditure that household might fall into vulnerable or severe poverty. This lump sum benefit covers four type of events such as childbirth, marriage, illness and death. Table 16 illustrates the value of benefits offer to cover risks and ad hoc expenditure.

Samurdhi beneficiaries' households are entitled to lump sum amount of LKR 5,000 for a childbirth and a marriage. At death of a family member, households can claim LKR 10,000 to cover their ad hoc expenditure. Apart from these benefits' bursary of LKR 24,000 is offered for selected scholarship holders for the two-year academic period of the GCE (A/L).

**Table 16 : Lump Sum Benefits of Samurdhi Programme**

| Requirement | Amount |
|---|---|
| Childbirth | 5,000 |
| Marriage | 5,000 |
| Hospitalization (for only 30 days for a year at 200 per year) | 6,000 |
| Death | 10,000 |
| Sipdora scholarship monthly allowance | 1,000 |

Source: Department of Samurdhi Development, (2018)

As can be seen in Table 15 and Table 16, it is obvious that the benefit of Samurdhi programme is not enough to move out of poverty even though they have somewhat relief. The WB has estimated in 2002 that the average income shortfall needs to move a person over the poverty line as four times the size of actual grant (WB, 2006). Although compulsory savings are important for improve the savings habit, the effects of such a tiny savings is questionable when the inflation rate is concerned. Therefore, as a poverty alleviation programme, Samurdhi programme should consider how it correctly accesses needy people to get them out of poverty. Otherwise achieving SDG 2 that target zero poverty by 2030 will be a dream for the Sri Lankan government.

Although the requirements are almost same for all elderly people, they are entitled for different monthly allowance especially according to their period of service. The aim of the old aged social protection system is to provide sufficient amount of money to be financially secure at the old age. However, most of members get low level of pension and benefits are not revised according to inflation. Further, not only the pensioner depends on this lower level of benefits in his/her old age, but also his dependents (spouse and children under age 18 years) are entitled for benefits and in some cases totally depend on this retirement benefits. However, according to Sri Lankan education system, schoolchildren completed their 13 years of school education at the age of 19. Further, young generation who are following tertiary education also have a little or no chance to earn income due to the commitment with studies and rules and regulations of the higher education institutions. Therefore, it is necessary to consider these matters with the objective of protecting the dependents of pensioners without falling into vulnerabilities.

EPF and ETF are mandatory provident fund act as a retirement saving scheme to cover any employment, including any employment in the service of a corporation whose capital or a part of the capital is provided by the government (state-sponsored institutions, statutory boards, and people's organizations.

EPF and ETF are lump sum allowance that members are entitled to get at their retirement or at the age 55, if they leave their jobs. However, these are inadequate replacement income for old-aged security (Rannan-Eliya and Eriyagama, 2003). As well, the benefit amount depends on the salary scale and the service period. It is a responsible of the retired person to manage the fund effectively for their life span. Purchasing an annuity may not be a good solution because limited access of annuity market in Sri Lanka and it does not generate adequate income for most individuals. ADB has estimated that the average worker an annual income stream is LKR 35,500 on current value for 25-year annuity with zero transaction based on average payout in 2016 of LKR 580,000 (ADB, 2019 pp. 35). Therefore, it is worthwhile to reformulate these old age benefit schemes to provide adequate benefits for entitled members. As pointed out by the Sri Lanka Aging Survey in 2006, more than half of EPF members spent their accumulated balance without saving it for their future while only 10 per cent invest or save (WB, 2008). Those who invest or save for future are mostly workers in higher income groups. Three -fourth of the bottom expenditure quintile in 2006 had spent their entire EPF refund at the time of withdrawn. Most workers have a lack of financial literacy and they do not pay attention on old age income security. A retirement planning survey in 2006 showed that around 58 per cent of workers aged 29-59 was not planning for their retirement (WB, 2008). This is particularly prevalent among casual workers and the self-employed people. All these factors emphasized the need of well-formulated social protection system that provide adequate benefits at the old age.

