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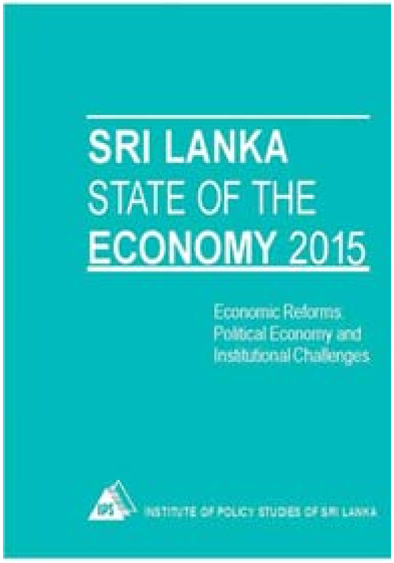
POLICY INSIGHTS

INSTITUTE OF POLICY STUDIES OF SRI LANKA

REFORMING SRI LANKA'S SOCIAL PROTECTION SYSTEM

From the IPS flagship Publication 'Sri Lanka: State of the Economy 2015'



Sri Lanka has made significant progress in reducing poverty over the past decade. The poverty head count ratio (HCR) at the national level has declined from 22.7% in 2002 to 6.7% in 2012/13. Poverty levels have also dropped across districts and sectors of the country, with the HCR for the urban sector declining to 2.1 per cent, while the rural and estate poverty levels have fallen to 7.6 per cent and 10.9 per cent, respectively in 2012/13. Consequently, Sri Lanka achieved the MDG of halving the poverty level between 1990 and 2015, well before its target year. In addition, it is 'on track' to achieve a majority of MDGs such as achieving universal primary education, promoting gender equality in education, reducing child mortality and improving maternal health. With a Human Development Index (HDI) value of 0.750, Sri Lanka is currently classified as a 'high human development' country - the only South Asian country in this category. Despite the achievements, the country also faces a number of demographic and labour market related challenges such as rapid ageing of its population and a large informal sector work force with little or no social security. These challenges emphasize the need for reforms in the social protection system - that at present comprises a large number of programmes implemented by several ministries and targeting various vulnerable groups.

This Policy Insight highlights the SOE 2015 chapter 'Reforming Sri Lanka's Social Protection System', which discusses three key reforms related to social protection in Sri Lanka, deemed necessary to address vulnerability, enhance equity and to better face the emerging demographic challenges. These reforms include:

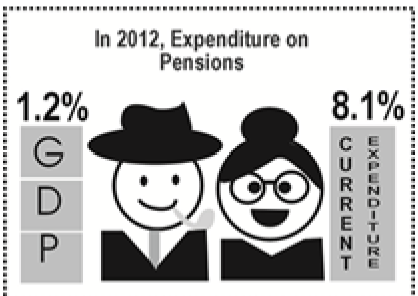
- retirement benefit schemes in Sri Lanka;
- Samurdhi/ Divineguma cash transfer/ subsidy programme and
- integrating the social protection system of Sri Lanka.

Reforming the Current Retirement System

The retirement system is Sri Lanka is built around a number of defined contri-bution and defined benefit schemes covering both formal and informal workers. The retirement schemes are mandatory for formal sector workers while voluntary schemes are available for informal sector workers. Approximately 4.6 million people

"The current social security schemes fail to provide old-age financial protection to a large portion of the population, particularly those working in the informal sector."

were covered from all retirement schemes currently being implemented based on an employed population which stood at 8.1 million in 2012. This represents a coverage rate of 57% of the employed population. However, when the high default rates are factored in for the informal sector pension schemes, the effective coverage rate is likely to be lower. Moreover, only around 40-50% of the current elders are covered under some form of social protection/old-age benefit programme like pension schemes, provident funds or monthly cash transfers. In addition to low coverage of the current retirement system, the level income provided by most of the existing schemes is inadequate. People working in the informal sector are particularly vulnerable in this regard. In light of Sri Lanka's ageing demographics and large informal sector, it is important to implement reforms that would expand coverage and provide adequate retirement income to the elderly population.

