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Assessment of the Farmers' and Fishermen's Pension and Social Security Benefit Scheme

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Contents

Tables

Figures

Acronyms

AAIB	Agricultural and Agrarian Insurance Board
AD	Assistant Director
ASC	Agrarian Services Centre
CSPS	Civil Servants Pension Scheme
CTC	Ceylon Tobacco Company
DO	Development Officer
DS	Divisional Secretariat
EP	Eastern Province
EPF	Employees' Provident Fund
ETF	Employees' Trust Fund
FI	Fisheries Inspector
FO	Field Officer
GS	Grama Sevaka
LFS	Labour Force Survey
NCP	North Central Province
NGO	Non Government Organizations
NP	Northern Province
NWP	North Western Province
SMIB	State Mortgage and Investment Bank

FOREWORD

EXTENSION OF SOCIAL SECURITY COVERAGE TO THE EXCLUDED

Only one in five people in the world has adequate social security coverage: yet social security is a basic need and a basic human right. Its fulfilment would contribute to the promotion of decent work and to the reduction of poverty. As a result of discussion during the International Labour Conference in June 2001, an international tripartite consensus emerged which urged member states to give priority to this issue and the ILO was called upon to launch a global campaign on extension of coverage, The Director General of the ILO formally launched the Global Campaign on Social Security and Coverage for All at the International Labour Conference in Geneva in June 2003.

The overall objective of the campaign is to extend social security to the excluded through the mobilisation of key actors at the national and international levels. The process relies heavily on social dialogue and on innovative approaches to meeting social protection needs. Technical cooperation projects in many developing countries will be an important instrument in this process and, in as many countries as possible, an action plan for extension will be formulated based on a diagnosis of social security needs and weaknesses. Financial support was secured from the Government of the Netherlands for a technical cooperation project to be executed from early 2002 in three developing countries - Sri Lanka Honduras and Mali.

In Sri Lanka, a national diagnosis of social security provisions and needs in Sri Lanka has been completed and a report is being prepared which will assess the existing system as a basis for formulating a national action plan. This diagnosis is based on a series of special studies of existing schemes and information on background issues.

This report is concerned with assessing the effectiveness of the special contributory scheme which seeks to provide social security for farmers and fishermen.

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Executive Summary

Farmers and fishermen comprise 25-30 per cent and 1 per cent of the workforce in Sri Lanka, or approximately 2.0-2.4 million and 0.1 million respectively. Most are self-employed, with income in both occupations usually seasonal and subject to many factors beyond their control. Both occupations involve hard physical work, and many continue working beyond the age of 60 years. The Farmers' and Fishermen's Pension and Social Security Benefit Schemes were established by successive acts of legislation in 1987 and 1990. The objectives were to provide a minimum level of social security and provision in old age for workers, who had no access to other formal schemes. Both Schemes are administered by the Agricultural and Agrarian Insurance Board (AAIB), with overall supervision provided by the Ministers in charge of Agriculture and the Department of Fisheries.

The Farmers' Pension Scheme targets farmers whose main source of income is agriculture including livestock farming, with some exclusions such as owning more than certain stipulated limits for land ownership, or being covered or eligible for enrolment in EPF or any other pension scheme. The Fishermen's Scheme targets fishermen. Both schemes restrict enrolment to those aged between 18-59 years.

In both Schemes, contributions are fixed-level payments which do not change once set, according to the age at enrolment, and must be made twice yearly in the Farmers' Scheme, and quarterly in the Fishermen's Scheme. They range from Rs. 260/= per year if enrolling at age 18 to Rs. 1,380/= per year if enrolling at age 59. To receive the final benefits, members make all contributions, although considerable leeway is provided for defaulters to make good their payment history. Members must maintain contributions up to the age of 60 years, when they are entitled to receive a pension, unless they enrol between the ages of 55 and 59 when the vesting period is 5 years.

The major benefit in both Schemes is the pension, in addition to which some disability benefits such as gratuity and disability pensions are provided. The pension is a monthly payment, the level of which is fixed at the time of enrolment. According to the schedules in both Schemes, the earlier the age of enrolment, the lower the fixed-level contributions, and the higher the ultimate pensions. In the Farmers' Scheme, the fixed level pension varies from Rs. 1,000/= per month to Rs. 4,167/= per month. For the Fishermen's Scheme, it varies from Rs. 1,000/= per month to Rs. 4,167/= per month. There is a survivor benefit in that both pensions are payable to surviving spouses till their death. The contribution schedules have not been changed in either scheme since inception, but the pension schedules have been revised by raising the minimum pension benefit repeatedly to a minimum of Rs. 1,000/= per month currently.

Contribution collection is decentralized, and has in part been delegated to other government agencies, including the Postal Department. Both schemes mainly rely on field officers from the AAIB or from the supporting government departments to collect contributions. Collected contributions are paid into separate pension and social security funds maintained by AAIB. Most funds are invested in deposits at state banks or in Treasury Bills, with the AAIB required to follow the advice of the Finance Minister in making investments. Both Schemes charge their administrative costs to the gross investment returns achieved. Net returns on investment after these administrative charges are similar to the gross return on members' accounts paid by EPF. The government made capital commitments at inception to both schemes to aid their financial sustainability, but only one third of these were actually paid, and the government has advised both schemes not to expect further funding.

Member records are maintained mostly on a manual and decentralized basis. The Farmers' Scheme in particular lacks an efficient information system, and is not in a position to monitor defaults in a timely manner. In addition, the lack of computerized information systems ensures that both schemes lack ready access to detailed information on the profile and payment histories of members, and thus cannot efficiently monitor risks and potential liabilities of the Scheme. Work is ongoing to computerize the Farmers' Scheme, but funding appears insufficient for the scale of the task. Additional improvements are also required in the handling of contribution collections, as significant delays in receipt of funds by AAIB have been noted.

The Farmers' Scheme has enrolled 675,000 members out of an AAIB-estimated eligible 1.2 million farmers (56 per cent coverage), and the Fishermen's Scheme has enrolled 48,000 out of an estimated eligible 115,000 population (42 per cent coverage). This is substantial, but excludes half the agricultural and fishing workforce. Coverage appears to be quite variable across the country and in the less developed provinces much lower. In addition, approximately 30-40 per cent of members in both schemes may have defaulted.

The Schemes have two major deficiencies. First, neither Scheme will provide adequate replacement income for most members, as the pensions being provided are too low, and in addition are not inflation protected. The major reasons for the low replacement level are the low contribution amounts and the short vesting period. Second, at current contribution levels and given likely increases in life expectancy, there will be insufficient funds to honour pension commitments made to existing members. There is an estimated funding gap of at least a billion rupees in current rupees, based on current enrolments.

To address these issues, the following are recommended as near term improvements:

(i) As policy, the contribution schedules should be automatically adjusted whenever the pension schedules are revised. Changes in the two should be actuarially-linked
(ii) The contribution period should be extended in a flexible manner beyond age 60, for those who wish to extend their contributions, in return for an actuarially-fair increase in pension entitlements
(iii) Work to computerize the information systems in both schemes should be reviewed and accelerated in order to provide better information for future management

In the longer term, the following more substantial changes to both schemes should be given serious consideration in order to provide the relevant workers with substantive income replacement during old age:

(i) The government will need to honour its explicit pension guarantee that it has provided to current members by providing substantial future subsidies, and needs to recognize that extending social security to these workers in the long-term will require significant tax-funding
(ii) A shift to providing inflation-indexed pensions. This may require reducing the initial pension paid, and will necessitate establishing capacity for detailed actuarial and economic analysis
(iii) Replacement of the current fixed contribution and pension schedules with a more flexible formula that permits greater flexibility in contributions, sets pensions individually according to life-time contributions, and allows for some redistribution between higher income and lower income contributors
(iv) An increase in the average number of years that members pay contributions for, in return for higher pension benefits
(v) The minimum and average level of contributions should be increased substantially. However, in order to maintain or improve coverage to the poorer workers, an explicit government subsidy will be necessary
(vi) Alternative mechanisms for funding the administrative operations should be explored to identify options which involve less trade-off with the investment returns of the pension funds and which would enable more substantial modernization of the administrative operations. One option is to fund all administrative costs from an annual government contribution, which would also yield more accountability

1. Establishment and Organization of the Farmers' and Fishermen's Pension Schemes

1.1 Establishment and Enabling Legislation

The established pension and old-age security arrangements in Sri Lanka, which are the Civil Servants Pension Scheme (CSPS), Employees' Provident Fund (EPF), Employees' Trust Fund (ETF) and private provident funds in the mercantile sector, are restricted to the formal sector work-force. The Government of Sri Lanka established three major schemes in the 1980s and 1990s to cover segments of the work-force not eligible for participation in these existing arrangements, namely the Farmers' Pension and Social Security Benefit Scheme, Fishermen's Pension and Social Security Benefit Scheme and the Pension and Social Security Benefit Scheme for the Self-Employed Persons. The three schemes are voluntary, nominally-contributory schemes, which are explicitly targeted at the relevant occupational groups. Both Schemes were established and are governed by legislation.

Farmers' pension and social security benefit scheme act

The Farmers' Pension and Social Security Benefit Scheme was established via legislation by the Government of Sri Lanka through the Farmers' Pension and Social Security Benefit Scheme Act, No. 12 of 1987. It was principally targeted at the approximately 2 million persons estimated to be directly or indirectly engaged in agriculture, of which the majority are peasant farmers who operate on a subsistence level working hard in youth through to late in life. It was recognized that the lack of provision of social security often rendered them helpless, and therefore that the majority were left without any resources to fall back on in old age (Perera, 1989). Mostly, they have relied on family support and state welfare for their needs when in old age. The Scheme has to date enrolled over 600,000 persons.

Fishermen's pension and social security benefit scheme act

The Fishermen's' Pension and Social Security Benefit Scheme was established via legislation by the Government of Sri Lanka through the Fishermen's' Pension and Social Security Benefit Scheme Act, No. 23 of 1990. The Scheme is targeted at the fishing work-force, which is estimated by the Agricultural and Agrarian Insurance Board (AAIB) to number approximately 115,000. The Scheme has enrolled nearly 50,000 persons to date. The fishing work-force, in a similar manner to the agricultural work-force, are subject to considerable insecurity and uncertainty in their income, as well as numerous occupational hazards. The specific objectives of the Scheme are stated to be:

- To provide social security to fishermen during old age or disability and to their families given the risky nature of their occupation
- To provide relief to dependents of fishermen upon death
- To encourage fishermen to continue in their occupation which is necessary for the development of the fisheries industry
- To attract young persons to the fishing industry
- To promote the habit of saving and thrift among fishermen

In both Schemes, the enacting legislation has been accompanied by administrative regulations issued via Government Gazette, in accordance with the primary legislation.

Agricultural and Agrarian Insurance Board

The Agricultural and Agrarian Insurance Board (AAIB) is the authorized body assigned with the tasks of implementing and managing both Farmers' and Fishermen's Pension and Social Security Benefit Schemes. The AAIB was established in the form of a statutory organization under the Agricultural Insurance Law, No. 27 of 1973, thereby repealing the Agricultural Insurance Scheme introduced under the Crop Insurance Act in 1961. The formation of this new organization was with the specific objective of making the Agricultural Insurance Scheme into a more effective and fruitful body. Accordingly, the Board was initially entrusted with the key responsibility of implementing an extensive insurance scheme for the benefit of small-scale paddy cultivators and livestock farmers with a view to providing a better and more meaningful service to the farmer community. In addition, undertaking research that is necessary for the promotion and development of such agricultural insurance is another function assigned to the Board under the Agricultural Insurance Law.

Later, with the setting up of the Farmers' and Fishermen's Pension and Social Security Benefit

Schemes in 1987 and 1990 respectively, the functions of the AAIB has expanded, since the task of administration, operation and implementation of these two Schemes are also assigned to the AAIB. At its inception, the organization was known as the Agricultural Insurance Board, which has been subsequently changed to Agricultural and Agrarian Insurance Board following an amendment to the Agricultural Insurance Law brought forth in 1999 (Agricultural and Agrarian Insurance Act. No 20, 1999).

1.2 Organization and Structure of the Agricultural and Agrarian Insurance Board

The AAIB is governed by its enabling legislation, which specifies its structure and authority.

Board of directors

As specified in Section 3 of the Agricultural and Agrarian Insurance Act No. 20 of 1999, the Board consists of seven members appointed to hold office for a period of 3 years. Of the Board members, the Chairman and the representative from the National Level Farmer Organization are appointed entirely by the Minister, while the other members who constitute the Board of Directors are appointed ex-officio. The Board is vested with the powers of making rules with regard to the administration of the Board and overall implementation and management of the activities carried out by AAIB. The Board of Directors is specified as follows:

(i) The Chairman to be appointed by the Minister
(ii) The Secretary to the Ministry of Finance or an officer of the Ministry of Finance nominated by the Minister of Finance
(iii) The Secretary to the Ministry of Agriculture or a nominee of the Minister of Agriculture
(iv) The Secretary to the Ministry of Fisheries or his nominee
(v) The Secretary to the Ministry of Livestock or as nominated by the Minister of Livestock
(vi) The Chief Executive of a licensed Commercial Bank within the meaning of the Banking Act (Act No. 30 of 1988) nominated by the Minister or his nominee (Central Bank)
(vii) The nominee of a National Level Farmer Organization recognized by the Government

Functions of the board

According to the Agricultural and Agrarian Insurance Board Act, the Board is expected to carry out several functions and duties which include:

(i) Establishment and operation of a widespread insurance scheme for the benefit of the agriculturists in respect of crops, which include plantation crops, medicinal plants, fisheries, forestry and livestock, with the intention of providing stability to agriculturists and promoting agricultural production, and providing indemnity against losses
(ii) Establishment and operation of an insurance scheme for agriculturists with regard to agricultural equipment and implements and other movable and immovable property of agriculturists
(iii) Establishment and operation of an insurance scheme for agriculturists in respect of storage and preservation of agricultural, horticultural and forest produce and the products of medicinal plants
(iv) Establishment and operation of medical benefits and social security schemes for the benefit of the agriculturists, which are namely, the Farmers' and Fishermen's Pension and Social Security Benefit Schemes

Specific functions of the board in relation to the pension and social security benefit schemes for farmers and fishermen

In addition to the functions, responsibilities and powers conferred on it by the Agricultural and Agrarian Insurance Board Act, the Board is empowered to carry out certain specific tasks in respect to the above Schemes, as specified in Section 11 of the Farmers' Pension and Social Security Benefit Act No. 12 of 1987, and in Section 13 of the Fishermen's Pension and Social Security Benefit Act No. 23 of 1990. Accordingly, as the authorized agent in managing the two Schemes, the AAIB is expected to and has the authority to:

(i) Make rules in respect of the administrative affairs of the Board with regard to the two Schemes
(ii) Refer to the Advisory Committee for advice on any matter pertaining to the Schemes
(iii) Maintain the required actuarial, financial and operational reports in respect of the Schemes
(iv) Monitor, evaluate and review the Schemes and effect changes in the operational rules where necessary and where it is empowered to do so

(v) Determine the award to be made to any contributor in terms of the policy issued to him/ her
(vi) Employ officers, servants and other employees as are necessary for the efficient management of the Schemes
(vii) Do all other things which in the opinion of the Board are necessary to facilitate the operation and management of the Schemes

Advisory committees

Apart from the special powers and functions above, both Farmers' and Fishermen's Pension and Social Security Benefit Scheme Acts also provide for the appointment of an Advisory Committee for each of the Schemes. As such, two separate Advisory Committees are in operation. Their purpose is to provide the Board with necessary advice pertaining to the two Schemes, when and where it is required. The Committees of both Farmers' and Fishermen's Pension and Social Security Benefit Schemes thus formed each comprise a total of 12 members, with 6 ex-officio members and 6 nominated members who are appointed to hold office for a period of 3 years. The Chairman of the Agricultural and Agrarian Insurance Board also acts as the Chairman of the two Advisory Committees. The Committees generally meet once a month to discuss and advise the Board on matters related to the Schemes.

Both Acts, under Section 22, also permit the Advisory Committees to exercise certain powers in this regard. Accordingly, their statutory function is to advise the Board on matters relevant to the management, operation and implementation of the two Schemes as may be requested by the Board. The Committees are also empowered to advise the Board with regard to making rules of the Board, and to formulate policies for the efficient management, operation and implementation of the Schemes. In addition, their functions also involve those such as reviewing the activities of the Board in view of the management, operation and implementation of the two Schemes, as well as providing advice and making recommendations to the relevant Minister in this regard.

As mentioned above, the Advisory Committee for the Farmers' Scheme consists of 6 ex- officio members and 6 nominated members. The ex-officio members comprise:

(i) The Chairman of the AAIB who is also the Chairman of the Advisory Committee
(ii) The Director of Pensions or his representative
(iii) The Commissioner of Agrarian Services or his representative
(iv) The Chief Actuary of the Insurance Corporation of Sri Lanka or his representative
(v) The Superintendent of the Department of the Employees' Provident Fund of the Central Bank of Sri Lanka or his representative
(vi) The Commissioner of Labour or his representative

The nominated members comprise:

(i) One member nominated by the Minister in consultation with the Minister in charge of the subject of Agricultural Development and Research
(ii) One member nominated by the Minister from the General Treasury in consultation with the Minister in charge of the subject of Finance
(iii) Three members nominated by the Minister from the Agricultural and Agrarian Insurance Board in consultation with the Minister in charge of the subject of Agricultural Insurance
(iv) One member nominated by the Minister from among persons with a wide knowledge and experience in social security benefit schemes.

The Advisory Committee for the Fishermen's Scheme consists of 6 ex- officio members and 6 nominated members, in a similar manner to the Advisory Committee for the Farmers' Scheme. The ex-officio members comprise:

(i) The Chairman of the AAIB who acts as the Chairman of the Advisory Committee
(ii) The Director of Fisheries or his representative
(iii) The Director of Pensions or his representative
(iv) The Chief Actuary of the Insurance Corporation of Sri Lanka or his representative
(v) The Superintendent of the Department of the Employees' Provident Fund of the Central Bank of Sri Lanka or his representative
(vi) The Commissioner of Labour or his representative

The nominated members comprise:

(i) Two members nominated by the Minister from the Ministry in his charge
(ii) One member nominated by the Minister from the General Treasury in consultation with the Minister in charge of the subject of Finance

(iii) Two members nominated by the Minister from the Agricultural and Agrarian Insurance Board in consultation with the Minister in charge of the subject of Agricultural Insurance

(iv) One member nominated by the Minister from among persons with a wide knowledge and experience in social security benefit schemes

It can be observed both from the original intent of the legislation and their operation in practice, that both Advisory Committees serve as the main source of technical input for the overall strategic management of the Schemes. However, it is observed that much of this input requires actuarial expertise, which is scarce within Sri Lanka generally.