Ministry of Social Empowerment and Welfare has established welfare programme for number of identified poor households those who do not have any other survival method called as 'Pin Padi'. Under this scheme, households receive financial subsidy from LKR 150 to LKR 250 monthly. Even though this programme is not designed for elders, most of beneficiaries are

elders. The benefit that offered under this programme is not adequate to cover their expenses. Therefore, reforming or restructuring of this programme is also necessary.

Farmers' pension scheme is a contributory programme. It requires fixed scheduled contribution from the members, based on their age of joining. Members' semi-annual payment varies from LKR 130 to LKR 690 between the joining age from 18 years to 55-59 years. Members are entitled to receive monthly allowance ranged from LKR 1,000 to LKR 4,166 depending on the joining age and amount of contributions. Apart from monthly allowance, members are entitled to get gratuity payment of LKR 6,000 to LKR 50,000 in the case of permanent disability depending on age of disability and the seriousness of the disability. If members do not take the gratuity payment, member are entitled to get pension at the age of 60 years even if they could not contribute after disability. However, in the case of death, gratuity payment of LKR 6,000 to LKR 25,000 is paid according to age of the contributor. At the beginning of this scheme enjoy with surplus of fund, however because of mismatch of benefits and the contribution caused to decline the funds available for this scheme (ADB, 2019). Fund balance declined from LKR1.4 billion in 2008 to LKR 663 million in 2009. By 2011, this scheme became insolvent because of lack of originally required endowment subsidy and operating subsidy that provided by government, an inadequate contribution rate relevant to pension benefits from inception, and subsequent increase in the pension schedule without any increases in the contribution schedule. So, all pension payments were stopped but continue to collect contribution from members. However, government restarted this scheme again in 2013 financed by the government budget since government is liable for pension payment according to establishment Act. Because of these problems during 2011 – 2013, most of the members stopped their contribution and lost their eligibility for their pension. Government revised the scheme by changing contribution and benefits in 2013. After the revision, members have to contribute semi-annual contribution ranging from LKR 160 for an 18-year-old member to LKR 11,922 for a 55-year-old and LKR 73,104 for 59 years old person. Monthly retirement benefits vary from LKR 1,000 to LKR 5,000. However, because of high installment rate and bad experience of collapsing the programme, none of new members joined the programme. Nonetheless, the benefits of this programme are not adequate when its indexation with inflation rate. Table 17

shows the real value of monthly pensions of the FPS prescribed at different selected age of enrollment.

**Table 17: Real Value of Monthly Pensions of the Farmers' Pension Scheme Prescribed at Different Selected Ages of Enrollment in 2016**

| Enrolment Age | Face value (LKR) | Real Value* at age 60- |
|---|---|---|
| 18 | 4,167 | 536.87 |
| 28 | 2,000 | 419.73 |
| 40 | 1,250 | 471.11 |

Source: ADB (2019)

*Inflation rate of 5 per cent is used to arrive at the real value of current Sri Lankan rupees

According to the Table 17, it is obvious that the benefits of Farmers' Pension Scheme are not sufficient when its indexation with the inflation rate.

Fishermen's Pension and Social Security Benefit Scheme was established in 1990 under the Act No. 23 to secure the old age of the fishermen. A person, in the age category of 15-59 years, whose livelihood is fishing or fish farming in the sea, lagoon or an inland body of water, is eligible to join this contributory and voluntary pension scheme. However, large-scale fisherman[5] are not eligible for this pension scheme. In addition, a person liable to pay income tax or receive pension from any other pension scheme or liable to receive a pension upon a death of the spouse is not eligible for this scheme. The contribution system and benefits of this programme are almost the same as in Farmers' Pension Scheme. Although at the beginning this scheme managed a positive fund balance, the contribution dropped drastically from 2009. Therefore, negative fund balance was reported over the years and however, it reached LKR 2.4 billion in 2016 while it was only LKR 1.4 billion in 2011. In 2006-2016 period, only 0.04- 0.12 per cent of the elderly population (over 60 years) was liable to get pensions. However, the negative fund balance questions the sustainability of this because of high default rate.

Pension scheme for the self- employed people is also a contributory insurance programme. The contribution is made according to six different scheduled known as scheduled A, C, D, E, F and

[5] such as those who own more than mechanized boats that combined weight does not exceed 6 tons; and or more than two hectares of fish farms.