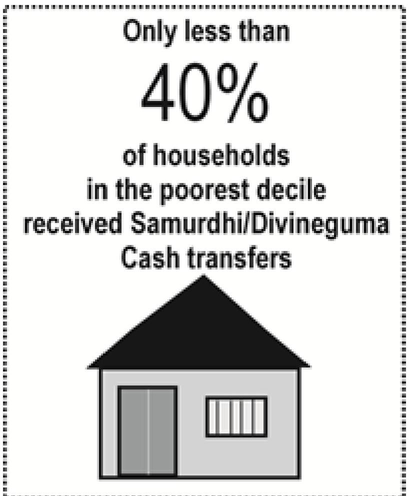


A universal pension scheme designed to provide basic income security to the elderly population is an important reform option to ensure old-age income security. In addition, a combination of parametric and structural reforms is needed to ensure the viability and sustainability of the current formal sector retirement schemes like the Public Service Pension Scheme that represents a significant fiscal cost to the government.

Reforming the Samurdhi/ Divineguma Subsidy Programme

The Samurdhi/Divineguma subsidy programme, despite being the largest social assistance programme in Sri Lanka, has many limitations such as poor targeting, inadequate benefits and the lack of clearly defined eligibility criteria and an entry and exit mechanism. Although the reforms in recent years have helped improve the quality of the benefits, the cost of the programme has increased substantially. The rising cost of the programme stresses the need to improve its targeting by bringing down the number of beneficiaries while ensuring that the benefits are received by the 'most needy' groups. Improving targeting errors would first require identifying a criterion or a set of criteria to select beneficiaries, keeping in mind that the Samurdhi/Divineguma programme aims to reduce poverty and vulnerability. It is suggested to define the selection criterion, using the Official Poverty Line (OPL) as a basis, with a 20 per cent increase, to cover the poor as well as the vulnerable segments clustered just above the poverty line. This selection criterion should be revised every 2-3 years based on the OPL, while also revising the beneficiary list by including the 'new poor' and removing those who have clearly moved out of poverty.

"In almost all districts, only a fraction of poor households are covered by the Samurdhi programme while a higher share of beneficiaries are non-poor households."



"Although the Samurdhi/Divineguma subsidy amounts have increased in recent times, the amounts are far below the minimum required per person per month to meet his/ her basic needs."

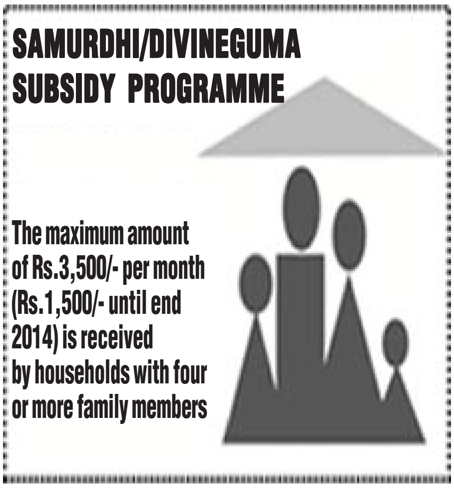
Integration of the Social Protection System of Sri Lanka

Sri Lanka has an extensive social protection system in place. However, these programmes are managed and implemented by numerous department and agencies and there is little to no coordination between them. This fragmented social protection system in the country has resulted in programme overlap and high administrative costs. Integrating the social protection system will promote synergies between programmes and improve their efficiency and outcomes.

"Integrating the current social protection system would be an intensive process requiring the build-up of administrative capacity, political will and designing a unifying social protection framework."

Developing a centralised beneficiary registry is a vital component in an integrated social protection system. Crucially, a ministry has to be identified and given a central role in managing this registry. Such a registry, as the focal point, would assist in unifying the current social assistance programmes with overlapping objectives. In addition, a centralised registry would enable means-testing to be done in an efficient and effective manner.

In the long-term, establishing a national social protection framework is critical. The framework must specify the roles and responsibilities of all institutions involved in implementing social protection programmes with well-defined objectives and outcomes. In addition, the framework must clearly establish standards in terms of selecting beneficiaries. This would help reduce programme fragmentation and overlap. It would also make monitoring and evaluation cost effective and efficient. Within a shared framework, programmes can be coordinated to allow the expected outcome of the programme to be achieved and benefits maximised.



This policy insight is based on the chapter on 'Reforming Sri Lanka's Social Protection System' in the 'Sri Lanka: State of the Economy 2015 Report' (SOE 2015). The State of the Economy Report is the flagship publication of the Institute of Policy Studies of Sri Lanka. The complete report can be purchased from the publications section of the IPS, located at 100/ 20, Independence Avenue, Colombo 7. For more information, contact the Publications Unit on 0112143100.

ThinkTank Initiative

IPS
100/20 Independence Avenue, Colombo 7, Sri Lanka
T: +94 11 2143100 / 2665068, F: +94 11 2665065
www.ips.lk