Administrative structure of AAIB

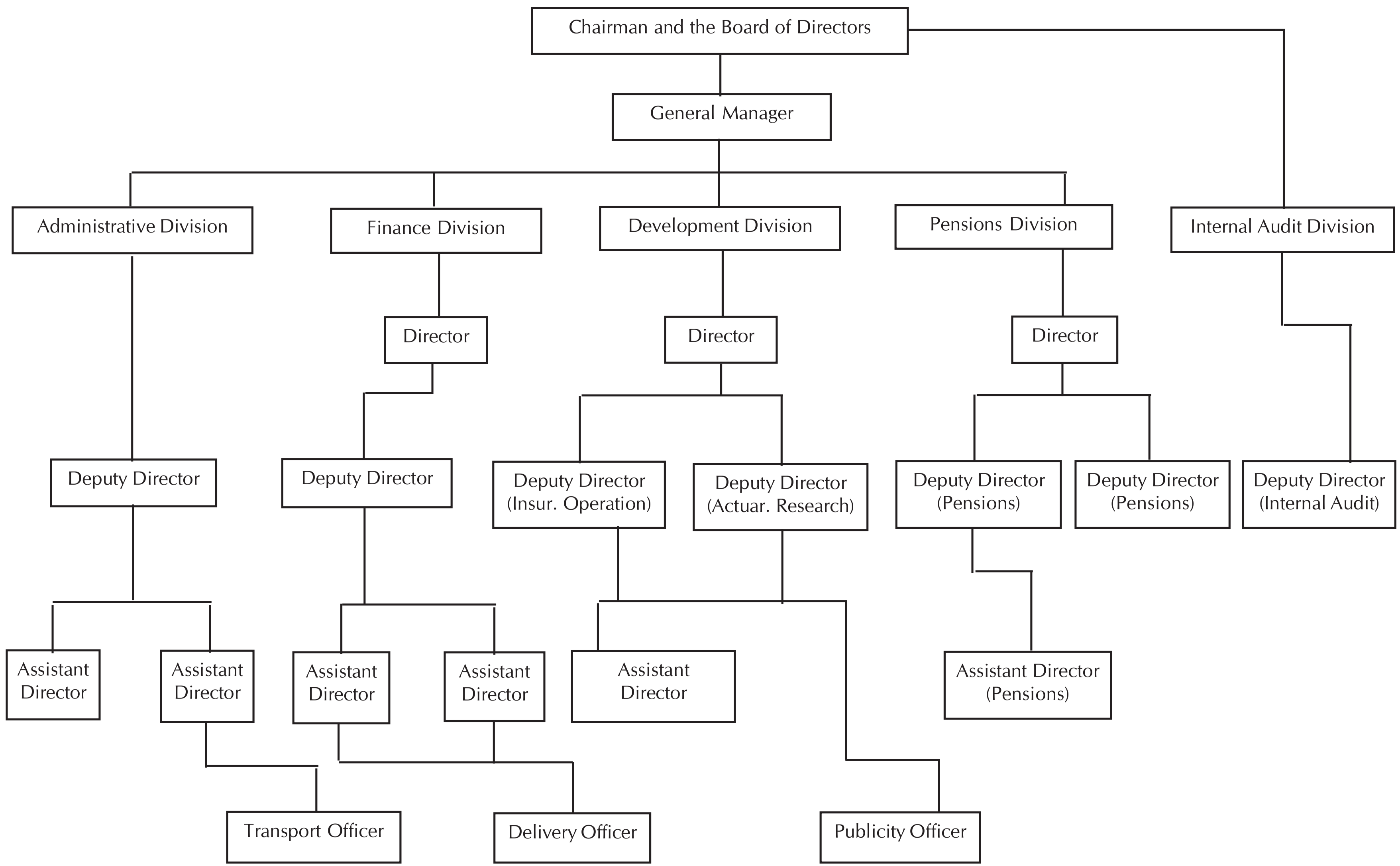
From its commencement, the administrative structure of the Board has consisted of several divisions. Until 1997, these comprised:

(i) Administrative Division
(ii) Finance Division
(iii) Actuarial and Research Division
(iv) Insurance Operations Division
(v) Livestock Division
(vi) Publicity and Training Division
(vii) Internal Audit Division
(viii) Farmers' Pensions Division
(ix) Fishermen's Pensions Division

However, this structure has been transformed as a result of a complete structural re-organization that was effected in the year 1997. Consequently, the Insurance Operations Division, the Actuarial and Research Division and the Livestock Insurance Division have been brought under the Development Division. Duties, such as implementing and maintaining the crop and Livestock insurance schemes island-wide, and handling operational and research activities have been put in charge of this division. At the same time, the Farmers' Pension and Social Security Benefit Scheme and the Fishermen's Pension and Social Security Benefit Scheme were re-structured, and placed under a merged Pensions Division. The activities involving those such as updating and maintenance of applications and individual accounts of the members of the Schemes, payment of pensions, disability benefits and death gratuities are carried out by the Pensions Division accordingly. Presently, the administrative structure of the Agricultural and Agrarian Insurance Board comprises five main divisions:

(i) Administrative Division
(ii) Finance Division
(iii) Development Division
(iv) Pensions Division
(v) Internal Audit Division

Figure 1.1: Organization Chart of the Agricultural and Agrarian Insurance Board



Source: Prepared by authors from documentation of AAIB.

2. Farmers' Pension and Social Security Benefit Scheme

2.1 Origin and Objectives

The Farmers' Pension and Social Security Benefit Scheme was established in 1987 by Act of Parliament No.12 of 1987, and is administered by the Agricultural and Agrarian Insurance Board. The AAIB estimates the farmer community in Sri Lanka to number nearly 2 million, of which approximately 10-12 lakhs of farmers are estimated to be eligible for the Scheme, that is, those who are thought to be having the qualifications required for membership. Of this number, more than half, or 675,000 of farmers have enrolled in the Scheme up to now, whilst the actual number of contributors is approximately 4 lakhs. According to its corporate plan for 2002 the AAIB intends to expand the coverage up to 1 million within the next 5 years (2002-2007). The current number of enrolments is seen by it as a satisfactory figure, when considering the fact that the contributions are voluntary and paid out of pocket by farmers in low-income categories. The Scheme also indirectly seeks to encourage saving habits of the farmers.

2.2 Administration and Staffing

The Farmers' Scheme is administered and managed by the AAIB. The AAIB is located in Colombo and carries out activities at District level by way of District offices established in each District. The district offices are headed by Assistant Directors and support staff, consisting of both clerical and field staff. The field staff is made up of Development Officers (DO) and Field Officers (FO), who function at grass root level. These officers are assigned different Divisions under Divisional Secretariats (DS). The Development Officers are graduates, whilst the Field Officers are recruited from persons who have passed the Advanced Level Examination. Currently, there are around 40 Development Officers and 100 Field Officers employed island-wide. Their primary function is to promote the Scheme at village level and enrol farmers to the Scheme.

In addition to the DOs and FOs, who form part of the District Office cadre of the AAIB, the promotional and enrolment activities are also carried out through the Agrarian Services Centres (ASC). In each ASC, there are Govi Sevana Niyamakas and Agricultural Research and Production Assistants, representing each Grama Sevaka (GS) Division. Their duties involve doing AAIB related work, which primarily is to promote activities related to the Scheme through village level meetings etc. The number of officers employed depends on the number of Grama Sevaka Divisions. In the case of Mahaweli Divisions, the activities are carried out through Divisional Offices.

2.3 Eligibility and Enrolment

Eligibility

The Scheme targets farmers who are Sri Lankan citizens, both male and female, and whose main source of subsistence is agriculture. Not all farmers however, are eligible to join the Scheme, as members are required to fulfil certain additional qualifications. The eligibility criteria are primarily based on the types of crop cultivated, the amount of cultivable land owned or cultivated, age, and non-entitlement to other benefit schemes. The additional eligibility criteria are specified not in the enacting legislation, but in subsequent gazetted regulations.

The primary qualification for a person to be eligible for gaining membership of the Scheme is that he/she should be a cultivator, whether as owner, lessee or tenant-cultivators. Accordingly, as specified in the regulations (No. 452/12; Gazette 7 of May 1987), farmers engaged in the cultivation of the following crops are qualified to join the Scheme; these include farmers engaged in paddy cultivation, cultivation of other cereals, subsidiary crop cultivation, vegetables and cultivation of other field crops, cultivators of roots and tuber crops, fruits, betel and sugar cane. Those cultivating on the authority of the owner and certified as farmers by an authorized officer under the Agrarian Services Act, No. 58 of 1979, the Land Development Ordinance (Chapter 464), or the Crown Lands Ordinance (Chapter 454) are also entitled to join the Scheme. Apart from these categories, it was also opened to persons engaged in livestock farming whose main livelihood is animal husbandry, and farm labourers employed in agricultural crop cultivation or dealing with livestock production with effect from September 1998 under the new regulations published in the Gazette No.522/6 of 7 September 1988.

It is compulsory that the extent of cultivable land owned either by an owner cultivator or by his family does not exceed 10 acres in extent in order to be entitled to join the Scheme. It is also required that the land cultivated, including those cultivated by the spouse, both highland and paddy land, does not exceed 10 acres in extent.

For instance, in the case of tea cultivation, the farmer should be an owner of less than 2 acres of tea to be qualified for membership in the Scheme. If the farmer is a rubber cultivator, then he/she should be an owner of less than 2 acres of rubber in extent. If he is a coconut cultivator, that person should be an owner of less than 2 acres of coconut land and in the case of mixed crop cultivation, the farmer should be an owner of less than 3 acres of mixed crop cultivated land in order to gain eligibility for the Scheme.

Age of the farmer is another important aspect that is taken into consideration in deciding his/her entitlement to join the system. As such, only those who are not less than 18 years and not more than 59 years of age at the time of the enrolment are qualified to gain contributorship of the Scheme.

The eligible persons should also be those who are not entitled to a pension or benefit under the EPF, or pensioners or beneficiaries under the Employees’ Provident Fund (EPF), ETF or any other such scheme, which are already in existence. Persons entitled to a pension benefit upon the death of the spouse are excluded from the Scheme. Similarly, persons liable to pay income tax or who have an assessed income adequate for paying income tax are also not qualified to join the Scheme.

Enrolment process

When an eligible farmer wishes to join the Scheme, he/she is required to submit an application. The application forms can be obtained from the Agricultural Research and Production Assistants, Govi Sevana Niyamakas, Samurdhi Niyamakas (Samurdhi animators), Grama Niladharis, the Agrarian Services Centres or the District Office of the AAIB. The duly filled applications are then submitted along with the certificate of the Divisional Officers of the Agrarian Services Department, certifying their eligibility status. The applications are examined by the officers of the District Office of the AAIB, and upon their recommendation, the farmer is granted membership on receipt of the first premium. He/she is then issued a ‘customer number’, which serves as a unique identity number, and which is referred to in all dealings and procedures in relation to that particular person. The number is issued by the central headquarters of the AAIB and not by the District Offices in order to avoid duplication and confusion.

When it comes to collecting premia, the first instalment is collected by the AAIB officers of the District Offices who visit the field on a regular basis. After the first payment, subsequent contributions can be made through the authorized agents of AAIB;

Table 2.1: Rules of eligibility for membership in the farmers’ pension and social security benefit scheme

Occupational category	Ownership of land	Minimum age	Maximum age	Other qualifications	Age at which pension is payable
Cultivators of: Paddy Subsidiary crops Other serials	Tea - less than 2 acres			Non-entitlement to a pension/benefit under EPF	On completion of 60 years if enrolled at 18-54
Vegetable & other field crops Roots 7 tuber crops	Rubber - less than 2 acres	18	59	Non beneficiaries or pensioners under EPF/ETF	On completion of 5 years from the date of joining scheme if enrolled at 55-59 years of age
Fruits Betel Sugarcane Owner cultivators	Coconut - less than 2 acres			Non-entitlement to benefit upon death of spouse	
Lessee cultivators Tenant cultivators Livestock cultivatos Farm labourers	Mixed crops less than 3 acres			Non-income tax payers	

Source: Authors analysis of legislation and scheme documents.

Cooperative Rural Banks, Agrarian Services Centres in the case of the North Western and Central provinces, Cooperative Societies, and through the Peoples' Bank if the farmers are from the Mahaweli systems.

The procedure of collecting second and successive premia in the case of the North Western and Central Provinces through officers of the Agrarian Services Centres was launched recently as a new measure, since mid-2002. This is as a part of a pilot project carried out by the AAIB to examine the possibility of collecting instalments through Agrarian Services Centres, taking into account the limited AAIB staff available and the vast number of areas they are required to cover on visits to collect instalments. The pilot project was launched in April 2002 and is ongoing. Under the customary arrangements for the collection of instalments, an AAIB officer is sometimes required to cover as many as 10 Divisions. The situation causes inconvenience for both farmers and the officers, on the one hand since the farmers are sometimes unable to meet the officers, as the officers are often too busy and on the other hand, the officers are unable to meet the farmers on their visits. This delays payments and contributes to inefficiency. So far, it is reported by AAIB that the pilot project has proved to be a successful modus operandi in the attempt to decentralize the premia collection, which the AAIB intends to expand island-wide. However, the Agrarian Services Centres would only be expected to collect the second and successive premia, while the first premium would still be collected by the AAIB officers operating through District Offices.

2.4 Contributions

The rate of contributions is specified by government gazette, and may be amended in the same manner. These essentially specify one schedule of standard payments, which varies according to the age of the enrollee at enrolment, frequency of payment and whether payment is periodic or one-off. There is no variation in the payment schedule or benefits available to those enrollees who wish to pay more than the stipulated amount. A notable feature is that the schedule of contributions has not been varied since the inception of the Scheme in 1987.

Once enrolled, the farmer has the choice of paying the contributions either:

(i) on a regular periodic basis until reaching vesting age (regular basis), or
(ii) as a one-off payment made in the year of enrolment, with no subsequent payments required (discount basis)

The amount to be contributed and the number of instalments are determined according to the age of the contributor at enrolment.

Regular payment basis

The Farmers' Scheme is a nominally contributory Scheme, which involves a fixed payment each year by all active enrollees. In return, enrollees who have made all required contributions are entitled to a pension, which is fixed according to the level of the periodic payment. The level of the fixed annual contribution is set for each enrollee at the time of the first contribution payment, and currently does not vary subsequently.

The standard contribution schedule involves fixed annual or semi-annual payments from the time of enrolment to the age of eligibility for a pension. The majority of the members are enrolled on this basis, which amounts to nearly 6 lakhs in number, of which, the actual number of active members under this system is estimated to be around half of the total number enrolled currently.

The regular payment system was designed to take into account the fluctuating income of agriculturists with the seasonal cultivation of Yala and Maha, during which period the prime harvests are reaped and the main income received. Contributors make the annual payment in the form of two instalments during the year, and these have to be continued till the age of sixty. Accordingly, the contributions in the Maha Season have to be made before 1st of April, and the instalments for the Yala Season should be paid before 1st of October. It is also possible for any farmer to pay several instalments together at one time, although this is not compulsory.

The contributions are fixed amounts, the level of which are based on the age at which the contributor enrols. The fixed amount does not change once the contributor enrols. The older the contributor at the time of enrolment, the higher the periodic payment is, but the ultimate pension payable is also reduced. Table 2.1 gives the rate of contribution payments and associated pension payments.

For instance, a person who obtains membership at the age of 18 years has to make a total deposit of Rs. 10,920/= in 84 instalments of Rs. 130/= each biannually. But a person who joins the Scheme at the age of 54 will have to pay a half-yearly instalment of Rs. 700/= in 12 instalments to be eligible for full benefits of the Scheme. The total sum of money that person is required to pay will be Rs. 8,400/=.

Discount payment basis

Enrollees have the option of making their life-time contribution in the first year, instead of making regular periodic payments. If they choose this option, they are given a discount on the nominal total payment, which can be as much as 75 per cent. As at end of 2002, the total number of farmers enrolled on the discount payment basis remained around 73,000 of which, around 12,000 members have left the Scheme as a result of disability, death and entitlement to pension on completion of 60 years of age.

Under the discount system, a contributor has two options for making payments:

(i) In the form of an outright deposit of the full discounted sum

(ii) In the form of two or four instalments over a period of 12 months

From its inception up to 1999, the Scheme allowed payments under the discount system only in the form of lump sum contributions. The second option was introduced only recently.

Table 2.2 shows the required contributions under the discount basis compared with the standard payment schedule. The discounts potentially available on a nominal basis are substantial. For example, if a farmer joins the Scheme at the age of 18, then he/she has to make a total contribution of Rs. 10,920/=in 84 instalments under the regular system at Rs. 130/= on a half yearly basis before he/she becomes entitled to draw a monthly pension on reaching the age of 60 years. Instead, if he chooses to pay on the discount basis, it is possible for him/her to make an outright payment of Rs. 2,720/=, which is only 25 per cent of the total contribution and obtain complete pension rights.

However, AAIB reports that this method of payment is less popular among farmers due to the fact that many are incapable of paying bigger amounts due to financial constraints. Accordingly, taking into account these financial difficulties faced by farmers and upon requests by them, AAIB introduced two other systems of payments so as to facilitate and encourage lump sum contributions since 1999. Under these two systems, a farmer can make the lump sum contribution in two or four instalments within a period of one year. The number enrolled under these two payment methods, that is, those paying lump sum in instalments, does not exceed 10,000 in number with 15 per cent of defaulters.

Record keeping

Upon payment of the first premium, the contributors under the regular payment system and those contributing on the divided discount basis are issued a passbook, which they are required to produce when making successive payments. The passbook is important as a record of each payment is kept in it, and as the contributor is required to hand it over to the AAIB on reaching the age of 60 years, when he/she is entitled to draw the pension. The records of payments are also kept in the District Office of the AAIB, with a copy being made to the central office. In the event of a lost passbook, a contributor could obtain a new one by paying an amount of Rs. 25/=. However, no such passbook is issued to farmers who prefer to obtain the contributorship by making a single lump sum payment on the discount basis, as it is not necessary, since the money is paid outright.

Apart from the passbook, every farmer enrolled in the system is issued with a policy specifying the terms and conditions of the policy, benefits he/she is entitled to and the contributions to be made by him/her. The policy may be terminated by the AAIB in the instance of incorrect or untrue information or statements provided in the application for enrolment, and withholding of information. Failure to make due payments and cessation of qualifications required to join the Scheme may also be reasons to end the policy issued to a particular farmer. In addition, a special discount certificate is issued to those who contribute under the lump sum basis.