G which were introduced time to time from 1996. Contribution can be made on either regular basis or lump-sum basis. However, five schedules were closed in 2012 due to unsuitability of those schedules and only schedule, 'schedule F' is open for new members. The contributory amount is ranged from LKR 100 to LKR 32, 730 for 18 years to 59 years old members. The contribution can be made quarterly basis for schedule F. According to schedule F members are entitled for LKR 1,000 monthly pension payment after age 60 despite of enrollment age. This programme covered 0.2 per cent to 0.3 per cent of elderly population of age 60 years or over during the ten-year period starting on 2006 to 2016.

The benefits of these programmes are not sufficient to cover the old age security of people who worked in the informal sector. As well, high default rate is also a big problem in the social protection programmes of informal sector. Further, all these pension schemes which cover the old age security of formal sector and informal sector employees are not inflation protected.

Financial sustainability is the ability to pay out the envisaged benefits and their fiscal cost of scheme. PSPS is non-contributory and financed by the government budget. According to the forecast predicted by the Central Bank of Sri Lanka, an additional 800,000 pensioners will admit over next 30 years from 2020. It will escalate the fiscal cost of the PSPS as the scheme is non-contributory with defined benefit (CBSL, 2019, pp. 29). Although informal sector pension schemes are contributory because of high default rate the sustainability of this programme is also questionable. Irregular income, inadequacy of benefits and institutional factors are the main reasons for higher default rate, which leads to the unsustainability of the informal sector pension schemes. Nonetheless, administrative cost of these informal sector pension scheme is quite high and in 2016, per member the cost is LKR 701 for farmers' pension scheme; LKR 3,936, for Fisherman's pension scheme; and LKR 3,965 for self-employed pension scheme respectively (ADB, 2019). This high administrative cost badly effects on the sustainability of these programmes.

Inadequacy of old age social security programmes are highly critical as the health cost of elderly people is high due to higher rate exposure to non-communicable diseases at the old age. It can be debated that higher frequency of getting sick is not a concern in Sri Lanka as the health facilities are universally free. Table 18 illustrates the health facilities in Sri Lanka.

**Table 18 : Salient Feature of Health Services in 2019**

| Facility/ Expenditure | Number/ Value |
|---|---|
| Primary medical care units | 499 |
| Doctors | 756 |
| Ayurvedic hospital | 105 |
| Ayurvedic doctors | 1759 |
| Total government expenditure on health (LKR Billion) | 244.3 |
| Recurrent expenditure | 211.6 |
| Capital expenditure | 32.8 |

Source: CBSL (2020)

Table 18 reveals that free health facilities in Sri Lanka is moderately in a good level. Sri Lanka has 603 Western hospitals and 105 Ayurveda hospitals which provide free health facilities. Further, 756 doctors who practicing Western medicine and 1,759 Ayurvedic doctors provide medical service in these hospitals. As well, there are 3.6 beds for 1,000 persons and 1 doctor for 1,203 patients. The government has spent LKR 244.3 billion in 2019 for free health facilities out of this 211.6 billion is recurrent expenditure while 32.8 billion is capital expenditure.

Higher life expectancy, lower crude birth rate and mortality rate are the results of free health facilities and these indicators show the importance of universally free health facilities for socio-economic development. However, there are some drawbacks in the free health care services and as a result, private sector is playing a significant role in delivering the health care services. In general, most of the times patients have to go to private hospital to take some testing and other medical facilities because of unavailability of some facilities in government hospitals, and therefore the waiting time is long. As at end of 2019, 207 private western hospitals were registered with total bed capacity of 5,147. Data have shown that there were 194 full time private general practices/dispensaries/ medical clinics were registered at the end of 2019 reflecting the inadequacy of free health facilities. Apart from that, 181 private medical centers/ screening centers/ day care medical centers/ channel consulates are currently providing health facilities to fill the gap in the public free health service. Significant number of (413) private medical labouratories provide medical testing facilities. Apart from these private health institutions, 394 part-time private general practices/dispensaries / medical clinics, 20 part-time

private dental surgeries and 10 private medical ambulance service registered as end of 2019 (CBSL, 2020). Because of the drawback in the free health services, households have to spend on private health services. Table 19 shows the average household expenditure that spend on health facilities.