In practice, implementation of this system suffers from a number of shortcomings. According to a survey conducted by the AAIB island-wide in 2002, it was found that a significant number of farmers enrolled in the Scheme are still without the policy or the discount certificate guaranteed by the AAIB even 15 years after its inception.

Table 2.2: Contribution and pension schedule of farmers' pension and social security benefit scheme

Age	No. of instalments	Amt payable as half yearly contributions (Rs)	Total amt payable as half yearly instalments until age 60 (Rs)	Percentage of discount	Total amt payable under discount system (Rs)	Amt of monthly pension (Rs)
18	84	130	10,920	75	2,720	4,167
19	82	135	11,070	75	2,810	3,833
20	80	140	11,200	74	2,900	3,500
21	78	145	11,310	74	2,980	3,167
22	76	150	11,400	73	3,060	3,000
23	74	155	11,470	73	3,140	2,833
24	72	160	11,520	72	3,210	2,667
25	70	165	11,550	72	3,280	2,500
26	68	170	11,560	71	3,350	2,333
27	66	175	11,550	70	3,420	2,167
28	64	180	11,520	70	3,480	2,000
29	62	185	11,470	69	3,540	1,833
30	60	190	11,400	69	3,590	1,669
31	58	200	11,600	68	3,740	1,583
32	56	215	12,040	67	3,980	1,500
33	54	225	12,150	66	4,120	1,417
34	52	235	12,220	65	4,240	1,367
35	50	250	12,500	64	4,450	1,333
36	48	260	12,480	63	4,560	1,317
37	46	270	12,420	62	4,660	1,300
38	44	285	12,540	62	4,740	1,283
39	42	295	12,390	60	4,910	1,267
40	40	305	12,200	59	4,980	1,250
41	38	320	12,160	58	5,110	1,233
42	36	335	12,060	57	5,230	1,217
43	34	360	12,240	55	5,480	1,200
44	32	380	12,160	54	5,630	1,183
45	30	400	12,000	52	5,740	1,167
46	28	430	12,040	50	5,970	1,150
47	26	455	11,830	49	6,080	1,133
48	24	490	11,760	49	6,280	1,117
49	22	525	11,550	45	6,410	1,100
50	20	545	10,900	42	6,290	1,083
51	18	565	10,170	40	6,120	1,067
52	16	590	9,440	37	5,930	1,050
53	14	640	8,960	34	5,890	1,033
54	12	700	8,400	31	5,780	1,017
55-59	10	690	6,900	28	4,990	1,000

Source: Scheme documentation.

The survey was carried out island-wide from April to June 2002, covering all districts with a total sample of 276,039 farmers, which was 42 per cent of the total number of enrollees at the time (657,860). Of this sample, 69,106 (25 per cent of the sample) had not been issued with policies, while another 20,478 (7.4 per cent) had not obtained the discount certificate at the time of the survey. However, in recent efforts to minimize this backlog, the AAIB has succeeded in resolving the problem to a large extent.

2.5 Pension and Social Security Benefits

The Farmers' Pension and Social Security Benefit Scheme consists of two components:

(i) A pension scheme
(ii) A social security benefit scheme.

The pension scheme aims at providing old age income security, while the primary objective of the social security benefit component is to provide group insurance in event of trouble, so as to help them maintain life in normal conditions.

Standard pension entitlement

Under the pension scheme, the contributors are entitled to a monthly pension on completion of 60 years of age, which is paid until death. However, a farmer joining the scheme at 55-59 will be entitled to a pension only upon paying the entire contribution as prescribed and on completion of 5 years from the date of joining the Scheme. By the end of 2002, the number of farmers receiving the benefit of a pension amounted to 14,271, showing a steady increase in the number of pensioners since the beginning of pension payment in 1992, with only 567 of farmers drawing a pension in that year. No enrollees had been eligible prior to 1992, as none had completed the necessary vesting period of 5 years.

Presently, the pension entitlement ranges from a minimum of Rs. 1,000/= up to Rs. 4,166/= a month, depending on the age of contributor at the time of enrolment, and the contributions to be paid according to age.

At the commencement of the Scheme the minimum pension was set as Rs. 200/=, but the maximum pension has not been changed from Rs. 4,166/= per month. The change was effected via two successive gazette amendments to the Scheme's regulations. The first gazette amendment increased the minimum pension to Rs. 500/= per month. Later it was again increased to Rs. 1,000/= in 1995. This was as part of a restructuring process of the Scheme, which was launched during this year under the guidance and advice of the Minister of Agriculture, Land and Forestry, with a view to providing better pension benefits and agricultural insurance. Accordingly, during the year 1995, a number of changes were introduced to the Farmers' Pension and Social Security Benefit Scheme in accordance with prescriptions and recommendations made by a Special Committee appointed by the Minister to consider the possibility of expanding the Scheme. Among these changes were the steps taken to increase the minimum monthly pension up to Rs. 1,000/= which has been in effect since then.

It is critical to note that the increase in the minimum pension payment, which also involved compressing the schedule of pension entitlements by age, was not accompanied by any change in the contribution schedule. In effect, these changes have resulted in unfunded increases in the liabilities of the Scheme. AAIB officials are aware of the financial implications of the changes, but the changes must be seen as policy decisions made at the political level.

Reduced pension entitlement

A farmer is entitled to a full pension only upon payment of all the contributions. However, if the total of half-yearly instalments paid is at least 75 per cent of the total amount required to have been paid, then he/she is eligible for a reduced pension. In the event that the total amount of contributions made is less than 75 per cent but more than 10 per cent, the contributor has the opportunity of reclaiming the money, but only upon expiry of the period for paying contributions. As such, a contributor can obtain a refund of the entire amount of net contributions he/she had made along with interest on reaching the age of 60 years. If a particular contributor has failed to pay at least 10 per cent of the required amount of contributions, no refund of money is possible, in which case the money remains in the fund.

Survivor benefits

Originally, the Farmers' Pension and Social Security Benefit Act also made provisions for the spouse of a deceased contributor after his/her pension becomes due, to be entitled to the balance payment that remained after deducting what is paid as pension. That is, if the deceased contributor, after his/her pension becomes due, has not drawn at least the total amount of his/her net contributions and the interest thereon as a periodical pension, then the balance lying to his/her credit excluding the Government subsidy can be claimed by his/her legal heir within a period of 1 year. However, if the deceased pensioner had already drawn an amount equivalent to the sum of his net contributions and the interest while alive, the surviving heir will not be entitled to any payment since there is no balance lying in his/her credit.

Changes that were introduced in 1995 brought forth an important amendment in this regard, whereby a Board decision was made to pay the full pension to the heir of the deceased instead of the balance payment, if there is any, but only till the deceased reaches the age of 80 years. There is no difference in the pension which is passed on to the surviving spouse from the pension received by the pensioner while alive, and there is no necessity for him/her to pay an extra contribution to be eligible for this benefit.

Table 2.3: Number of pensioners and amount paid as pension

Year	No. of pensioners	Rs. paid as pension
1992	567	1,711,500
1993	1,137	6,598,702
1994	1,546	14,570,491
1995	2,177	27,763,881
1996	3,643	59,135,217
1997	4,758	109,813,301
1998	5,566	172,405,250
1999	6,712	246,604,072
2000	7,967	335,189,272
2001	10,366	116,202,030
2002	14,271	679,073,598

Source: AAIB administration data.

This decision to pay the pension to the heir till up to the year the deceased completes 80 years is primarily after considering the cost of pension payments. The pension is calculated for 20 years from age of 60 after reviewing actuarial evaluations and financial viability of the fund in payment of pensions. Already if the pensioner continues to live after completion of 80 years of age, the pension paid to him/her is paid from the share of the government subsidy in reality. Under these circumstances, the continuation of the payment of pension afterwards to the spouse will be an additional cost, since he/she may not be a contributor, and since the money will have to be drawn from the government subsidy.

Social security benefits

In addition to provision of a pension at the age of 60 years, the Farmers' Scheme provides a number of other insurance benefits. These consist of:

(i) Disability benefit
(ii) Disablement gratuity
(iii) Death gratuity

These benefits are paid out of a separate social security benefit fund, which receives Rs. 60/= per year deducted from each contributor's periodic contributions. Apart from this fixed amount of Rs.5/= per month deducted from the contributions, the members are not required to make any extra payment to be entitled to these benefits. The Scheme is organized nominally as a collective insurance fund. As of end of 2002, the Scheme had paid out Rs. 21,404,000/= as disability benefits for 887 disabled members either partially or permanently.

At the inception of the Scheme, the benefits provided under this system comprised only a disablement gratuity, a death gratuity and a life insurance coverage. Subsequently, an advance payment in the event of death and an increase in the amount paid under the life insurance coverage (up to Rs. 25,000/=) have been made available to the members since 1995.

When the Scheme first came into force in 1987, the Regulation to the Act published in the Gazette (Gazette No. 452/12 of May 7, 1987) provided only the contributors between the age group of 18-54 years to be entitled for the benefits granted by the social security scheme (Regulation 20). As a result, farmers joining the Scheme at the age group of 55-59 were not eligible for the benefits under this regulation. However this regulation was amended by another Gazette notification (Gazette No. 522/6 of September 7, 1988) thereby enabling those contributors who are between the age group of 55-59 also to benefit from the social security benefits.

Disablement benefit

The disablement benefit provided is of two types. It consists of:

(i) a permanent and partial disablement benefit, and
(ii) a permanent and total disablement benefit

(i) Permanent and partial disablement benefit

The permanent and partial disablement benefit is paid to a member if he/she suffers the following losses as a result of accident or sickness:

- Loss of sight in one eye
- Loss or permanent disability of one hand
- Loss of one leg or permanent disability in one leg

In the event that a contributor suffers above losses, two options are provided to him/her. It is either possible for him/her to claim a disablement gratuity and leave the Scheme or to continue to remain in the Scheme if he/she so wishes. If the contributor takes the first option available to him/her, he/she can claim a permanent and partial disablement benefit up to Rs. 25,000/= depending on the age. The disablement benefit paid in this instance consists of the total amount of disablement gratuity specified according to the age, the net contributions he/she has made to the Scheme and the nominal interest accrued. Under this provision, the contributor can claim the gratuity only once on the occurrence of the above losses.

If the contributor chooses to remain in the Scheme even after being rendered disabled, he/she has the option to do so without further contributing to the Scheme provided that he/she does not draw the disablement gratuity otherwise due to him/her under the first option. In the instance, where he/she opts to remain in the Scheme, he/she is entitled to receive an allowance (pension) when it becomes due at age 60. The contributors, who choose this option, then are required to appeal to the Board with a request to consider payment of such an allowance. Once such an appeal is made, the Board would grant permission enabling the contributor to further remain in the Scheme without any more contributions and to receive a pension when it becomes due on reaching the age of 60 until death. The allowance depends on the age and the total amount due to the person up to then. The contributor has the full freedom to decide between the two options.

(ii) Permanent and total disablement benefit

When a member of the Scheme is rendered disabled permanently and totally, he/she is entitled to somewhat similar benefits available to permanently and partially disabled contributors. A contributor would be deemed as permanently and totally disabled if he/she suffers the following damages as a result of accident or sickness:

- Loss of both hands or permanent disability of both hands
- Loss of both legs or permanent disability of both legs
- Loss of sight in both eyes
- Loss of one hand or permanent disability of one hand and loss of one leg or permanent disability of one leg
- Loss of a leg or permanent disability of one leg and loss of vision in one eye
- Loss of one hand or permanent disability of one hand and loss of vision in one eye
- Complete paralysis from the neck downwards

As in the case of the permanent and partial disability, the contributors, who are disabled permanently and totally, are also given the same options. As such, they have the option to either remain in the Scheme or obtain the lump sum disablement gratuity available to them and drop out of the Scheme.

If a particular contributor chooses to claim the gratuity he can claim a gratuity up to Rs. 50,000/=, plus the net contributions paid to date and the interest nominally accrued. The compensation provided for this category is higher than what is given to the permanently and partially disabled members as seen in Table 2.4. As in the previous instance, the gratuity is payable only once on the occurrence of the damages specified above.

If the contributor prefers to remain in the Scheme instead of claiming the gratuity due to him, he/she could receive a monthly disablement allowance without making further contributions. The allowance is paid from the date of disablement until death. The allowance due to the person is calculated taking into consideration the amount of contributions he/she had made up to the time of disablement and the age of the contributor. As in the above case, if the contributor chooses to remain in the Scheme he/she must appeal to the Board to pay him/her a monthly allowance, after which the Board can permit him to continue to stay in the Scheme and receive the monthly allowance. Once again the contributor has the right to choose freely between the available options.

For a member of the Scheme to be entitled for the above disability benefits granted by the fund, the damages mentioned above should be the result of an accident that occurs after the date of commencement of the policy. In the case of sickness, the sickness should have been contracted after the date of commencement of the policy, similar to the instance of the occurrence of an accident. Furthermore, there are some standard exclusion criteria specified in the regulations, according to which no disablement gratuity is paid. These apply if the disability occurs in the following manner:

(i) Due to war, invasion, act of foreign enmity, hostilities whether war be declared or not, civil war, rebellion, revolution or insurrection
(ii) The contributor engaging in aviation or aeronautics or any other form of aerial flight other than as a valid passenger of a recognized airline or charter service
(iii) Actions of the contributor under the influence of alcohol or harmful drugs
(iv) Attempted suicide or self afflicted injury whether being sane or insane
(v) Committing an unlawful act or while being arrested by authorities for an unlawful act

Death gratuity

The social security benefit fund provides all contributors with a death gratuity benefit. The death gratuity is paid to the legal heirs of the deceased contributor if his/her death occurs before he/she becomes entitled to receive a pension. The lump-sum compensation thus provided ranges from Rs. 6,000/= up to Rs. 25,000/=, depending on the age of the contributor. Along with this fixed lump sum gratuity, total net contributions paid and interest are also refunded to the surviving heirs. If the event of death occurs after the member begins drawing the pension then his/her surviving heirs are compensated with the pension as mentioned earlier. By the end of 2002, the Scheme had paid out Rs. 66,314,000/= as death gratuity in compensation of 4,367 deceased contributors.

Similar to the exclusion conditions under which the disablement benefits are not granted, an heir of a late contributor is not entitled to the benefit of a death gratuity if his/her death is due to:

(i) War, invasion, act of foreign enmity, hostilities whether war be declared or not, civil war, rebellion, revolution or insurrection
(ii) The contributor engaging in aviation or aeronautics or any other form of aerial flight other than as a valid passenger of a recognized airline or charter service
(iii) Suicide while being sane or insane within two years from the date commencement of the policy

Table 2.4: Gratuities payable under disablement benefit, farmers' scheme

Age at next date of birth after disablement or death (years)	Permanent partial disablement (Rs)	Permanent total disablement (Rs)	Death (Rs)
Up to 33	50,000	25,000	25,000
34-43	40,000	20,000	20,000
44-51	30,000	15,000	15,000
52-56	20,000	10,000	10,000
57-60	16,000	8,000	8,000
55-59 category	12,000	6,000	6,000

Note: From date of enrolment to date of payment of entire contribution.

Source: AAIB administrative data.

The farmers are entitled to the above benefits, that is death gratuity and the disablement gratuities, only after completion of a minimum waiting period specified in the policy issued to them at the time of enrolment. In the case of disability, the gratuity is paid only after one year of enrolment. However, the rule exempts cases of accidents, where the contributor is eligible to receive the benefit from the date he/she is rendered disabled. If the disability is due to an illness, then the benefits are available after a waiting period of 1 year. At the same time, no benefits are payable to those who fall sick within 1 year of commencement of membership.

If the contributor experiences a disability or sickness, such a member is required to follow certain bureaucratic procedures in order to obtain the benefit provided by the group insurance scheme. It is necessary that the member or his/her family first inform the Board of the details of the disability. As such, they are expected to inform the Board in writing the customer number of the disabled member, his/her policy number that is issued to him/her at the time of the enrolment, and his/her name and address as soon as possible. It is also required that the disabled member provide a claim letter along with the medical report to the satisfaction of the Board members within a period of 60 days of the happening of the accident or the disease. He/she is also required to produce the diagnostic card upon request by the Board members and must agree to undergo a medical examination by a doctor recommended by the Board at any time. They should also hand over the passbook or the discount certificate.

The waiting period for the death gratuity is again one year except in the instance of death due to accident, in which case the gratuity can be obtained immediately. If the death is due to a natural cause, the benefits are paid after one year. In the event of suicide, which is common in the Mahaweli areas, compensation to the family will be paid after two years. In this situation also, the family members of the deceased are expected to inform the Board of the death of the contributor along with his policy number and the customer number, name and address. In addition, they are also required to forward certain documents to the AAIB through the District Office. These include the death certificate, photocopy of the married certificate if married, and if unmarried the Grama Niladhari's certificate plus the birth certificate, and the passbook or the discount certificate or the original copy of the receipt of payment of instalments, though these latter are not compulsory.

Apart from the disablement benefit and the death gratuity provided by the social security scheme, all farmers joining the Scheme are entitled to a life insurance cover of Rs. 50,000/= from the date of enrolment till he/she becomes entitled to receive the pension. Further, under the changes effected in 1995, a down payment of Rs. 5,000/= is made available to the family of a deceased member so as to facilitate the funeral activities. However, this payment is made as an advance, and therefore, is deducted from the death gratuity when it is granted to the family members.

In addition, a number of other benefits have been introduced with effect from 1995. As the benefits received by the upper age groups under the present pension scheme are insufficient, it was decided to increase the minimum pension up to Rs. 1,000/=. Implementation of a health insurance programme has also been introduced parallel to the Scheme following the changes carried out in this year. As such, the contributors could, by choice contribute Rs. 300/= per annum in order to gain membership of this insurance scheme which covers them against hospital and medical costs up to an amount of Rs. 25,000/=, on production of receipts and medical reports, etc. In addition, free health clinics are conducted in remote rural areas where both ayurvedic and western medical facilities are provided to the members. These clinics are conducted upon request of and in consultation with the Assistant Directors who are asked to report what is needed in his area when the AAIB draws promotional plans. If the AD of a particular District expresses the need for such a clinic, then they are carried out under the guidance of ADs alongside with promotional activities.

Plans have also been made to award Rs. 10,000/= to children of farmers who pass 5th year scholarship examination under the condition that the child receives no other financial aid either from the Government or any other institution. The sum is to be deposited in a savings account in the child's name. However, this plan still awaits to be implemented.

Further, launching of special life insurance schemes for family members of contributors as well as a pension and social security benefit scheme for farmers not eligible for enrolment under the current system have been suggested though not yet implemented. The establishment of a relief fund to assist farmers in the event of natural disasters such as floods and droughts, which are not covered by the benefits granted under the present Scheme, has also been mooted.

2.6 Exit Procedures

After enrolling in the Scheme, if a farmer finds employment in the government sector or with an employer with pension/EPF, he/she becomes legally disqualified to remain in the Scheme. In such a situation, he/she has the opportunity to reclaim the net contributions he/she has paid as well as the nominal accumulated interest, and leave the Scheme. However, the refund of money is possible only after 2 years from the date of the new appointment upon submission of the letter of appointment to the authorities of the AAIB.

Similarly, if a person becomes disqualified to remain in the Scheme as a contributor as a result of shifting to a higher income level, he/she should/could leave the Scheme on producing proof of his/her income. In doing so, he/she could reclaim the total amount of net contributions he/she had made along with the accrued interest.

2.7 Enrolment and Coverage

Availability of data

AAIB is not in a position to provide information on the actual number of active contributors. At the current time, its record-keeping is essentially manual and paper-based. Although it does keep files on all individual enrollees at both the district offices and central headquarters, it does not have the capacity to track and monitor actual payments systematically, since the records are not computerized. In addition, the process of updating centrally kept individual records with details of actual payments made is usually several months behind. Consequently, AAIB only has accurate information on the number of persons who have ever enrolled in the Scheme, and it lacks information on the number who are no longer actively contributing. This is a significant deficiency, since it is believed that at least half the enrollees have defaulted and are no longer active contributors.

AAIB does have a project to computerize its record-keeping system and in theory this should enable it to improve its information base. However, the current project only involves providing computers in 11 district offices, and in at least one of the offices visited during the field work for this study, it was observed that the member records were still being maintained manually. By the end of the year 2003, AAIB intends to resolve the problem by providing computers to all the district offices and establishing a network, whereby up to date and more complete information could be obtained.

At present, since AAIB lacks a central computerized database of member records, it lacks the capability to produce the following information:

(i) Monitor rates of default by members
(ii) Track the age and gender distribution of the enrollees and active contributors, which would be essential information for actuarial estimations of the pension liabilities and other risk experience
(iii) Analyse factors related to default by members

Enrolment

As of end October 2002, the Farmers' Scheme had registered 674,393 enrollees out of a total farmer community estimated at approximately 2 million (Table 2.5). Analysis of the Labour Force Survey data for 2001 indicates that the figure of 2 million cited by AAIB is reasonable. The LFS 2001 data imply that the total number of persons primarily engaged in relevant occupations was 2.2 million in all provinces excluding the Northern and Eastern Provinces[1]. Since not all such persons will be eligible by meeting all necessary occupational criteria, the AAIB estimate seems credible, although when the excluded Northern and Eastern provinces are considered, the estimate of 2 million may be possibly under-estimated.

According to AAIB estimates, a number between 10-12 lakhs of farmers is thought to be eligible for the Scheme, that is, those who fulfil qualifications required for membership. While nearly 6.75 lakhs of farmers are enrolled in the system currently, the actual number of active contributors is estimated to be somewhere around half the enrolled number with a default rate of around 50 per cent. According to the corporate plan of year 2002 the AAIB intends to expand the coverage up to 1 million within the next 5 years (2002-2007). The current number of enrolments is seen by the AAIB as a satisfactory figure,

[1] IPS staff estimate of the number of persons whose primary occupation falls into ISCO-88 categories 6110-6139 based on analysis of LFS 2001 data (all survey rounds).

Table 2.5: Enrolments in farmers' pension scheme

Year	New enrollees	Cumulative total	Annual increase (%)
1987	13,459	13,459	-
1988	21,810	35,269	162
1989	9,455	44,724	27
1990	38,712	83,436	87
1991	86,094	169,530	103
1992	45,004	214,534	27
1993	17,762	232,296	8
1994	10,973	243,269	5
1995	15,952	259,221	7
1996	45,404	304,625	18
1997	28,915	333,540	9
1998	94,243	427,783	28
1999	80,120	507,903	19
2000	68,334	576,237	13
2001	72,208	648,445	13
2002	30,935	679,398	5

Source: AAIB administrative data.

considering the fact that the contributions are voluntary and paid out of pocket by farmers in low-income categories.

The enrolment trends show a decrease in the number of enrollees in the recent years, with the year 2002 recording the lowest number, which is 31,000. Year 1998 has the peak number of persons enrolled. The minimal number recorded in the current year can be explained by the low level of promotional activities carried out at grass root level. The propaganda activities have been a crucial means of mobilizing people to join the Scheme since it is voluntary. In 2002, the priority was given more to the recovery of arrears and updating of records than to conducting of promotional activities. This suggests that the rate of enrolment is primarily determined by the level of marketing carried out by the AAIB.

These promotional activities involve pocket meetings at village level and at gatherings in the village and are conducted by field and development officers. Other organizations such as the Agrarian Services Department, Sanasa, CTC, Tea Small Holders, and other voluntary organizations are involved in conducting promotional activities. As a result, the farmers are enrolled through these organizations as well. For instance, CTC has initiated enrolment of tobacco cultivators since 2001, and about 500 farmers have joined under the discount system.

Tea Shakthi Insurance Scheme is another such scheme implemented by AAIB through the Tea Shakthi Society, whereby 400 cultivators are recruited under the discount system.

AAIB also works with other NGOs in carrying out the Scheme. Plan International has in this regard enrolled about 700-800 farmers island-wide. They also contribute 40 per cent to the premia paid by the farmers. However, the enrolment through Plan International is no longer in operation.

Geographical distribution

An analysis of the geographical distribution of the coverage highlights that the current scheme has been successful in reaching all districts island-wide, including in the Eastern and Northern provinces (Table 2.6). The highest number of enrollees is recorded from the districts of Kandy, Galle, Gampaha, Anuradhapura and Kalutara with Galle recording the highest number. Mulaitivu, Mannar, Killinochchi, Vavuniya have the lowest number of enrollees which is probably explained by the reduced possibility for marketing and routine contribution collection in the Eastern and Northern Provinces owing to the conflict situation.

However, further comparison of the geographical distribution of enrollees with LFS 2001 data suggests that there are significant regional disparities in the level of enrolment across the island. Table 2.7 contrasts the regional distribution of enrollees with the regional distribution of persons claiming to be in relevant occupational categories in the LFS 2001 data, which shows the quite different patterns. This analysis excludes the districts of the Eastern and Northern provinces, as these were not sampled in the LFS 2001. If the implicit enrolment rate is then calculated as the ratio of enrollees to the implied number of persons engaged in the relevant occupations according to the LFS data, it is apparent that the enrolment rates are significantly higher in the more developed Western, Central and Southern provinces. Implicit enrolment rates are much lower in other provinces, and undeniably even lower in the two provinces not included in the analysis.

This suggests that the Farmers' Scheme may be benefiting the better-off parts of the farming community, and may not be adequately reaching the poorest segments of the farming workforce. In addition, it also implies that to further expand coverage of the Scheme will require the AAIB to focus on the under-covered provinces and areas, where enrolment costs are likely to be highest.

Age distribution

The age-wise distribution of the enrollees reveals that the highest number enrolled is concentrated in the youngest age category with 222,582 farmers (Table 2.6). 39,503 is the lowest number recorded for the age category of 51-54 while the next lowest is for the age group of 46-50 years.

Table 2.8 again compares the reported age distribution of AAIB enrollees with the age distribution of the workforce as derived from LFS 2001 data. It also calculates an implicit net enrolment rate as an indicator of the relative coverage of the Scheme. As can be seen, relative enrolment is higher at younger age groups, and declines with increasing age, with a modest increase in the 55-59 year age group which is the last eligible age to participate in the Scheme.

It should also be noted that the LFS 2001 data indicate that 9 per cent of the farming workforce is older than 59 years. To the extent that it is in the general interest to encourage more workers to continue working after 59 years of age, it also points to a potential deficiency in the Scheme in that it has no option for members to continue contributing if they wish after the age of 59 years in return for a higher pension.

Gender distribution

Both males and females are eligible to join the Scheme. Analysis of LFS 2001 data indicates that 32 per cent of those claiming to engage in relevant occupations are female. However, no statistics are available with regard to the gender distribution of the enrollees in the Farmers' Scheme. This is partly due to a policy of equal treatment where all farmers are considered as farmers without any discrimination on the basis of gender, and partly because the gender is not a primary administrative concern in making the pension payments. Data is also not available with regard to the actual number of active members or their age due to inefficiencies in the individual record keeping, where there is a substantial backlog. The lack of data on the gender distribution of enrollees and contributors can be considered a major deficiency in the operation of the Scheme, as gender has a major impact on the likely longevity of enrollees, and thus the potential liabilities for the Scheme.

Default rate

As explained above, the Scheme does not have accurate data on the level of defaults by its members, and no analysis is available of the profile of defaulting contributors. It may be possible to obtain this data by analysis of samples of member records, but this has not been done to date.

As specified in the Act, contributors are expected to pay the due half-yearly instalment on or before the due date, which is 1st April and 1st October.

Table 2.6: Enrolments in farmers' scheme by age group

AAIB District Offices	Enrolments by age group as of 31 October 2002 (years)						Total
	18-29	30-35	36-45	46-50	51-54	55-59	
Colombo	3,949	2,627	3,947	1,669	1,255	1,776	15,223
Gampaha	10,676	6,921	10,344	3,936	2,870	3,484	38,231
Kalutara	10,881	6,357	8,116	3,776	3,032	3,692	35,854
Kandy	17,841	10,177	13,444	4,318	3,152	4,174	53,106
Matale	12,769	7,247	8,515	2,000	1,081	1,279	32,891
Nuwara-Eliya	9,002	5,854	7,184	1,972	1,301	1,879	27,192
Galle	22,646	11,464	14,354	4,780	3,735	5,698	62,677
Matara	9,644	5,628	7,745	3,209	2,268	3,196	31,690
Hambantota	10,055	6,661	9,294	3,173	1,975	2,153	33,311
Batticaloa	1,909	1,202	1,345	376	230	301	5,363
Ampara	6,349	3,733	4,543	1,464	89	1,044	18,027
Trincomalee	1,029	610	883	364	237	313	3,436
Puttalam	10,810	2,937	7,092	2,715	1,713	1,731	29,998
Kurunegala	9,224	6,210	9,434	3,507	2,465	3,020	33,860
Mahawa	9,281	6,490	7,846	2,554	1,498	1,433	29,102
Anuradhapura	13,690	7,918	9,459	2,934	1,627	1,739	37,367
Polonnaruwa	8,214	4,820	5,804	1,634	970	1,234	22,676
Moneragala	10,177	5,724	6,821	1,825	1,065	1,347	26,959
Badulla	6,896	4,283	6,224	1,723	1,362	1,682	21,170
Ratnapura	9,060	5,432	7,433	2,382	1,683	2,243	28,233
Kegalle	9,944	5,861	8,287	2,923	2,256	3,131	32,402
Tambuttegama	6,976	3,711	4,708	1,276	642	569	17,882
Bakamuna	1,089	621	685	201	138	326	3,060
Giran-Kotte	3,475	2,060	2,609	818	493	524	9,979
Udawalawa	1,870	1,178	1,68	528	296	364	5,884
Pimburattewa	2,747	1,669	2,230	769	459	565	8,439
Vavuniya	495	366	467	122	102	93	1,645
Jaffna	1,414	1,193	2,187	974	647	657	7,072
Mullaitivu	190	170	230	69	24	26	715
Mannar	247	198	208	40	17	16	726
Killinochchi	33	40	89	26	16	19	223
Total	222,582	129,362	173,175	58,057	39,503	49,708	674,393

Source: AAIB administrative data.

Table 2.7: Comparison of provincial distribution of farmers' scheme enrollees with LFS data

Province	Percentage of farming workforce (from LFS data) (%)	Enrollees in Scheme	Proportion of enrollees (%)	Implicit enrolment rate (%)
Western	3.0	89,308	14	134
Central	15.1	113,189	18	34
Southern	12.4	127,678	20	47
NWP	18.7	92,960	15	23
NCP	19.4	89,424	14	21
Uva	19.0	63,992	10	15
Sabaragamuwa	12.3	60,635	10	22
Total (excluding EP and NP)	100.0	637,186	100.0	29

Source: IPS staff estimates from LFS 2001 data.

Table 2.8: Comparison of age distribution of farmers' scheme enrollees with LFS data

Province	Percentage of farming workforce (from LFS data) (%)	Enrollees in Scheme	Proportion of enrollees (%)	Implicit enrolment rate (%)
18-29	19	222,582	33	54
30-35	15	129,362	19	40
36-45	27	173,175	26	29
46-50	11	58,057	9	23
51-54	8	39,503	6	23
55-59	7	49,708	7	34
Total*	86	637,186	100.0	29

Note: *Total does not sum to 100 per cent for LFS data, as these include those aged < 18 years & > 59 years.

Source: Author's analysis.

However, if a contributor fails to make the payment on or before the date expected, he/she is granted a grace period to pay the delayed instalment. If he/she pays the arrears within this relief period, no adjustment is made to the pension payable to him/her upon completion of 60 years. However, as the policy specifies if a member still fails to pay the payment during the grace period, then the AAIB has the authority to impose a surcharge or an interest on the delayed payment. The standard interest rate thus imposed is currently 14 per cent which is adjusted from time to time. In the event of default, the farmers are sent reminders to pay the arrears.

If a contributor fails to pay 5 consecutive instalments, that is, failure to pay within 2½ years, it will cause the membership to be invalid and no payment is accepted thereafter. Nevertheless, within this period the member is still entitled to receive the benefits granted; disability and death gratuity for family members if the contributor dies and other benefits. The contributor can appeal to the Board in writing requesting revalidation of the policy in the event that it has lapsed due to negligence of payment within the 2½ year period. After considering the appeal, the Board may validate it on fair grounds, on the condition that the contributor makes all the back payments along with interest.

In the case of default, if he/she does not wish to make the back payments or appeal to the Board, the farmer can reclaim the money and quit the Scheme, subject to certain conditions. He must have paid more than 10 per cent of the contributions to be able to reclaim the net premiums and only upon completion of 60 years. If the contribution made by the farmer is less than 10 per cent, then he is not eligible to reclaim the money, which will remain in the fund. If the farmer has paid 75-99 per cent of the contributions, he is eligible for a reduced pension. On the other hand, if a member wishes to join the Scheme again after the policy has lapsed, then he/she can do so by enrolling as a new member under the new age group. As such, he/she has to pay the amount fixed for that age group. Under such a circumstance, the net contributions he /she has made can be recovered as mentioned above, after reaching 60 years of age.

As already mentioned, the default rate remains very high. At present, this stands at nearly or around 50 per cent, and is a major problem encountered by the Scheme. Since the Scheme is partially dependent on the contributions made by the members, the default rate heavily affects the fund, and raises serious doubts with regard to its viability and long-term sustainability. Therefore, the AAIB is keen on recovering the back payments.

As a measure to recover arrears, the AAIB has frequently extended the grace period ranging from 1-12 months. For instance, the Advisory Committee of the Scheme decided not to remove the contributors in 1995, exercising its powers under Section 15 (1) of the Act. So action was taken not to remove any in addition to those who had been already removed by 31 December 1994. According to the concession granted up to 31 March 1996 no one was removed in 1995. The concession was with the intention of offering them additional benefits granted by allowing them to retain membership by paying all the premia in arrears (Annual Report AAIB, 1995).

In 1996 too, it was decided by the Technical Advisory Committee not to remove members who had forfeited membership due to escalation of outstanding arrears. Many concessional programmes were conducted and carried out in districts, so as to recover back payments by District Field Office staff and Govi Sevana Niyamakas as well. The results seemed encouraging. The relief period made available was extended to 31 December 1996. Along with concessionary programmes, better publicity activities were also carried out, as a result of which, a rapid increase in the number of enrolments was seen.

Prior to 1994, the failure to pay arrears on the prescribed date caused the policy to lapse and no concessional period was given. From 1995-1997 extended grace periods have been made available without removing the members from the Scheme and sans charging interest to pay only the arrears. From 1998 onwards again, the contributors are charged an interest in payment of outstanding premia.

2.8 Financial Operations

Financial record keeping

It is impossible to accurately assess the financial operations of the Scheme using the available financial statements and audit reports. The financial record-keeping of the Scheme has and is characterized by considerable inefficiencies and errors. In all years for which the audit report was available for examination (1996-1999), the Auditor-General's Department, which audits the AAIB, noted numerous errors and omissions, and refused to express an opinion on the overall accounts. The major deficiencies noted related to accounting policies, non-maintenance of personal accounts of contributors, inappropriate accounting disclosures, under and over-statements in the accounts, unexplained discrepancies, accounts receivable, lack of evidence for audit, non-compliance with laws, rules, regulations and management decisions, and overall weaknesses in systems and controls. It is also observed that in all years, adjustments have been made to all years' annual accounts in subsequent years. These deficiencies are so routine and repeated, that they must be treated as inherent to the operation of the Scheme.

Although the audit reports reveal numerous examples of individual malfeasance, these generally appear to be generally of a minor nature. Thus, the overall financial picture of the fund that is revealed in the accounts appears to be reasonably accurate. The assessment below depends on a general assessment only.

Income

The Farmers' Scheme receives income from the following sources:

(i) Government contribution to the fund which was provided during 1987-1990
(ii) Contributions from members
(iii) Interest and investment income on its fund balances
(iv) Miscellaneous income including grants for specific projects

Government contribution to fund

At the establishment of the Scheme the Government had promised a total allocation of Rs. 750 million to be paid within 10 years, of which only Rs. 173 million has been advanced up to now. The total payments actually made to date were Rs. 67 million (1987), Rs. 75 million (1988), Rs. 25 million (1989), and Rs. 6 million (1990).

Contributions from members

Contributions from members accounted for 49.5 per cent of income for the Scheme during 1996-2001, which was a total of Rs. 923 million. Contributions from members are allocated in the following manner:

(i) Rs. 7/= per contribution is paid as commission to the Cooperative rural banks or other entities, if they are the collection agent
(ii) Rs. 8/= per contribution is allocated to administrative costs, such as stationery, papers, photocopying, etc
(iii) Rs. 5/= per contribution is paid into the Group Insurance Fund, which pays the non-pension benefits
(iv) The remaining amount is paid into the Farmers' pension fund

It should be noted that no commission is paid in the case of contributors paying on the discount basis, as the initial outright payments are made directly. Since the model contributor is in the 35-45 years age category, the typical contribution should consist of a half-yearly payment of Rs. 250/= to 400/=, or Rs. 500/= to 800/= per year per contributor.

Two separate Funds (Farmers' Pension Fund, Group Insurance Fund) are maintained for the pensions and social security schemes but they are invested commonly. The funds are invested mostly in treasury bills and a lesser amount in the State Mortgage Investment Bank (SMIB).

Interest and investment income

Interest and investment income accounted for 50.5 per cent of total Scheme income during 1996-2001, which was a total of Rs. 940 million.