**Table 19 : Average Household Expenditure on Medical Facilities**

| Year | Medical expenditure % |
|---|---|
| 1953 | 1.3 |
| 1963 | 2.8 |
| 1973 | 1.6 |
| 1978/79 | 1.7 |
| 1981/82 | 1.6 |
| 1986/87 | 2.2 |
| 1996/97 | 2.4 |
| 2003/04 (a) | 3.5 |
| 2003/04 (b) | 3.4 |

a- Excluding Northern and Eastern Province
b- Excluding Killinochchi, Mannar and Mulative district

Source: CBSL (2020)

The percentage of medical expenditure is increasing last few decades although governments have spent increasing amount of money for free health facilities indicating the insufficiency of existing health facilities. Table 20 shows the total health expenditure as a percentage of GDP.

**Table 20: Total Health Expenditure from 2014 to 2019 as Percentage of GDP**

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| Total health expenditure as a % GDP | 1.34 | 1.62 | 1.55 | 1.48 | 1.52 | 1.63 |

Source: CBSL (2020)

As a percentage of GDP, government has increased health expenditure over the time, but at a very low rate. When considering the share of household expenditure on health facilities, government should pay attention on means of increasing quality and the adequacy of health facilities. In the provision of universal free health facilities, government mainly faces two

problems: fiscal constraint and aging problem. However, it is worthy to think how to improve free health service with fiscal constraints.

Sri Lanka has a free education system up to first degree. With this free education system, Sri Lanka has gained a higher literacy rate compared to neighboring countries. Table 21 shows basic education facilities in Sri Lanka.

**Table 21: Salient Features of General Education in 2019**

| Facility | Number |
|---|---|
| Number of schools | 11, 083 |
| Government schools | 10, 169 |
| Pirivenas | 796 |
| Private schools and special schools | 118 |
| Student/ teacher ratio- Government school | 17 |
| Student/ teacher ratio – International school | 10 |

Source: CBSL (2020)

As at end of 2019, School composition of Sri Lanka is 11,083 schools and out of these schools 10,169 schools are government schools that provide free education. There are 796 Pirivenas to provide education for Buddhist monks. Apart from these schools and Pirivens, 118 private schools which charge a fee for education facilities. As well, student/ teacher ratio is high in government school compared to international schools reflecting the importance of increasing the quality of government schools.

Although there are 10,169 government schools, a significant number of students are attending private and international schools. Some of them are personally willing to attend the private and international schools, however, a considerable number of children entered the private or international school since they are unable to enter into a good government school. The entering process for government schools are very competitive since there is a big difference of quality of the schools. Parents are looking for better government schools as there is a substantial inequality between schools in terms of the quality of education and availability of resources. On the other hand, private tuition class become more popular indicating popular culture of education and poor quality of school education. Therefore, each household, which

has school-aged children, spend a lot of money which has school aged children. Following Table shows the expenditure on education as a percentage of total household expenditure.

**Table 22: The Share of Household Expenditure on Education**

| Year | Education expenditure % |
|---|---|
| 1953 | 2.0 |
| 1963 | 1.8 |
| 1973 | 2.2 |
| 1978/79 | 1.6 |
| 1981/82 | 1.6 |
| 1986/87 | 2.1 |
| 1996/97 | 2.3 |
| 2003/04 (a) | 3.0 |
| 2003/04 (b) | 3.0 |

a- Excluding Northern and Eastern Province
b- Excluding Killinochchi, Mannar and Mulative district

Source: CBSL (2020)

Above Table proved that the expenditure on education has increased over the time as a percentage of household total expenditure, even though education is free. This reflects the question about quality and adequacy of the free education system. Following Table shows education expenditure as percentage of GDP and as a percentage of total government expenditure.

**Table 23: Percentage of Government Expenditure on Education from 2014 to 2019**

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| Total Education expenditure as a % of GDP | 1.84 | 2.06 | 1.99 | 1.93 | 1.86 | 1.93 |
| As a % of total government expenditure | 10.7 | 9.8 | 10.2 | 10 | 9.8 | 9.9 |

Source: CBSL (2020)

Expenditure on education as a percentage of total government expenditure has declined over the period and the education expenditure as a percentage of GDP was also declined marginally.