Typically, more than 90 per cent of the assets of the Scheme have been invested in fixed assets. The underlying rate of return on investments by the Scheme's Fund is linked to the interest rate on Treasury Bills, as these are the predominant assets in its investment portfolio. In the past, the other place for invested funds has been to deposit them at the State Mortgage Bank (formerly SMIB). The typical allocation has been two-thirds in Treasury Bills and one third as deposits at SMIB (Table 2.9).

At the establishment of the Fund, the first 2 per cent return from the investment income was permitted to be used for administrative activities. Subsequently, notes were issued by Cabinet revising this upwards, and approval was successively given to use 3 and 5 per cent from the investment income. However, according to the auditor's reports this has not been strictly followed, and in some years additional amounts have been utilized for administrative activities. The net return to the Fund for its investment should be considered after taking into account the administrative expenses, but this is not easy to analyse because of discrepancies in the financial statements.

Table 2.9: Investment of farmers' pension fund investments as of December 2002

Asset	Amount invested (Rs)	Percentage allocation (%)	Interest/return (Rs) (%)	Implicit rate of return (%)
Treasury Bills	1,528,282,840	65	83,477,698	5.5
Fixed Deposits (SMIB)	839,393,937	35	70,627,735	8.4
Total fixed assets	2,367,676,777	100	154,105,433	6.5

Source: AAIB administrative data.

Expenditure

Administrative costs

AAIB charges the cost of its administrative operations in managing the Scheme to the Scheme. These include the costs of its headquarters and district offices operations, and field expenses including salaries for officials, postal charges, training of field officers, purposes of promotional activities etc. Administrative expenses include incentives paid to enrolling officers. As such, a total incentive of Rs. 12.50/= is paid per enrolment of a new contributor under the regular system to the Scheme. The amount is divided between the grass root level officer who enrols the contributor (Rs. 10/=) and the divisional officer (Rs. 2.50/=) of the District Office. For an enrolment under the discount system the officers are paid an incentive of Rs. 150/= per enrolment. It is again divided among the person encouraging the farmer to enrol (Rs. 60/=), Divisional officers at ASC (Rs. 50/=), the clerk at ASC (Rs. 20/=) and AAIB officers (Rs. 20/=).

Total administration expenses have risen from approximately Rs. 20 million in the mid-1990s to over Rs. 60 million in 2001 (Table 2.10). The bulk of expenses are accounted for by the cost of the headquarters and district offices. As a proportion of the fund balances, the annual administrative costs have averaged 2-3 per cent of overall fund assets. Given the inherent costs involved in providing services to a rural population, this does not seem excessive. If anything, this assessment indicates that the Scheme may be under-administered, given the evidence of a gross deficiency in the necessary information for efficient management of the potential liabilities of the Scheme.

Pension payments

At the current time, as the Scheme has not fully matured, overall pension payments have remained low. They have gradually increased from Rs. 20 million in the early 1990s to just over Rs. 116 million in 2001 (Table 2.11). This represents only a small fraction of future payments, since the actual number of pensioners remains small in numbers.

2.9 Administrative and Operational Issues

Lack of staff and IT resources

Shortage of staff, both administrative and field staff, and necessary IT systems are major constraints faced by the management of the Scheme. At present, the total staff assigned to carry out the activities of the Scheme consists of around 400 employees, although the Board requires many more human resources for efficient functioning of the system. Of this number, there are only around 40 development officers and 100 field officers employed by the Scheme island-wide to function at the grass root level, which is clearly inadequate given that the target farming workforce numbers over 1 million.

Table 2.10: Administration expenses of farmers' pension scheme, 1996-2001 (Rupees)

	1996	1997	1998	1999	2000	2001
Allowance to Board members	4,100	33,600	7,800	27,225	27,800	21,300
Administrative and establishment	20,031,912	21,419,896	38,377,711	42,090,406	50,581,480	54,938,405
Incentive for enrolment of farmers	865,692	918,919	2,907,741	3,147,276	3,166,246	2,786,452
Commission for collective agents	1,221,410	1,209,084	1,164,321	1,594,022	1,960,503	3,006,743
Consultation fees	127,500	159,110	126,370	134,309	229,575	183,400
Total	22,250,614	23,740,609	42,583,942	46,993,238	55,965,604	60,936,299

Source: AAIB administrative data.

Table 2.11: Pension expenditures of farmers' pension scheme, 1996-2001 (Rupees)

	1996	1997	1998	1999	2000	2001
Paid Pension Payments	30,677,931	45,470,223	66,650,512	74,931,836	89,141,834	116,026,818
Commission Pension Payments	134,570	191,560	295,745	344,605	413,146	518,260
Balance Payment	86,164	54,003	17,467	116,459	4,862,471	163,671
Total	30,898,665	45,715,786	66,963,724	75,392,900	94,417,451	116,708,750

Source: AAIB administrative data.

Given the increasing and high rate of enrolment and the workload associated with it, such as processing of applications, collection of premia, recovery of back payments, keeping of individual accounts, updating of accounts and issuing of policies, the situation has given rise to numerous problems. As at end of 2002, the total number of enrollees to the Scheme stands at 679,398, with a minimum number of employees to carry out activities in this respect. The fact that the administrative work is primarily handled by the secretariat in Colombo, which is the AAIB, without much assistance from the District Offices, adds more difficulty due to the shortage of staff.

As a result, the AAIB has taken steps to decentralize certain tasks related to the Scheme by assigning the District Offices to handle these. Some of these include duties of updating and maintaining individual records of the enrollees, and issuing of policies by the District Office. The latter task of issuing policies has been assigned recently, since last year (2002). Apart from this, the management of the Farmers' Pension and Social Security Benefit Fund, has also given authority to certain other institutions to collect successive premia on its behalf, such as the Agrarian Services Centres since the year 2002.

Updating and maintenance of individual accounts

Another serious administrative shortcoming lies in the maintenance and updating of individual accounts, a duty specifically mentioned by the Act. The Board is expected to maintain detailed individual accounts centrally, which are updated on a regular basis. It is evident both from the auditors' reports and from actual inspection that there is a substantial backlog in updating the centrally-held individual member records. In addition, as the current record system remains predominantly paper-based and manually-operated, the system is not capable of providing timely and necessary information for efficient management of the Scheme.

These deficiencies have caused certain significant problems, particularly in obtaining statistics and data profiles of the contributors, active accounts, and default rates, etc., which are not known clearly except as estimated figures. While this again, has much to do with the shortage of staff, the delay in updating can be also cited as resulting from inadequate management of the Scheme's operations.

During the period of 1987 until up to 1997, the maintaining of regular records was somewhat up to date, after which, the duty has not been properly attended to. The main reason for this was that, during the period which followed, more attention was given to the possibility of attracting new members to the Scheme. Therefore the emphasis was more on the enrolment of new members than on the upgrading of existing accounts. As a result, numerous publicity and propaganda activities were launched at village level to encourage farmers to enrol in the Scheme through various means; mass media, news papers, radio channels, pocket meetings where and whenever possible in the villages, and through handbills.

These publicity activities proved very successful in achieving the target of the AAIB in drawing new members to the Scheme. In fact, the year 1998 records the highest number of enrollees which amounted to 94,243 in number. The situation that this resulted in almost unprecedented in that, it increased the administrative hazards in managing the system, with few employees and in keeping updated accounts, in turn resulting in a vast backlog that still continues to prevail.

Under the current system, detailed individual accounts are maintained both at the AAIB as well as in District Secretariats of the AAIB. The usual procedure is for the District Office to forward the full details of the contributors to the AAIB on a regular basis (monthly through a progress report). In addition, District Offices are required to forward the applications and the premia collected immediately after they receive them. In turn, the AAIB maintains the individual records. However, most of these records are kept manually except at the AAIB and in certain of the districts. As such, there is often delay in forwarding the files manually to the AAIB. As of today, only 10 District Offices are provided with computer facilities with the intention of computerizing the records. These include Kurunegala, Kegalle, Kandy, Nuwara Eliya, Anuradhapura, Puttalam, Gampaha, Matara, Galle, and Hambantota.

Since updating and computerizing has become a critical issue, the AAIB has taken steps to clear the backlog before encouraging new members to enrol in the system in order to avoid more piling up of records. Consequently, during 2002, minimal promotional activities have been carried out at grass root level. As a result, the year 2002 records a low enrolment figure compared to previous years. The fact that the Scheme must make such a substantial trade-off between its efforts to further expand coverage and maintaining its existing record system again underlines the under-resourcing of the administrative side of the Scheme.

The process of updating has already commenced but the shortage of staff remains an obstacle to carrying out the activity faster. However, under the 'Hundred Days Programme' launched by the Government in 2002, the AAIB was able to obtain temporary cadres to facilitate this task. As of end of March 2003, records of almost all enrollees have been computerized.

In addition, actions have been taken to decentralize the computerization of records since 2002 to districts where the facilities are available. At the same time, the AAIB also intends to create a network whereby the information in other areas can be accessed more easily and faster.

Issuing of policies and discount certificates

Apart from the delay in maintenance of updated individual records, there is also delay in issuing of policies. According to the Act, the contributors should be issued policies upon enrolment. Nevertheless, the number of policies issued by the AAIB to the contributors remains approximately 650,000. Significant numbers of members have not received policy documents, even several years after joining (see Box 1). Similarly, the discount certificates issued to those enrolled under the discount system is around 70,000 with another 1,000 pending.

Default

As mentioned earlier, there is a high percentage of defaulters prevailing among the contributors, which is another critical problem that the Scheme is faced with. The number of defaulted members is estimated to be 50 per cent of the total number of enrollees, although the Scheme lacks accurate data on this. However, analysis of the actual contributions received in a given year indicates that only 45-55 per cent of enrollees can be paying their contributions in any given year during the second half of the 1990s. At the same time, the 2002 AAIB survey of members suggests a default rate of only 25 per cent. It is not possible to ascertain which figure is closer to reality based on the information currently available to AAIB. Nevertheless, this high rate becomes critical, as it directly effects the financial situation of the fund, since the fund is mainly dependent on the contributions of its members to sustain itself, apart from the share of the subsidy provided by the government. At the same time, the high rate of default may also act to reduce the long-run liability of what is essentially a mostly unfunded Scheme.

Several reasons can be cited for this considerably higher rate of default. First, most of the farmers are not sufficiently knowledgeable about the benefits of joining such a scheme and therefore neglect payments or even forget to make payments on or before the due date. Many of them also have no knowledge regarding the rules and regulations to which they are subject to, despite the fact that these regulations are mentioned in the policy awarded to them. However, it could also be assumed that the delay in issuing of policies may also hinder certain farmers in educating themselves about the rules in some cases. Although the farmers are educated about the benefits of joining the Scheme, it is doubtful if they are adequately knowledgeable of the necessity in retaining active membership of the Scheme in order to be entitled to these benefits. Nevertheless, it should be noted that there has been an overall improvement in this regard, where more and more farmers are now aware of these issues through contact of farmer pensioners, Farmer organizations and Agrarian Services Departments, which are more attractive to farmers.

Secondly, the lack of knowledge on the part of the field officers and pressure on them to enrol additional members is also a cause for the high default rate. That is, their insufficient knowledge of the enrollees as to their capability to continue the payments. It is seen that sometimes, the officers enrol those who are too poor and thus are unable to pay on a regular basis. Added to this, is also the fact that certain officers tend to draw as many persons as possible without a proper consideration of the financial background of the enrollee, for reasons of personal benefits such as the incentive, which is paid to them. The field officers and the development officers who work at the grass root level in promoting the Scheme and enrolling farmers are paid an incentive of Rs. 12/= per enrolment under the regular system and Rs. 60/= per enrolment under the discount system. This type of incentive may not be consistent with the overall objectives of the Scheme.

Frequent internal migration is also an important factor contributing to this aspect, particularly in the case of North and Eastern areas. In addition, the inefficient management explains for much of the occurrence of default where there is no proper follow up of the

Box 1: AAIB Survey of Farmers' Pension Scheme Members, 2002

Recognizing the various shortcomings and problems faced by the Scheme, the AAIB undertook an island-wide survey of Scheme members in 2002. The survey was conducted from 20 April to 30 June 2002, with field-work conducted at Divisional level by Agricultural Research and Production Assistants who work at the Agrarian Services Centre Divisions. The survey was conducted with the intention of assessing the Scheme with regard to the following issues:

- Proper management of the Scheme
- Issuing of policies/discount certificates sans delay
- Immediate provision of pensions to those who have reached the age of 60 years
- Payment of death and disablement gratuities within a month of the occurrence of a particular incident
- Provision of a relief to those categories of defaulters who have continued payments intermittently without proper knowledge of the default situation and are awaiting pension
- Seeking the possibility of provision of pension to those defaulters who have continued payments due to negligence of AAIB officers or those of the Cooperative Rural Banks

The survey was also made use of as a means to build up a close relationship between the pensioners, contributors and the field officers and Agricultural Research and Production Assistants. The survey was conducted under the supervision and guidance of the Assistant Directors of the District Office of AAIB. In areas where there are no Agricultural Research and Production Assistants, it was carried out through Samurdhi Animators and through Area Managers in the Mahaweli Areas. Before the survey was conducted, the ADs and FO and other officers were briefed. Wide publicity was carried out of the forthcoming survey through advertisements in the national newspapers, and on air for several days. Data collection was carried out by visiting households within divisions of Agricultural Research and Production Assistants, identifying contributors and through interviews with them, examining the passbooks, policies/discount certificates and obtaining relevant information.

A sample of 276,039 (42 per cent of the total number of enrollees) was surveyed of a total amount of 657,860 farmers enrolled in the Scheme at the time of the survey, The results revealed that, of the sample, 81,802 or 26 per cent were defaulters, 25 percent (69,106) had not received the policy at the time of the survey and 7.1 per cent or 20,478 had not obtained discount certificates.

record of payments. Since the inception through the first 5 years, it was kept up to date, monitoring, following up, computing, etc. but not since then. This is again, mainly due to the shortage of staff, who are unable to follow-up with the vast number of enrollees which is beyond their handling.

Due to the same reason of inefficient administration, the problem of defaults has in turn led to certain other serious and critical situations. While the collection of the first instalment is exclusively done by the officers of the AAIB, or by the officers of the District office of the AAIB (AD/DO/FO), the second and successive premia can be collected by agents other than the Board officers. These other agents have been authorized to do so by the AAIB. Agrarian Service Centres in the case of North Western and Central Provinces, the Cooperative Rural Banks, and Peoples'

Bank in the Mahaweli areas are the other agents who are authorized by the AAIB to collect successive premia. However, the collection of premia through some of these organizations, has led to many technical deficiencies as most of the employees working in these organizations are without proper understanding of the procedures, rules, regulations adopted by the Scheme, or about the Scheme itself. This is particularly the case with regard to the Cooperative Rural Banks where the employees are sometimes trainees and without much knowledge of how the system works.

As a result, there have occurred many instances where money has been accepted from the defaulted members. This type of event has created two new types of 'defaulters'. There are defaulters, who still continue to make payments after they have defaulted due to failure to pay the required sum of arrears within a period of 2½ years. Then there is another category of defaulters, who have recommenced and completed paying the prescribed number of instalments after getting defaulted, and who have reached 60 years of age and are awaiting the benefit of a pension. The first category of defaulters, who still continue to pay, accounts for a considerable number, which is around 5,000 while the latter also, amounts to 2,000-3,000 in number. In some instances, this confusion is caused due to the fault of the defaulter, who, after getting defaulted and knowing that, would go to another agent and recommence payment without revealing the fact that his/her policy has already lapsed.

Action regarding these matters remains urgent, particularly in relation to the category who have already completed payments and are awaiting a pension. As such, after much consideration, the AAIB intends to see about the possibility of regularizing payments to this category. However, this needs approval either by way of an amendment or a circular and thus is still pending. At the same time, the payment of a full pension is not possible in these circumstances considering the loss caused to the fund as a result of the loss of premia and the interest for the particular period of default. Therefore, after calculating the losses on each case, and the remained amount earned by the contributor, action will be taken to either pay a reduced pension if the amount earned is more than 75 per cent or make a lump sum payment if it is less than 75 per cent but more than 10 per cent. A similar procedure is considered in relation to the category, which is still paying, where the payments may be regularized or relaxed.

Promotional activities

Very little money is available to conduct propaganda and training activities. The field officers are involved in addressing farmers through pocket meetings, through any other activities which give the opportunity to do so, through NGOs, village welfare societies etc. Mass media is hardly used as it is costly.

3. Fishermen's Pension and Social Security Benefit Scheme

3.1 Origin and Objectives

The Fishermen's Pension and Social Security Benefit Scheme was established by Act of Parliament No. 23 of 1990, and it is administered by the AAIB. The Scheme can be seen as part of a broader effort to expand the availability of social security to the informal sector. Since its inception, the Scheme has been able to cover nearly 50,000 fishermen (48,168 up to October 2002), which is a considerable proportion of the total active fishing workforce, which is estimated to be 115,000.

The specific objectives of the Scheme are as follows:

- To provide social security to fishermen during old age or disability and to their families given the risky nature of their occupation
- Provide relief to dependents of fishermen upon death
- Encourage fishermen to continue in their occupation which is necessary for the development of the fisheries industry
- To attract young persons to the fishing industry
- Promote habit of saving and thrift among fishermen

3.2 Administration and Staffing

Similar to the Farmers' Pension and Social Security Benefit Scheme, the Fishermen's Pension and Social Security Benefit Scheme is implemented and managed by the Agricultural and Agrarian Insurance Board (AAIB). However, unlike the Farmers' Scheme, this is in collaboration with the Ministry of Fisheries and Aquatic Resources Development. The Fishermen's Pension and Social Security Benefits Scheme is similarly a voluntary, nominally-contributory scheme, where the fishermen are expected to participate in maintaining and sustaining the system.

Unlike in the case of the Farmers' Pension Scheme where the administrative activities are carried out mostly centrally, by the head office in AAIB or by way of its District Offices, the tasks and responsibilities related to the Fishermen's Pension and Social Security Benefit Scheme are more decentralized and shared. As such, both AAIB and the Department of Fisheries and Aquatic Resources Development perform different types of administrative activities in relation to the Scheme. Accordingly, enrolment of fishermen, collection of premia, and promotional and propaganda activities are carried out by the Fisheries Extension Offices, which are District Offices of the Department of Fisheries and Aquatic Resources Development. The functions of issuing policies, overall management of the fund, payment of pensions and other benefits are primarily performed by the AAIB.