Free health and education significantly affect socio-economic development of the country. Therefore, it is necessary to increase the quality and adequacy of the existing health and

education programmes by increasing the allocation of financial resources and appointing qualified personals to the top-level offices.

### 4.5. Less Coordination and Poor Targeting

There are many social protection programmes for formal and informal employees, poor and vulnerable people, disabled people, elderly people, children and pregnant women and lactating mothers. However, different ministries, institutions and organizations administer these programmes. Table 24 illustrates the social protection programmes and different institutions by which they are administered.

**Table 24: Social Protection Programmes and Administrative Institutions**

| Social protection programme | Institutional Arrangement |
|---|---|
| Public service pension scheme | Department of Pension / Ministry of Public service, provincial councils and local government |
| Employee provident fund | Department of Labour/ Ministry of Labour |
| Employee trust fund | ETF board/ Ministry of Finance, Economy and Policy Development |
| Samurdhi | Department of Samurdhi Development/ State ministry of Samurdhi, Household Economy, Microfinance, Self-Employment and Business Development |
| Fisheries and Farmers Pension Schemes | Agriculture and Agrarian Insurance Board/ Ministry of Agriculture |
| Self- Employed pension scheme | ETF Board / Social Security Board/ State Ministry of Samurdhi Household Economy, Microfinance, Self-Employment and Business Development |
| Old-aged allowance 'Pin Padi' | National Secretariat for elders/ Ministry of Health |

Source: Author Complied

According to the Table 24, a number of institutions administrates social protection programmes which may cause for high administration cost. In addition, it is difficult to identify right beneficiaries when programmes are administered by different institutions. In some cases, targeting errors are prominent. Needy people may not receive benefits, while others get benefit. Moreover, in some cases, people get benefit through several programmes because of poor administration. This may place an extra burden on the government expenditure. Most of

social protection programmes do not have clearly defined targeting criteria for entry and exist. Therefore, on one side unnecessary people are privileged. On the other side, beneficiaries do not exit from the programmes even they are empowered. Institute of Policy Studies (IPS) (2015) has stated that in almost all districts only a fraction of poor households is covered by the Samurdhi programme while a higher share of beneficiaries is from non-poor households**.** Only less than 40 per cent of households in the poorest decile received Samurdhi / Divinaguma cash transfer (IPS, 2015). Number of Samurdhi beneficiaries increased from 1.4 million in 2018 to 1.8 million in 2019, although poverty rate has declined according to PHCI. In line with the increasing number of beneficiaries, total subsidy payment also has been increased from LKR 39.2 billion in 2018 to LKR 44.7 billion in 2019 (CBSL, 2019). In 2019, 433,594 families were newly added to Samurdhi programme although 600,000 families were approved by budget 2019 (CBSL, 2019). Including newly added families, approximately 33 per cent of Sri Lankan households are receiving Samurdhi benefits, even though the overall poverty levels are relatively lower. This in turn gives misleading information about the number of poor people in the country. This is mainly due to the political interference on Samurdhi programme, as Sri Lankan politics run through that system. The main aim of this poverty alleviation programme is push people above the poverty line from considerable time period. The lack of clearly defined entry and exist criteria, political and personal influences and intervention for selection procedure of social protection programmes are some of the main drawbacks in the Sri Lankan social protection system. Since the government poverty alleviation is a political campaign programmes in Sri Lanka, it can be a reason for the increasing number of Samurdhi beneficiaries amidst poverty is decreasing.

Although there are many persistent problems and weaknesses, existing social protection system has visible effect on poverty alleviation. Following Table indicates the impact of different social protection programmes on poverty.

**Table 25 : Impact of selected social Protection Programmes on Poverty Measures (Simulating the absence of the programme -2016)**

| Social Protection Programmes | PHCI % | PGI% | Squared PGI (SPGI)% |
|---|---|---|---|
| Indicator with listed transfer | 4.1 | 0.6 | 0.1 |
| Indicators without listed transfer | | | |
| All social protection | 6.7 | 2.1 | 1.3 |
| a. All social insurance | 5.9 | 1.8 | 1.1 |
| Pension | 5.7 | 1.6 | 1.0 |
| Compensation | 4.2 | 0.7 | 0.3 |
| b. All social assistance | 4.8 | 0.9 | 0.4 |
| Disability | 4.1 | 0.6 | 0.2 |
| Adult | 4.3 | 0.7 | 0.2 |
| Tuberculosis | 4.1 | 0.6 | 0.2 |
| Scholarship | 4.1 | 0.6 | 0.2 |
| School food | 4.1 | 0.6 | 0.2 |
| Triposha food | 4.1 | 0.6 | 0.2 |
| Samurdhi | 4.3 | 0.7 | 0.2 |
| Medical aids | 4.1 | 0.6 | 0.2 |
| Other commendations | 4.2 | 0.7 | 0.2 |
| Disaster relief | 4.1 | 0.6 | 0.2 |
| Fertilizer subsidies | 4.1 | 0.6 | 0.1 |

Source: DCS (2017)

PHCI measure the proportion of poor population. Poverty Gap Index (PGI) measure the intensity of poverty, while Squared Poverty Gap Index (SPGI) measures the weighted sum of poverty gap. Table 25 illustrates how main poverty indicators are changed if social protection transfers were removed. If all the listed social protection transfers were eliminated PHCI, PGI and SPGI has increased up to 6.7 per cent, 2.1 per cent and 1.3 per cent respectively indicating the importance of social protection for eliminating poverty. Most effective social protection programme in terms of poverty alleviation is pension scheme. If pension schemes removed PHCI, PGI and SPGI may increase to 5.7 per cent, 1.6 per cent and 1.1 per cent respectively showing the effectiveness of old age benefit to eliminate poverty. Elderly people are the most likely vulnerable segment of population since they are physically weak to work and suffering from health problems. However, current main government poverty alleviation programme -

Samurdhi programme - has slight effect on poverty alleviation. In the absence of this programme, PHCI, PGI and SPGI will increase only by 0.2 per cent, 0.1 per cent and 0.1 per cent, respectively. Existing problems discussed above, may cause for shrinking the importance of this programme. Some social assistance programmes allocated for specific cases, such as sickness like Tuberculosis, Scholarships for school attendees, School food, Thriposha for mothers and children, medical aids, disaster relief and fertilizer subsidies have zero or marginal effect on poverty alleviation. However, these programmes are important for managing health and economic risks.

There is a high probability of large number of non-poor population fall into poverty with an effect of a negative shock as majority of non-poor people are highly clustered just above the poverty line. PHCI is increased up to 6.1 per cent if poverty line is increased by 10 per cent (from LKR 4,166 to LKR 4,582.6). Hence number of poor people increase from 843,913 to 1,255,702 (DCS, 2017).

## 5. Conclusion

Sri Lanka is a lower middle-income country with a high human development and declining trend of poverty until the COVID-19 pandemic outbreaks in 2020. Owing to its well-established social protection system, Sri Lanka achieved such a higher rate in human development, and it is well above the other Asian counterparts. Social protection programmes are generally directed to achieve some of the SDGs such as zero poverty, zero hunger, decent work and economic growth. Even though Sri Lanka's position for human development is quite good, its economic and employment related growth need a little more concern, as they are not up to the expected level. This may explain limitations in the existing social protection system in the country. However, it cannot be addressed properly unless we identify nature and scope of those limitations and drawbacks. Therefore, this study aimed to explore the gaps and weaknesses of the existing social protection system in Sri Lanka. Summarizing the facts, Sri Lanka's social protection system has a long history. Formal social protection system in Sri Lanka began in pre-independence era according to western experience. From time-to-time social protection system has changed because of economic transitions and political changes. Sri Lanka has

implemented social protection programmes such as pension schemes for formal and informal sector workers, disability and old age benefit programmes, poverty alleviation programme while health and education are universally free for all. In addition to the main social protection programmes, there are other programmes aiming for children, lactating and pregnant women and informal sector economic activities. PSPS, EPF, ETF are main pension schemes for formal sector workers while there are pension schemes for informal sector to cover old age security of farmers, fisheries and self-employed. Samurdhi is the main poverty alleviation programme in the country that cover 1,765,597 beneficiaries at the end of 2020. However, existing gaps and weakness limited the expecting outcome of the existing social protection programmes. The main gap of the current social protection system is, it does not cover the fundamental and arising problems in Sri Lankan society. Unemployment risk, demographic changes, gender gap in the labour force and within the unemployment, low coverage of informal economy, and migrant workers are the main aspects that are not covered by the current social protection system. Inadequacy of benefits, sustainability of the programmes, lack of coordination among the programmes, poor targeting, and political and personal intervention are the identified weaknesses of existing social protection system in Sri Lanka.