The Fishermen's Pension and Social Security Scheme covers both fishermen who are engaged in marine fisheries industry, as well as those involved in inland fishing. Fisheries Extension Offices mainly target those engaged in marine fishing, while enrolment activities with regard to the inland fishermen are basically carried out by the Sri Lanka Aquatic Resources Development Authority which is also affiliated to the Department of Aquatic Resources Development. As a result, many of the Fisheries Extension Offices are situated in the maritime Districts covering altogether around 15 areas. These include: Kalutara, Galle, Mahawewa, Matara, Colombo, Tangalle, Puttalam, Negombo, Batticaloa, Trincomalee, Mannar, Kalmunai, Mulaitivu, Kilinochchi and Jaffna. The Sri Lanka Aquatic Resources Development Authority also covers many Districts in the interior of the country, including Nuwara Eliya, Polonnaruwa, Ratnapura, Monaragala, Kurunegala, Anuradhapura, Matale, Kandy, Kegalle, Badulla, Vavuniya, and Batticaloa.

These District Offices are headed by Assistant Directors (ADs), the clerical staff and the Fisheries Inspectors (FI). While the ADs are responsible for the overall management of the regional activities with regard to the Scheme, the Fisheries Inspectors are assigned with the duties of enrolling and collecting premia. The Fisheries Inspectors work at grass root level promoting the Scheme, educating and identifying fishermen eligible to join the Scheme. Unlike in the case of the farmers' scheme, where there are other agents authorized by the AAIB to collect premia and enrol members, only the Fisheries Inspectors are engaged in carrying out these activities with regard to the Fishermen's Pension and Social Security Benefit Scheme and no other officers or organizations.

3.3 Eligibility and Enrolment

Eligibility

Again, similar to the previous scheme, only fishermen who fulfil certain required qualifications are eligible to gain membership of the Fishermen's Pension and Social Security Benefit Scheme. These qualifications are primarily based on age, ownership of certain assets and non-membership of other similar benefit and pension schemes.

Accordingly, as specified in the Fishermen's Pension and Social Security Benefit Act, No. 23 of 1990, only fishermen within the age group of 18-59 are entitled to join the Scheme. A 'fisherman', as defined in the Act means those engaged in fishing or fish farming, either in the sea, lagoons or inland waters. The Scheme is open to all fishermen within this age group regardless of gender. Although no statistics are available as to the gender profile of the contributors, it is nevertheless seen that the majority of them are males, while a small percentage of females, which is around 5 per cent are also enrolled in the system.

AAIB estimates that 115,000 persons are engaged as fishermen in the island. However, analysis of the LFS 2001 data indicates that the number of persons engaged in fishing as either their primary or secondary occupation was 64,000 in the provinces excluding the Eastern and Northern Provinces, of whom 93 per cent were male, and 7 per cent female. The LFS data suggest that the official estimate of the potentially eligible population may be an overestimate.

Apart from the age criterion, certain assets in respect of fishing are also considered in deciding the eligibility of a fisherman to gain membership of the Scheme. As such, the eligible fisherman should not be an owner of 3 or more mechanized boats weighing more than 6 tons, and should not own more than 5 acres of one or more fish culturing places or farms. Other such assets include fishing nets, fishing cages, and fishing traps, fish storage or fish processing places, the total value of which, may also count in obtaining entitlement to join the Scheme.

In addition, those who are entitled to receive a pension or benefits under the Employees' Provident Fund or other similar schemes are not considered as qualified persons to gain membership of the Scheme. Similarly, those engaged in an occupation, which qualifies them for a pension or receivers of a pension are considered as disqualified to join the Fishermen's Pension and Social Security Benefit Scheme. At the same time, persons entitled to receive a pension or Widows' & Orphans' payment upon death of spouse are also not permitted to contribute to the Scheme. Non-payees of income tax or those with assessed income that is insufficient to pay income tax on the other hand are entitled for membership of the Fishermen's Pension and Social Security Benefit Scheme.

Enrolment process

Enrolment activities are mainly carried out by the Department of Fisheries and Aquatic Resources Development through its district-level Fisheries Extension Offices, and the Aquatic Resources Development Authority in the case of inland water fishing. The applications for enrolment could be obtained from these offices. If a fisherman expresses interest in gaining membership of the Scheme, the Fisheries Inspector would first consider his/her eligibility to join the Scheme, after which the fisherman is required to fill an application form if he meets the said requirements.

The Fisheries Inspector would then forward the completed application form to the District Office, where the Assistant Director would in turn scrutinize it and certify. After the certification and the recommendation of the application by the AD, it will be forwarded to the AAIB along with the first premium. Once the AAIB has checked and approved the application, a membership number (customer number) will be issued to the new member. The personal identification number thus issued is referred to in all subsequent proceedings with regard to the membership of that particular fisherman. At the same time, the AAIB will also grant a policy to the new enrollee, with specifications of his/her rights and obligations and the benefits he/she is entitled to. The authorized officers of the AAIB or the Department of Aquatic Resources Development or its District offices have the right to visit the fisherman and inspect the correctness and the accuracy of the particulars contained in the application should there arise any doubt regarding those particulars. If the information provided in the application and/or those obtained in the field inspections prove to be discrepant, the policy may be terminated by the authorities.

Table 3.1: Rules of eligibility for membership in the fishermen's pension and social security benefit scheme

Occupational Category	Ownership of Assets	Minimum age	Maximum age	Other Qualifications	Age at which pension is payable
Those engaged in fishing or fish farming in the sea, lagoons, inlad waters	Owner of less than 3 merchandized boats weighing less than 6 tons Owner of less than 5 acres of fish culturing places or farms Total value of other assets (fishing nets, cages, traps, fish storage or processing places)	18	59	Non-entitlement to a pension/benefit under EPF Non beneficiaries or pensioners under EPF/ETF Non-entitlement to benefit upon death of spouse	On completion of 60 years if enrolled at 18-54 On completion of 5 years from the date of joining scheme if enrolled at 55-59 years of age

Source: A scheme documentation.

3.4 Contributions

Similar to the Farmers' Pension and Social Security Benefit Scheme, the Fishermen's Pension Act provides for the contributors to make the payments in two ways:

(i) on a regular periodic basis until reaching vesting age (regular basis), or

(ii) as a one-off payment made in the year of enrolment, with no subsequent payments required (discount basis).

The contributors have the freedom to decide which system to choose according to their financial capacity.

Regular payment basis

The Fishermen's' Scheme is a nominally-contributory scheme, which involves a fixed annual payment by all active enrollees. In return, enrollees who have made all required contributions are entitled to a pension, which is fixed according to the level of the periodic payment. The level of the fixed annual contribution is set for each enrollee at the time of the first contribution payment, and currently does not vary subsequently.

In contrast to the Farmers' Pension and Social Security Benefit Scheme where payments are made twice a year, payments for the Fishermen's' Scheme have to be made once in every three months, or quarterly. Consequently, the regulations pertaining to the Fishermen's Pension and Social Security Benefit Act (Gazette of 1996.09.09) set out that the quarterly instalments have to be paid on or before 31st of March, 30th of June, 30th of September and 31st of December. It is also possible for a member to pay several instalments in advance if he/she so wishes.

Like in the Farmers' Pension Scheme, the contributions payable are defined according the age of the contributor. For example, the amount payable by a fisherman joining the Scheme at the age of 18 is Rs. 65/= per quarter in 168 instalments, while a person joining at the age group of 55-59 year will be required to pay a quarterly sum of Rs. 345/= in 20 instalments (Table 3.2).

Looking at the patterns of enrolments, it could be seen that the regular method of payment is more popular among the enrollees than the other means and that the majority of the contributors are enrollees under this system. As of end of September 2002, the total number of fishermen, engaged in both inland and oceanic fishing, accounted for 48,168, of which nearly 45,000 had enrolled under the regular payment

system.
The enrollees under the regular payment system are issued a passbook where the history of each payment is recorded, due to which reason it remains an important evidence of successive payments. The passbook is issued by the Fisheries Extension Offices of the area, and the members are required to present it to the Fisheries Inspector when making payments. Upon reaching the age of 60 years, the passbook has to be handed over to the AAIB before a contributor begins to draw the pension. A lost passbook could be replaced by a new one on paying Rs. 25/=.

Discount payment basis

Once again, the discount method of paying the instalments made available to the fishermen works very much similar to the system adopted in the Farmers' Pension Scheme. The statistics on this system however, reveal that the number enrolled under the discount system remains very low which is only 6 per cent (3,151) of the total number of enrollees. The discount system offers fishermen a rebate that varies between 27-75 per cent if he/she makes a lump sum contribution on enrolment. The rebate and the lump sum which is payable is again based on the age of the contributor at the time of the enrolment. The younger the age of the contributor when he/she makes the outright payment, the higher the discount he/she receives.

For instance, if a fishermen enrols at the age of 18, then the total deposit he/she has to make is only Rs. 2,720/= under the discount system as against under the regular payment method which amounts to Rs. 10,920/=.

As it has been found that the low number of enrollees under this system is primarily due to the inability of the fishermen to afford such a high amount according to their financial standards, steps have been taken to introduce the discount system as an easy payment method following the example of the Farmers' Pension Scheme. This method of payment is also known as the divided discount system since the lump sum could be paid in instalments.

Accordingly, the fishermen are also granted the opportunity of making the lump sum deposit in 2 or 4 instalments, but within a period of 1 year. The instalments therefore, have to be paid either biannually or quarterly within 1 year. Although the Farmers' Pension and Social Security Benefit Scheme introduced this method of payment several years ago, the Fishermen's Pension and Social Security Benefit Scheme has only recently adopted it. As such, it was started only a few months ago, that is, since July 2002. As it remains still novel, the progress in the enrolment under this system still remains to be seen. At present, there are only 10 persons contributing under these two newly introduced divided discount systems. A passbook is also issued to this category as well in order to keep track of their payments.

Record keeping

Apart from the passbook, a receipt is issued to every contributor upon each payment. At the same time, every contributor is issued a policy as already mentioned. The policy clearly describes the regulations, obligations and duties of the contributor with regard to payments and lays out the benefits they are entitled to. As specified in it, the policy may lapse in the event of non-payment of instalments on or before the due date, breaching of regulations, stating untrue or incorrect information in the application or due to incomplete details contained in the application.

The issuing of policies is dealt with by the AAIB. In contrast to the experience with the Farmers' Pension and Social Security Benefit Scheme, issuing of policies is reported to be up to date. This may reflect the smaller workload involved, and more efficient management.

3.5 Pension and Social Security Benefits

The contributors of the Fishermen's Pension and Social Security Benefit Scheme are entitled to similar benefits provided by the Farmers' Pension and Social Security Scheme to its members.

This Scheme too has two principal objectives and thus two principal constituents in line with those objectives. First, the Scheme aims at providing a means of income to fishermen in retirement. Secondly, it hopes to provide them with certain other benefits, which are mainly social security benefits in addition to a pension. Thus, the Scheme actually consists of two funds, a pensions fund and a collective insurance fund whereby the above benefits are provided.

Table 3.2: Contribution and pension schedule of fishermen's pension and social security benefit scheme

Age	No. of instalments	Amount payable as quarterly instalment (Rs)	Total amount payable as quarterly instalment until age 60 (Rs)	% of discount	Total amount payable under discount system (Rs)	Amount of monthly pension (Rs)
18	168	65	10,920	75	2,720	4,167
19	164	68	11,152	75	2,810	3,834
20	160	70	11,200	74	2,900	3,500
21	156	73	11,388	74	2,980	3,167
22	152	75	11,400	73	3,060	3,000
23	148	78	11,544	73	3,140	2,834
24	144	80	11,520	72	3,210	2,667
25	140	83	11,620	72	3,280	2,500
26	136	85	11,560	71	3,350	2,334
27	132	88	11,616	70	3,420	2,167
28	128	90	11,520	70	3,480	2,000
29	124	93	11,532	69	3,540	1,834
30	120	95	11,400	69	3,590	1,667
31	116	100	11,600	68	3,740	1,584
32	112	108	12,096	67	3,980	1,500
33	108	113	12,204	66	4,120	1,417
34	104	118	12,272	65	4,240	1,367
35	100	125	12,500	64	4,450	1,334
36	96	130	12,480	63	4,560	1,317
37	92	135	12,420	62	4,660	1,300
38	88	143	12,584	62	4,740	1,284
39	84	148	12,432	60	4,910	1,267
40	80	153	12,240	59	4,980	1,250
41	76	160	12,160	58	5,110	1,234
42	72	168	12,096	57	5,230	1,217
43	68	180	12,240	55	5,480	1,200
44	64	190	12,160	54	5,630	1,184
45	60	200	12,000	52	5,740	1,167
46	56	215	12,040	50	5,970	1,150
47	52	228	11,856	49	6,080	1,134
48	48	245	11,760	49	6,280	1,117
49	44	263	11,572	45	6,410	1,100
50	40	273	10,920	42	6,290	1,084
51	36	283	10,188	40	6,120	1,067
52	32	295	9,440	37	5,930	1,050
53	28	320	8,960	34	5,890	1,034
54	24	350	8,400	31	5,780	1,017
55-59	20	345	6,900	28	4,990	1,000

Source: A scheme documentation.

Standard pension entitlement

Provision of a pension is a major benefit that the Scheme entitles its members to. Currently, the Fishermen's Pension and Social Security Benefit Scheme is making pension payments to 460 pensioners. The Scheme first commenced paying pensions in April 1996, in which year the number of persons drawing a pension accounted for 96. Since then this figure has been steadily growing, as could be seen in the table below (Table 3.4).

The contributors are entitled to receive a monthly pension on completion of 60 years of age, with the exception that the contributors joining at the age group of 55-59 are paid the pension only upon completion of 5 years from the date of joining and payment of the entire stipulated amount of instalments. The pension varies between a minimum of Rs. 1,000/= and maximum of Rs. 4,167/=. At the commencement of the Scheme, the minimum pension that the contributors were entitled to was only Rs. 200/=. As a result of the similar changes effected by the Board with regard to the Farmers' Pension Scheme in the year 1995, action was taken to raise the above amount to Rs. 1,000/= in respect of the Fishermen's Pension Scheme as well. However, while the pension was increased twice from Rs. 200/= in the case of the Farmers' Scheme, it was done so only once with regard to this Scheme, raising it from Rs. 200/= to Rs. 1,000/= immediately. Once entitled, the members receive a lifetime pension.

The pension receivable by the contributor on reaching the age of 60 years depends on the amount of contributions he/she has made, any delays or default and the accrued interest. For a contributor to be entitled for a full pension he/she should have paid all the prescribed number of contributions without any default or delay. However, when the amount of payments that a particular person has made is less than the amount which entitles him/her to a full pension but more than 75 per cent of the total amount required for a full pension, he/she is then eligible to receive a reduced pension. If the payments that have been made are between 10 – 75 per cent of the total required instalments, a person is not entitled for a pension, but can obtain a refund of the money. Nevertheless, it would be refunded only upon reaching the age of 60 years. In the event that the total contributions paid by a contributor are less than 10 per cent he/she is neither eligible for a reduced pension nor refund of that money, which in turn would be credited to the pensions fund.

Survivor benefits

At the inception, the Fishermen's Scheme also followed the Farmers' Scheme in that, when a pensioner dies while drawing the pension, and the money that he/she had already drawn as pension is less than the equivalent of the total contributions he/she had made and its accrued interest, the spouse or the legal heir of the deceased was entitled to the balance payment in his/her (deceased) account. With effect from 1996, this rule was changed whereby if a pensioner dies before reaching the age of 80 years while drawing the pension, his/her spouse will receive the pension till the deceased contributor completes the age of 80 years. However, the spouse will receive such pension on the condition that the spouse is not a contributor to the Scheme. If the spouse is a contributor, then he/she is not entitled to a pension on behalf of the deceased contributor, but to the balance payment plus accrued interest as mentioned above. In the event that there is no spouse, the legal heir of the deceased contributor will receive the said balance with interest but not a pension.

Social security benefit

The contributors to the Scheme are covered by a collective insurance scheme in addition to the provision of a pension. The collective insurance scheme is run by the Scheme's social security fund, which is funded and sustained by a portion of the contributions made by the members to the Scheme. Accordingly, each member contributes an annual sum of Rs. 60/= at Rs. 5/= per month, which is deducted from the contributions.

The most significant benefits provided by the group insurance scheme are the disablement benefit and the death gratuity without having to pay any additional contributions to the Scheme. Apart from these, the fishermen are also granted certain other benefits similar to those granted by the Farmers' Pension Scheme to its members. These include life insurance coverage and an immediate advanced payment on occurrence of death.

Disablement benefit

The types of benefits provided to the members of the Fishermen's Pension and Social Security Scheme are more or less the same as those granted to the

Table 3.3: Gratuities payable under disablement benefit, fishermen's scheme

Age at next date of birth after disablement or death (year)	Permanent partial disablement (Rs)	Permanent total disablement (Rs)	Death (Rs)
Up to 33	50,000	25,000	25,000
34-43	40,000	20,000	20,000
44-51	30,000	15,000	15,000
52-56	20,000	10,000	10,000
57-60	16,000	8,000	8,000
55-59 category	12,000	6,000	6,000

Note: From date of enrolment to date of payment of entire contribution.

Source: A scheme documentation.

Table 3.4: Trends in enrolment and pensioners, fishermen's scheme, 1991-2002

Year	Enrolments during year	Increase in total enrolments (%)	New pensioners
1991	7,506	-	-
1992	7,099	95	-
1993	2,900	20	-
1994	5,908	34	-
1995	2,600	11	-
1996	5,250	20	96
1997	3,214	10	41
1998	2,289	7	26
1999	3,527	10	56
2000	3,110	8	65
2001	3,573	8	78
2002	1,399	3	58*
Total	48,375	-	420

Note: *As of September 2002.

Source: AAIB Administrative report.

contributors of the Farmers' Scheme, with minor differences if at all.
The disablement benefit provided to the contributors of the Scheme is similar to that in the Farmers' Scheme. It consists of:

(i) Permanent Partial Disablement Benefit, and
(ii) Permanent Total Disablement Benefit.

The Fishermen's Pension and Social Security Benefit Scheme has paid compensation for disability and death to 364 persons at the cost of Rs. 6,099,000/= since its inception.

(i) Permanent partial disablement benefit

A contributor is deemed permanently and partially disabled when he/she suffers the following losses or damages by reason of an accident or a sickness:

- Loss of vision in one eye
- Loss of permanent disablement of one hand
- Loss of permanent disablement of one foot

In the event of occurrence of above conditions before reaching the age of 60 years, two alternatives are available to the contributors. A disabled contributor may either opt to leave the Scheme or remain in the Scheme. If he/she resorts to the first option made available to him/her, he/she will be compensated with a disablement gratuity up to Rs. 25,000/=. Such gratuity payable to the contributor depends on the age of the contributor. Along with the gratuity as stipulated according to his/her age, he/she has the opportunity to claim the total contributions he/she had made up to then together with the interest thereon. However, such gratuity is payable only once.

If he/she opts to the second option, he/she could remain in the Scheme without further contribution, and without drawing the partial disablement gratuity he/she is otherwise entitled to. In such an instance, the contributor is able to draw a monthly allowance equivalent to a monthly pension, which is calculated, taking into consideration the total contributions he/she has made, the accrued interest and the age, and other factors such as delay in payments or default. However, such an allowance is made to the contributor only upon completion of 60 years and on completion of 5 years since the date of joining with regard to the fishermen joining the Scheme at the age group of 55-59 years. At the same time, the Board will consider the payment of the said allowance only if the contributor makes a request in the form of a written appeal to the Board in this regard.

(ii) Permanent total disablement benefit

Under the disablement benefit, the occurrence in instances which render a particular member to be permanently and totally disabled before he/she reaches the age of 60 years, the Act makes provision for a compensation for the damages caused. As such, a contributor is considered as permanently and totally disabled when he/she left with the following losses as a result of an illness or an accident:

- Loss of both hands or permanent disablement of both hands
- Loss of both feet or permanent disablement of both feet
- Loss of sight in both eyes
- Loss of one hand and one foot or permanent disablement of one hand or one foot
- Loss or permanent disablement of one foot and loss of vision in one eye
- Loss or permanent disablement of one hand and loss of vision in one eye
- Complete paralysis below the neck

The contributors who join when they are between 55-59 years are also entitled to this benefit, which is valid for the 5 year period since joining the Scheme. Again, the amount payable as compensation is decided after consideration of the age of the contributor. A gratuity up to Rs. 50,000/= can be obtained consequently. As in the above situation of permanent partial disablement, the members are given two alternatives to choose between; a disabled member could either remain in the Scheme or leave the Scheme. If a contributor decides to stay on in the Scheme even after suffering permanent total disablement, he/she could do so without further paying any contributions and receive a monthly disability allowance based on the total contributions, the interest and the total financial benefit he/she is entitled to. Unlike in the previous instance where the partially disabled members are required to wait till completion of 60 years to receive this benefit, the totally disabled members are paid the allowance from the day he/she is disabled.

Under the second alternative, a particular contributor who is totally and permanently handicapped, is entitled to draw the full amount of gratuity payable to him/her along with the net contributions he/she had made and the interest accrued thereon. And such compensation is payable only once to a contributor

who wishes to claim the gratuity and leave the Scheme.
In the former case, the contributor should forward a written appeal to the Board requesting permission to remain in the Scheme without paying any more contributions.

As specified in the regulations pertaining to the Act as well as in the policy issued to the contributors upon enrolment, the lump sum gratuity is payable only if the permanent total disablement or the permanent partial disablement is the result of an illness that contacted after the date of commencement of the policy. If the two types of disablement are due to an accident, it should be one that is caused by outward violence and one that has occurred within 90 days of the happening of the accident.

Death gratuity

A death gratuity benefit is provided to the contributors who hold membership of the Fishermen's Pension and Social Security Benefit Scheme under the group insurance fund. As of end of September 2002, the Fishermen's Pension Scheme had paid a total amount of Rs. 5,342,000/= as compensation for 332 deceased members since the origin of the Scheme in 1990. Of this number, the majority or 332 dead members fall into the age category of 18-54, while 22 deceased members belong to the 55-59 age group.

The death gratuity is paid to the spouse or the legal heirs of the deceased contributor if the contributor dies before reaching the age of 60 years or before completion of 5 years since the date joined if the member belongs to the 55-59 age category. The lump sum gratuity that the surviving spouse or the legal heirs of the dead contributor, ranges between Rs. 6,000/= up to Rs. 25,000/=. Along with the gratuity the heirs are also entitled to receive a refund of the net contributions made by the deceased member up to the time of his death, as well as the interest earned. However, the Scheme will consider the prevalence of any delays or defaults when making the said payments to the heirs. Similar to the payments of disablement gratuities, the compensation for death is also payable only once. When a contributor dies after commencing to receive the pension, the spouse is either entitled to a pension till the deceased reaches the age of 80 years or a gratuity, and the legal heirs, only to the death gratuity in the absence of a spouse as described above.

All the benefits mentioned above are payable subject to certain other conditions. For instance, if the disablement either partial or total, is due to attempted suicide or self inflicted injuries by the contributor, no money is payable to him/her as compensation in this respect. Similarly if the death of a contributor is the result of an attempted suicide or a self inflicted injury, the spouse or other legal heirs are not entitled to receive a death gratuity. At the same time no gratuity is paid to the disabled members in the case of disablement gratuities and to the surviving heirs of a deceased member, if the death or the disability are resulting in the following manner;

In the case of death, if the death is due to:

- War, invasion, act of foreign enmity, hostilities whether war be declared or not, civil war, rebellion, revolution or insurrection
- The contributor engaging in aviation or aeronautics or any other form of aerial flight other than as a valid passenger of a recognized airline or charter service
- Committing an unlawful act or while being arrested by authorities for an unlawful act.
- Suicide while being sane or insane within 2 years from the of date commencement of the policy

If the disability is due to:

- War, invasion, act of foreign enmity, hostilities whether war be declared or not, civil war, rebellion, revolution or insurrection
- The contributor engaging in aviation or aeronautics or any other form of aerial flight other than as a valid passenger of a recognized airline or charter service
- Actions of the contributor under the influence of alcohol or harmful drugs
- Attempted suicide or self afflicted injury whether being sane or insane
- Committing an unlawful act or while being arrested by authorities for an unlawful act

Furthermore, the AAIB is required to be immediately notified of the occurrence of such a disability or death. Particularly, in the event of disability the Board should be informed of the disability in writing with details of address of the disabled member, residential area, and the details of the disability within 60 days of the happening of the incident. The details thus provided should contain evidence of the disability, particularly in the form of medical evidence, to the satisfaction of the Board members. Such information should also be forwarded to the Board at the cost of one's own expenses. Further, the disabled member must agree to undergo one or more medical examinations as may be requested by the Board at any time to be carried out by a medical examiner of their choice.

The waiting period for the gratuity payments in the case of disability (both partial and total) resulting from a sickness is usually one year from the start date of the policy issued to the contributor. However, no gratuity will be paid to contributors who become disabled within 1 year from the date of commencement of the policy. At the same time, in the event that the disability occurs due to an accident, the contributor is entitled to a lump sum gratuity from the date that the incident occurred.

When the death of a member takes place before he/she reaches the age of 60 years, his/her surviving heirs will have to wait 1 year before they become entitled to receive the compensation. Except in the occurrence of death as a result of an accident, the death that happens within 1 year of the date of beginning of the policy is not compensated. On this occasion too, the details pertaining to the death of the contributor have to be forwarded to the AAIB along with relevant certificates and other documents, such as the death certificate, documents of identity relating to the legal heirs within 60 days.

In addition to the above benefits, the members are also entitled to a life insurance cover from the date of joining the Scheme till the date of entitlement to receive the pension on completion of 60 year of age. Similar to the Farmers' Pension and Social Security Benefit Scheme, the life insurance granted is worth Rs. 50,000/=. Prior to 1996, life insurance was paid by an insurance corporation, which is the Sri Lanka Insurance Corporation. The situation accounted for high expenditure in terms of commission and other expenditure having to pay to the insuring agent. As a result, since 1996, the task of providing the life insurance was also taken over by the AAIB, which it still continues to perform.

Further, an instant advanced payment of Rs. 5,000/= is also provided to the family of the contributors on the occasion of death of a contributor in order to assist the family to reduce the burden of funeral expenses. This payment is nevertheless deducted when paying the death gratuity to the surviving heirs of the deceased member. This provision has been made to the fishermen community only 3 months ago, and no member has been granted it up to now.

Proposals have also been made in respect of providing the same other benefits planned for the farmers in the year 1995, but these too still remain to be implemented. These include the decision to award Rs. 10,000/= to children of fishermen who pass year 5 scholarship examination, stipulation of an insurance scheme for the family members of the fishermen, the setting up of a relief fund etc.

3.6 Default Rate

The rate of default in this Scheme is similar to that experienced in the Farmers' Pension and Social Security Benefit Scheme. As such currently, of the total number of enrollees amounting to nearly 50,000, almost 25,000 are estimated by AAIB to be defaulters.

As the Act specifies, if a particular member fails to pay a certain number of due instalments on or before the date of deadline, then the situation may cause the policy to lapse. Unlike in the Farmers' Pension Scheme where the default period is 2½ years as a result of failure to pay 5 continuous instalments, in the Fishermen's Scheme, the default occurs due to negligence of paying 10 consecutive quarterly instalments within a period of 2½ years. Thus, the contributors must pay the quarterly instalments on or before 31st of March, 30th of June, 30th of September and 31st of December. A relief period of 30 days is nevertheless granted for those who fail to pay the sums on the correct date and the contributors are notified requesting delayed payments. If the contributor makes the back payment within the grace period then no changes will be made to the pension he/she is entitled to on reaching 60 years. If however, he/she is unable to make use of the relief given to him/her and continues to neglect payments, the AAIB has the authority to charge an interest on each back payment on a monthly basis. The standard interest rate charged this way remains 14 per cent, which was stipulated at the inception of the Scheme. This figure may change as the Board may decide and due to inflation.

Similar to the Farmers' Pension Scheme, the management of the Fishermen's Pension Scheme is faced with the problem of recovering outstanding payments. As a result, following the Farmers' Scheme, the authorities of the Fishermen's Scheme have extended the grace period granted to the contributors many a time with the intention of obtaining these back payments. For instance, since April 1991, that is, from the time the Scheme originated, until October 30th 1998, the Technical Advisory Committee decided not to remove defaulters from the Scheme, and allowed payments of outstanding premia without any interest imposed on the payment. This period of concession with facility of paying sans interest and remaining in the Scheme was terminated since June 2002, after which date the AAIB adopts strict measures where the policy expires in the failure to pay the due amounts within the due period made available to pay arrears. During the period between 1998 to June 2002, the contributors were required to pay the back payments along with an interest charged by the AAIB.

When the policy of a contributor expires as a result of overdue instalments and failure to pay the same during the time allocated to do so, the contributors could request a revalidation of the lapsed policy by way of a written appeal to the Board. The Board may consider the case and revalidate the policy on satisfactory grounds. If the Board refuses to provide such a facility to the contributor who still wishes to remain in the Scheme after his/her policy had become invalid and after appealing to the Board, he/she could alternatively join as a new enrollee to the Scheme under the new age group.

In the instance that a particular contributor does not wish to remain in the Scheme after getting defaulted, he/she has the option of leaving the Scheme and claiming the net contributions he/she had made, plus the interest, subject to certain conditions. As mentioned earlier, had the contributor made less than 10 per cent of the payments of the total requirement, he/she is not entitled to claim the money that remains in the fund. If the contributions paid are between 10-75 per cent of the total, he/she could claim the net contributions and the interest after consideration of delays, surcharges and default on completion of 60 years. On the other hand, if the total sum of contributions made exceeds 75 per cent but is less than 100 per cent then the member has the chance of requesting for a reduced pension. A contributor has the right to leave the Scheme and claim the premia paid, along with the interest earning if he/she finds employment in the government or any institute that provides a pension or EPF benefits.

Financial performance of the scheme

The Fishermen's Pension and Social Security Benefit Scheme is also a voluntary contributory system and therefore, dependent on the fishermen's contribution for its continuation. In addition, a state subsidy of Rs. 1.5 million is allocated to the Scheme annually which the Scheme has been receiving to date since its inception in 1990. But this amount is meant for the administrative expenses related to the Scheme. As such, the income of the fund is mainly received from the fishermen's contributions, and interest earned from investment in treasury bills. Refund of receipts and interest on contribution in the event of default also adds in small amount to the income of the fund. However, given the high rate of default prevailing in the Scheme, the fund is largely affected as a substantial part of it is reduced due to loss of interest and loss of members and their contributions.

The government contribution of Rs. 1.5 million has proved to be inadequate in meeting the administrative expenditures of the Scheme, considering the vast number of administrative activities that have to be carried out in respect of the Scheme. As the Scheme authorities primarily depend on the AAIB for transport and other infrastructural facilities, each year a certain percentage of money has to be paid to the AAIB for using these facilities from the said allocation. These include transport, rent, water, electricity and telephone charges etc. At the same time, incentives for persons enrolling members, training for them, printing and postal charges and all other administrative costs related to the fund have to be managed by this amount. Therefore as often is the case, the Scheme management has had to borrow a certain amount of money (around Rs. 100,000/= to 200,000/=) from the fund itself if the need arises, in order to bear the administrative costs in the event that the administrative expenses exceed Rs. 1.5 million. Unfortunately, the money thus deducted is not returned to the fund even at a later date.

Of each contribution made by the contributors, Rs. 5/= is allocated to the collective fund or the social security fund. In addition, another Rs. 10/= is deducted from each enrolment as commission for the grass root level officers who enrol new members under the regular system. No other amount is deducted from the contributions. For an enrolment under the discount system, an incentive of Rs. 150/= is allocated to the officers per such enrolment. It is divided between the Fisheries Inspectors and the

Assistant Directors of the District Offices. As such, an FI is paid an incentive of Rs. 112.50/= while the Assistant Director of the Fisheries Extension Offices are entitled to an incentive of Rs. 37.50/=.

As a result of the limited sum of money allocated to the administrative expenses, training and promotional activities are hardly carried out currently.

3.7 Enrolment and Coverage

Availability of data

The Scheme is required to maintain individual records for all members. In contrast to the Farmers' Scheme this appears to be effective and up to date. However, as with the Farmers' Scheme, the record-system is paper-based and manually updated. Consequently, the AAIB is not in a position to engage in intensive analysis of the records or of the member population.

Coverage

As described at the beginning of the report, the Fishermen's Pension and Social Security Benefit Scheme covers fishermen who are involved in oceanic fisheries industry as well as those engaged in inland fishing. As at end of 2002, the total number of fishermen enrolled in the Scheme amounted to 48,375 of which nearly 45,000 are enrolled under the regular payment system and the rest under the discount system. In the initial years, as might be expected, enrolments increased rapidly, but in recent years, the Scheme has been adding new members at the rate of 10 per cent or so a year (Table 3.4).

The regular payment system remains the most popular mode of enrolment to the Scheme. As of today, the total number enrolled in the Scheme accounts for nearly 1/3 of the total fishermen community, as estimated by AAIB at 150,000. However, if the actual number of fishermen is lower as suggested by the LFS 2001 data, the net enrolment rate may be in excess of 65 per cent of the eligible persons.

The data available on the coverage indicate that the majority of the enrolments are confined to maritime areas where a concentration of the fishing community occurs. Of the enrolments of fishermen engaged in sea fishing, the highest numbers are recorded from Negombo, Mahawewa, Tangalle, Batticaloa and Kalmunai, while the lowest number is from Mulaithuvu, and Jaffna. No enrolments are recorded for Kilinochchi, where the District Office has not been active owing to the conflict situation. However, the functioning of the District Office has just begun and enrolments from this area are expected in the future.

The enrolments in the inland show a very low figure in comparison to the number of enrolments in the maritime districts. The primary reason for this low figure is that most of the inland fishermen are also engaged in farming and other occupations. Fishing does not play the role of principal means of subsistence in most cases as a result, but is merely a part time occupation, which brings in an extra income into the family. Therefore, it is found that many such 'fishermen' in these areas are already enrolled in the Farmers' Pension and Social Security Benefit Scheme without obtaining membership of the Fishermen's Scheme.

Age and gender distribution

The Scheme is not able to provide detailed data on the age distribution of actual contributing members. Only the age distribution of those enrolled according to their initial age at enrolment is available. Table 4.5 gives the age distribution at the time of enrolling of those enrolling up to 2002. As can be seen, comparison with LFS 2001 data suggests that Scheme's enrollees tend to be younger than average for the fishing workforce.

Scheme members are predominantly male, which corresponds with the gender balance in the fishing workforce.

Geographical distribution

According to the enrolment data, the Scheme's coverage is not equally distributed in all relevant districts. Table 4.6 compares the distribution of members outside the Eastern and Northern Provinces compared with the distribution of fishermen as reported in the LFS 2001 data. As can be noted, the enrolment shows a relatively higher rate of enrolment in certain provinces, particular the Southern Province, and lesser enrolment in comparison with potential enrollees in North Central Province.

Table 3.5: Enrolment by age

Age group (years)	Enrollees in Fishermen's Scheme				Age distribution in LFS 2001 data* (%)
	Coastal Districts	Inland Districts	Total	Percentage	
18-29	18,438	488	18,926	39	29
30-35	10,603	276	10,879	23	19
36-45	12,162	333	12,495	26	32
46-50	3,220	64	3,284	7	10
51-54	1,472	20	1,492	3	4
55-59	1,071	21	1,092	2	6
	46,966	1,202	48,168	100	100

Note: *Age distribution of those working in fishing occupations and aged 18-59 years (authors' estimates).

Source: AAIB administrative data.

Table 3.6: Provincial distribution of enrollees in fishermen's' scheme

Province	Number of enrollees	Percentage of enrollees	Percentage in LFS 2001
Western	3,518	18	26
Central	240	1	8
Southern	12,227	63	22
NWP	2,814	15	15
NCP	438	2	28
Uva	160	1	1
Total	19,397	100	100

Note: Analysis of LFS 2001 by authors. Figures exclude Eastern and Northern provinces.

Source: AAIB administrative data.

Issues and problems

It must be stated that, although the Fishermen's Pension and Social Security Benefit Scheme also illustrates various problems in relation to various aspects of the Scheme, they could be nonetheless deemed less compared to the seriousness of some of the issues encountered by the Farmers' Pension and Social Security Benefit Scheme.

3.8 Administrative and Operational Issues

Most of the operational problems that afflict the Farmers' Scheme also apply to the Fishermen's' Scheme.

Lack of staff

The lack of staff is a common problem encountered by both Farmers' and Fishermen's Pension and Social Security Benefit Schemes. However, the seriousness of this problem is less felt in the case of the Fishermen's Scheme than in the Farmers' as a result of the relatively smaller size of the Scheme. Further, as the work is more organized and also more up to date, the technical problems encountered by the Scheme seem fewer than those seen in the other scheme.

Promotional and enrolment activities

The Fishermen's Scheme carries out comparatively very little promotional and training activities mainly due to inadequate money available for these activities. This remains a problem in attracting new members to the Scheme and identifying potential members. Furthermore, it is seen that there is a tendency for fishermen to move out of this occupation given the hazardous and uncertain nature of their occupation. However, the relative extent of coverage may not be as low as thought by AAIB as mentioned above. The relative success in achieving such high coverage may be due to the higher degree of spatial concentration of the fishing community, better and more intimate relationships with staff of the Department of Fisheries, and a greater level of social cohesion in fishing communities.