## 6. Policy Implications

Some policy suggestion can be given here to enhance the current social protection system to achieve socio-economic development of the country. Introduction of new social protection system to cover the unemployment risk is vital since high level of unemployment is cluster among the well-educated people and the youth, and it may hinder economic growth in the long run.

In addition, it is necessary to pay attention on women when revising the existing social protection programmes as women participation in labour force is low and female unemployment rate is high reflecting significant gender gap. High rate of female unemployment makes women more vulnerable at their old age.

Low coverage, high default rate and inadequacy of benefit are the main shortcomings of the current social protection programmes of the informal sector. Irregular and low income of

informal sector prevents them go to their own social protection system or save money to overcome their risk. Hence, this group of workers are highly vulnerable for poverty and other life-related risks. Since the informal sector is economically very important for country's economic development, it is worthwhile to introduce social protection programme for informal sector with universal coverage according to risks they faced. It may help for them to secure their old age life, as employee of informal sector cannot work at their old age due to less employment opportunities.

Migrant workers are very important for Sri Lankan economy since remittance is one of the major income source to the economy. However, they are not covered adequately by formal social protection schemes to secure them at their old age and risk faced by abroad and here. These segments of people and their families are highly vulnerable for job related risks, health problems and at their old aged.

Population aging is a global issue which is common to any country. Sri Lanka also face this problem of aging while declining the birth rate reducing economically active people. Hence, it is time to introduce common social protection system for old- aged people for contributory or non- contributory system to securer ageing population.

Inadequacy of the benefits is another issue that need to address properly. As pointed out in earlier section existing formal sector and informal sector pension systems are not adequate to cover old-aged security. Especially benefits of informal sector pension schemes are very low. Considering the demographic changes, it is timely important to revise the existing pension scheme indexation with inflation rate too. It is important to move contributory system to non-contributory system by considering budget deficit and huge debt obligation of the country. When new pension schemes are designed, it is recommended to increase retirement age by matching the length of working period with the life expectancy. Further it must consider ratio of pensioners to workers or the ration of how many years' people spend in retirement versus the number of years of the remain in productive work. In addition, it is highly recommended to introduce common pension system for all sectors, including formal and informal sector since such pension schemes cause to reduce unemployment and allow free mobility of labour across sectors. The existing PSPS system let people for selecting pensionable jobs and non-

pensionable jobs. Most people do not like to be employed in non-pensionable sector. However, it is not possible to extend existing PSPS system for all sector since it is non-contributory system with define benefits that put pressure on the government. Therefore, system should be changed for non-contributory system to contributory system. The level of contribution should be calculated based on the income level of the beneficiaries and especially low-income groups can be subsidized. This type of pension scheme would reduce the incentive to work in the public sector and such a scheme would ensure the working population has some form of social security in their retirement irrespective of nature of employment. Further, such type of pension scheme would aim to provide adequate income. Switching to such a national wide contributory pension scheme enables government to improve the quality and quantity of existing universal free health and education system and thereby to enhance the social equity and assure the human rights.

The benefits of the Samurdhi programme, the main poverty alleviation programme in the country, are not adequate to lift poor people from poverty. Poverty alleviation programmes should be formulated to reduce the persistent reliance of households on social assistance transfers and ease the burden on government budget. One possible solution is to avoid targeting errors by developing a clearly defined method for entry and exist. In addition, Samurdhi recipients should be encouraged to build up their own livelihoods and gradually move out of the social assistance programmes.

The quality and adequacy of the universal free health and education system need to be increased. It is highly recommended to integrate all the social protection programmes for one institution and under one ministry to reduce administrative cost, expenditure of social protection programmes and only focus on needy people.

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