Commitment of officers

As the promotional, enrolment and collection of premia is carried out not by AAIB staff, but by the Fisheries Inspectors who are affiliated to the Department of Fisheries and Aquatic Resources Development, the commitment of the officers to the Scheme is somewhat unsatisfactory. For the most part, many of these officers tend to regard the Scheme as a distant responsibility or as something imposed on them externally. As such, the duties assigned to them are sometimes not performed to the satisfaction of the management of the Scheme. Many of them take little interest in the duties they perform and are less keen on expanding the Scheme. As a result, the annual number of enrollees to the Scheme is considered low and the progress in enrolment over the years, somewhat slow.

Default rate

As already mentioned, a serious issue that the Fishermen's Scheme is faced, similar to the Farmers' Scheme, is the high rate of default. Despite many attempts, such as extended grace periods, and facilities to make payments without a surcharge, and decisions as to non-removal of defaulted members, the default rate remains high. At present, it is estimated that only about a half of the enrollees comprise the actual number of active contributors. This means the fund is only funded by the contribution of around 25,000 live contributors.

Several reasons can be highlighted for the large number of defaulters. One reason is the financial constraints of the fishermen, who find it difficult to continue payments once enrolled. For the most part, most enrollees consider the Scheme as sort of a welfare agent and expect the Scheme to provide financial assistance without contributing on their part. Consequently, they tend to drop out of the Scheme once they realize that the system is reciprocal, and that they are also expected to participate in contributing, which they are reluctant to do. As a result, many of the enrollees neglect payments.

Lack of knowledge of the benefits of the Scheme as well as the rules and regulations are also factors contributing to the high default rate as in the case of the Farmers' Pension and Social Security Benefit Scheme. In addition, the habit of saving also appears very minimal with regard to this category of persons as with many other similar categories, who are used to living a day to day life. This also hinders them from thoughts of saving for the future.

Another problem that accounts for the default rate is due to shortcoming of the officers who enrol members to the Scheme. The fact is that the officers sometimes incorporate new members without a proper investigation of their financial capability of continuing payments as experienced in the Farmers' Pension Scheme. Such setbacks are due to lack of knowledge on the part of the officers or their intention of drawing personal gains such as the incentives.

Although the default rate is high, it is devoid of certain problems that the situation has led to in relation the Farmers' Pension and Social Security Benefit Scheme, such as the confusion by collecting agents where payments are collected from defaulted members. This is primarily due to the fact that the only authorized collection agents of premia are Fisheries Inspectors and no others. Consequently, the FI are quite familiar with the members, meeting them on a regular basis. At the same time, they are well knowledgeable about the Scheme and its rules and regulations. As a result, the Scheme is much more organized than the Farmers' Pension Scheme in terms of collection of premia and keeping track of defaulted members.

Updating of accounts

Similar to the Farmers' Pension Scheme, the detailed accounts of contributors are maintained both centrally as well as at district level. For the most part, the records are kept manually except in the places where there are computer facilities available. At the AAIB, the computerization of personal records has already begun from its inception in 1991 and the backlog that is prevalent in this regard in the Farmers' Pension Scheme is not present to the same extent. As of today, of the total amount of enrolments, more than 95 per cent have been computerized (more than 46,000 of a total number of 48,375).

Similarly, the issuing of policies is kept up to date with minimal delay. For instance, by end of September 2002, only 242 policies had not been sent out of a total number of enrollees of 48, 375. The fact that this Scheme is much smaller in terms of the number of enrollees makes it much easier to manage the system in comparison with the vast number of farmers enrolled in the Farmers' Pension and Social Security Benefit Scheme.

Financial constraints

As described, the Scheme is sustained by combined effort of both contributors and the government. Although the government has been advancing a certain amount of money for activities of the Scheme, this has already proved to be inadequate. On the one hand, there is no guarantee that the state would continue to extend the same financial support in the future. On the other hand, given the situation of high default, it is doubtful as to what extent the contributions of the existing contributors would be sufficient in supporting the growing number of pensioners and other benefits provided by the Scheme.

Added to this is another issue where, although the minimum pension received by the members on reaching the age of 60 years of age has been increased from Rs. 200/= to Rs. 1,000/= no changes have been made to the fixed instalments. When the Scheme was first designed the instalment to be paid have been defined to derive a minimum pension of Rs. 200/=. However, when the Scheme first started paying pensions in 1996, the minimum pension had been increased up to Rs. 1,000/= with effect from the same year (1996). As such, the Scheme started paying the minimum pension at the rate of Rs. 1,000/= from the very beginning. Thus, the future financial viability of the Scheme remains insecure and uncertain if no other alternative mechanism of support is available.

4. Assessment of ability of Schemes to provide Social Security

The primary purpose of the two Schemes is to ensure that the relevant occupational categories have increased income security during old age, in addition to some protection against other adverse events during their working-lives. The key questions with respect to the pension component are thus:

(i) Do the Schemes, as presently constituted, guarantee an adequate level of replacement income for members in old age?

(ii) Are the Schemes, as presently constituted, financial self-sufficient, and if not what is the extent of support that will be required from government?

The cursory review that has been possible in this study indicates that the answer to the first question is no, and that with respect to the second question, the Schemes are not financially self-sufficient and potentially will require substantial future transfers from government to ensure that they can fund their pension commitments.

The analysis below treats both Schemes as one, since both Schemes have identical contribution schedules and pension rights. The fact that each Scheme has its own fund does not detract from drawing similar conclusions, other than noting that combining both funds would reduce to some limited extent the risks faced by both funds.

4.1 Adequacy of Retirement Income in Farmers' and Fishermen's Pension Schemes

The Schemes are designed to provide a fixed pension to qualifying members, payable until death, with the actual level of monthly payments based on the age at which the member enrolled. The major defect in the design is that neither Scheme provides any inbuilt protection against future inflation eroding the real value of the nominal pension payments. In the post-liberalization era after 1977, annual inflation (as measured by the GDP deflator) has averaged 10-12 per cent. There is no indication that given current structural fiscal deficits and liberalization on the current account that this situation of relatively high inflation will change in the medium term. Under conditions of inflation rates of the level historically experienced in Sri Lanka, the future pensions offered by both Schemes are essentially worthless for any contributors joining before the age of 50 years. In addition, for the bulk of pensioners, the actual value of the pension will be severely eroded during their likely time-period in retirement, which for the average pensioner will be at least 20 years.

Table 4.1 illustrates the impact of inflation on the real value of the pension offered. If inflation in future averages 10 per cent, which is less than recent experience, for a person who enrols at age 18, the promised monthly pension of Rs. 4,000/= in today's money will be worth only Rs. 76/= per month in today's money by the time the person reaches the age at which he/she becomes eligible to receive it. If the inflation is higher than 10 per cent the real value will deteriorate even further. Even if inflation is low in future at a level of 5 per cent, the pension of Rs. 4,000/= will still only be worth Rs. 537/= in today's money 42 years from now.

The impact of inflation will continue to be felt even after the individual retires and starts to collect his/her pension. The Schemes are designed on an assumption of 20 years average life expectancy at the age of 60 years. However, this is not a reliable guide to the actual life expectancy that Scheme members are likely to experience. First, average national life expectancy for men and women combined is now 22 years at the age of 60 years.[2] Second, it is not possible to know the actual average life expectancy of those who are currently enrolled in the Schemes when they reach age 60 years for two reasons:

(i) Historically life expectancy has risen gradually over time, and it is to be expected that average life expectancy at age 60 years will be significantly higher than 22 years by the time the current 30-45 year cohorts retire;

(ii) The life expectancy of the farming and fishing populations may differ from the national average, although we cannot say whether it will be higher or lower.

[2] Personal communication from Prof. Indralal de Silva of Demography Department, University of Colombo.

Nevertheless, we can be certain that most Scheme members will draw their pensions for at least 22 years, if they reach the age of 60 years, and many will live at least 30 years after the age of 60 years. During that time period, the real value of their pensions will gradually deteriorate to a point where they are essentially worthless. At the historical average rate of 12 per cent inflation, the pension received will lose 80-95 per cent of its value in real purchasing terms after 30 years (Table 4.2).

Table 4.1: Impact of inflation on real value of pensions paid by farmers' and fishermen's schemes

Age at enrolemnt (years)	Promised monthly pension (Rs)	Value of final pension in today's rupees at the age of 60 years (Rs)		
		Inflation=5%	Inflation=10%	Inflation=15%
18	4,167	537	76	12
28	2,000	420	95	23
40	1,250	471	186	76
50	1,083	408	161	66
60	1,017	759	574	440

Source: Author's estimates.

Table 4.2: Impact of inflation on real value of pensions during period of retirement

Value of pension at 60 years	Inflation = 5%		Inflation = 12%	
	Real value of pension at 80 years	Real value of pension at 90 years	Real value of pension at 80 years	Real value of pension at 90 years
4,167	1,570	964	432	139
1,250	471	289	130	42
1,000	377	231	104	177

Source: Author's estimates.

It is highly unlikely and not credible that the Scheme pensions will not be adjusted to take into account the effect of inflation. In fact, we can interpret the decisions by successive cabinets to increase the minimum pension paid from Rs. 200/= to currently Rs. 1,000/= as a political response to the problem of inflation eroding the value of the pensions paid. The extent to which most members will see their final pensions eroded is so great, that for all members the final pension currently offered will not be sufficient to keep them above the poverty line. In these circumstances, the government will inevitably have to provide additional transfers either through alternative relief programmes, or will have to revise the pension schedule in line with inflation. Since both Schemes are ultimately accountable to political authorities, it is likely that electoral pressures will provide the mechanism to adjust the pensions upwards, in the absence of any formal inflation-adjustment mechanism.

4.2 Financial Self-sufficiency of the Farmers' and Fishermen's Pension Schemes

With the caveat that the government has yet to provide its full financial contribution to the Farmers' Pension Fund that it promised at inception, the two Schemes are intended to be self-sufficient. However, both Schemes are not self-sufficient and will eventually require substantial subsidies from government if they are to fulfil their pension commitments. The actual liabilities for the government implicit in both Schemes are impossible to forecast accurately, as they depend on many factors. Nevertheless, a reasonable estimate of the potential liability represented by both Schemes is that it is already a minimum of Rs. 100 billion in 2002. It should be noted that the pension promises in both Schemes are essentially explicit in that they are promised in the policy documents issued to members, and so any attempt to reduce the pension promises would be liable to legal challenge.

In theory, the nominal liability created by each new member is the difference between the accumulated value of his/her future contributions together with investment returns on those contributions and the value of the promised pension to be paid at age 60. The pension promise is equivalent to the price of a theoretical annuity paying that pension on a monthly basis until the member dies. The investment return on the contributions and the implicit interest rate for the theoretical annuity is the net investment return that the pension funds receive after deduction of administrative costs. In practice, the actual liability may vary, because some members may default or exit, or may die prematurely, both of which would tend to reduce the average liability for all members, and because of any reductions in the investment return and internal delays in transmitting contribution funds from the field offices to the central office.

This report does not attempt to judge the investment strategy of the Schemes. In general, the investment strategies that have been pursued seem reasonable and appropriate, given that the Schemes must and should take overall Treasury guidance into account and their need to place a high emphasis on the security of the investments. Although it can be argued (and probably will be in certain quarters) that diversifying away from Treasury-approved investments might increase the investment return (almost certainly with increased risk), it should also be borne in mind that any diversification away from government borrowing-instruments carries an associated cost for the government. This cost arises because such a shift increases the rate of interest that the government pays on its debt, and thus represents ultimately a fiscal cost not only for the government but also the tax-payer. Given that the government is the ultimate guarantor of both Schemes and in fact is inevitably the ultimate financier of the bulk of the future pension costs, any such benefit to be gained by a different investment strategy is ultimately nil for the government, and in fact will provide no benefit for the tax-payers, who fund the government. If anything, such a shift may increase the costs for the tax-payer because of the increased transaction costs associated with more a more complex investment strategy.

The gross rate of interest or investment returns earned by the AAIB for the funds is shown in the case of the Farmers' Pension Fund in Table 4.3. This is before deduction of administrative expenses. In theory, the AAIB is allocated a set percentage slab of the investment return for its administrative costs, but this slab has been increased successively from 2 per cent at inception to 5 per cent currently. In addition, the actual amount deducted varies from year to year according to the actual need, but in practice the AAIB can be regarded as taking the first 3-4 per cent of the investment returns, so the net investment returns have averaged about 10-13 per cent, representing a real rate of return adjusted for inflation of - 1 to 2 per cent per annum.

Table 4.3: Mean gross interest rates on investments of farmers'

Year	Gross interest rate per annum (%)
1987	14
1988	15
1989	15
1990	18
1991	17
1992	18
1993	20
1994	16
1995	18
1996	18.2
1997	17.2
1998	12.5
1999	12
2000	16
2001	15
2002 (to July)	12

Source: Analysis of AAIB Administrative reports.

Table 4.4 illustrates the estimated liability per member under scenarios of long-run average investment return and an average life expectancy after age 60 years of 20 and 25 years. If the long-run investment return after administrative expenses remains at 12 per cent, the net present value of the average unfunded liability per new pensioner ranges from Rs. 850/= to Rs. 49,000/=, depending on the future average life expectancy of persons at those ages. On the other hand, if the long-run investment return falls, as it would if the government is successful in reducing its fiscal deficit, then the unfunded liability could substantially increase from Rs. 70,000/= to Rs. 130,000/= per member. It should be noted that under all these scenarios, the 2-3 per cent deducted by AAIB for management costs will not substantially alter the fundamentally subsidized nature of both Schemes. Given that the overall target population for both Schemes may be on the scale of 1.2 – 1.8 million, the potential unfunded liability for the Government of Sri Lanka represented by both Schemes is of the order of 5 - 75 billions of rupees (measured in 2002 prices).

Table 4.4: Estimated liability per member under investment return

Age at enrolment	Total nominal contributions by age 60	Investment return = 5%			Investment return = 12%		
		Net value of contributions with investment	Net liability if average pension = 20 yrs	Net liability if average pension = 25 yrs	Net value of contributions with investment	Net liability if average pension = 20 yrs	Net liability if average pension = 25 yrs
18 years	10,920	36,182	76,159	86,131	287,224	856	899
30 years	11,400	25,838	52,453	59,320	101,294	1,772	1,861
40 years	12,240	20,558	63,602	71,930	47,202	6,995	7,303
55 years	6,900	7,730	111,818	126,459	9,095	45,945	48,244

Source: Author's estimates.

In conclusion, both Schemes must be regarded as only partially contributory. In the long-term they will require substantial treasury transfers to pay the promised pensions. The underlying costs to the Treasury will increase if the overall numbers enrolled increases, and if life expectancy increases substantially beyond current levels (a high probability event). In addition, if interest rates in the economy fall as a consequence of the government reducing its fiscal deficit, then the nominal liability in both Schemes will increase.

The above assumes that no changes will be made to the Schemes. However, as mentioned earlier, it is quite likely, if not inevitable, that the final pensions will be adjusted upwards to counter the effects of inflation, and ultimately for real wage growth. Such policy-inducted changes would of course further increase the liabilities for the government.

One other issue is pertinent to the future financial stability of both Schemes. Both Schemes cover occupational categories engaged in the primary sectors of the economy. It is inevitable that with economic development, the percentage of the workforce employed in both farming and fishing will decline. If economic growth at the rate of 7-10 per cent is achieved in the medium term future, such changes in the employment structure of the economy can occur quite rapidly. Both Schemes thus face the likely prospect of declining numbers of contributors in parallel with increases in the number of pensioners, that is the dependency ratio for both Schemes or the ratio of contributors to pensioners, is likely to deteriorate in the long-term quite adversely. This type of phenomenon will create additional pressure on both Schemes, and possibly make the speed of transition to a state of negative cash flow quite rapid, when it does occur.

5. Recommendations

Both the Schemes have been relatively successful in extending nominal coverage to a large section of the informal sector in the country. However, neither Scheme will provide in the long-run adequate income replacement for the majority of their members. In addition, both Schemes as presently structured are not capable of meeting their long-term pension commitments, woefully inadequate that they may be. For both reasons, the Schemes must be regarded only as partially effective first steps towards the overall goal of ensuring income security for the population in their old age.

It should be recognized that it is not realistic to expect that these segments of the workforce can be provided adequate income security solely through a Scheme which is funded by their contributions. No country has been able to achieve this, not even Japan, whose rural infrastructure and bureaucratic capacity is much greater than the Sri Lankan state's. It is inevitable that if these segments of the workforce are to be provided some income replacement in old age, there will have to be some element of tax-subsidies. The more practical issue is how this can be done, whilst being more effective in the level of income replacement that is provided and whilst controlling the unfunded liability element in both Schemes. Of course, the easiest way to reduce future liabilities is simply to stop recruiting new members, but this would be self-defeating as the ultimate objective in policy was to extend social protection.

The following is a broad outline of measures that should be taken to restructure both Schemes with the overall goal of improving income security whilst reducing the cost to the overall society and tax-payers:

1. The pension schedule should be adjusted for inflation, and a mechanism should be introduced to ensure that this occurs on a regular basis without the need for political adjustment
2. The contribution schedule should be similarly linked to inflation (or even wage growth) to ensure that payments also rise with inflation
3. The average period for which members make contributions should be substantially and incrementally increased by raising the age at which a pension is paid to take into account increasing life expectancy and increasing disability-free, healthy life-expectancy. This will have to occur gradually in small steps, perhaps for new enrollees
4. The payment schedule and options should be adjusted to introduce more options. In particular, members should have the option of making higher contributions in return for an actuarially fair increase in pension rights. Ideally, the pension rights should be linked not to a fixed contribution level as now, but actuarially to overall life-time payments and some fixed level of government subsidy
5. The survivors benefit should be adjusted to pay a pension for the lifetime of the survivor, in the case of spouses
6. The two Schemes should be merged to partially reduce the risks faced by each. However, administrative collection may need to be handled separately
7. Alternative funding arrangements for the administrative functions should be considered. A better arrangement might be for the administrative costs to be paid directly by the Treasury via a grant, which would also ensure more accountability for performance
8. The record-system and staffing of both Schemes need to be substantially revised. It is necessary that the Scheme's managers have access to sufficiently detailed information to assess financial risks inherent in the Scheme and to better manage enrolment and payments. Computerization would be a sine qua non for this, but expert advice will be needed to ensure that the Schemes implement such a process effectively
9. Management of a pension fund is not inherently the responsibility of an agency such as the AAIB, which lacks in-house actuarial and other technical expertise. The Government should consider whether such schemes as these would be better and more efficiently managed by a special national pension agency set up for this explicit purpose.

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