Sri Lanka
State of the Economy Report 2016

Chapter 9
Improving Efficiency and Mobilizing Resources for Poverty Reduction Initiatives in Sri Lanka

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9. Improving Efficiency and Mobilizing Resources for Poverty Reduction Initiatives in Sri Lanka

9.1 Introduction

Sri Lanka's performance with regard to poverty reduction over the years has been commendable, with the poverty headcount ratio (PHC) falling to 6.7 per cent in 2012/13 and successfully achieving the MDG of halving poverty before the deadline. Government expenditure related to poverty and vulnerability has shown a remarkable increase in recent years. Government spending on transfers to households has more than doubled during 2009-2015, accounting for about 3.1 per cent of GDP in 2015. The reduction in poverty should ideally lead to a decrease in expenditure on the poor. However, this has not been the case for Sri Lanka. A closer inspection of the existing government poverty and vulnerability initiatives shows that there are many inherent inefficiencies leading to the ineffective implementation of programmes.

The focus of this chapter is to assess possible improvements in cost-efficiency of current poverty reduction programmes -- primarily, the Divineguma programme as it is the single largest -- while lessening their fiscal burden. The chapter further explores the potential of mobilizing private sector participation as a complementary measure of financing poverty reduction. In this context, section 9.2 analyses government spending patterns on poverty and vulnerability, particularly looking at the Samurdhi/Divineguma programme. The three key components of Divineguma, i.e., the welfare programme (section 9.3), livelihood programme (section 9.4) and microfinance programme (section 9.5) are then discussed in detail, highlighting the issues and weaknesses while reflecting on how efficiency can be improved to ensure further poverty reduction, and make the Divineguma programme sustainable overall. Section 9.6 examines the possibility of encouraging private sector participation in poverty reduction via Corporate Social Responsibility (CSR) initiatives, while section 9.7 includes some concluding remarks.

9.2 Expenditure Patterns for Poverty and Vulnerability

Expenditure related to poverty and vulnerability, in particular transfers and subsidy expenditure has shown a remarkable increase in recent years. Government spending on transfers to households has more than doubled during 2009-2015; transfers and subsidies to households accounted for about 3.1 per cent of GDP in 2015. Pensions for public servants and Samurdhi cash transfers are the two main items among household transfers. Government expenditure on pensions accounts for nearly a

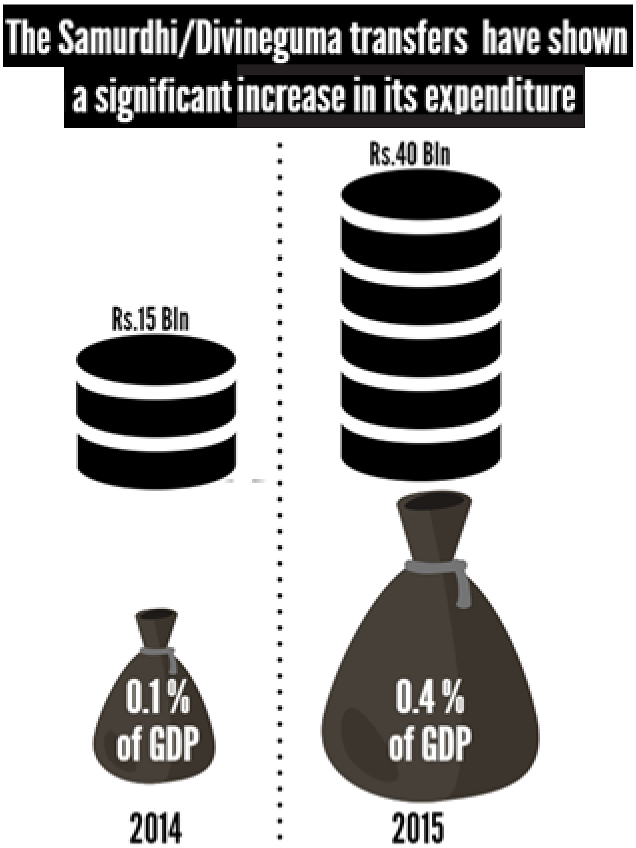
half of the total spending on transfers and subsidies to households. The expenditure on pensions has increased from around Rs. 85 billion in 2009 to Rs. 155 billion in 2015, despite its decline as a percentage of GDP from 1.8 per cent to 1.4 per cent during this period.

The Samurdhi transfers - the largest transfer programme for the poor in Sri Lanka - has shown a significant increase in its expenditure from around Rs. 15 billion in 2014 to nearly Rs. 40 billion in 2015. In 2015, Samurdhi transfers accounted for about 0.4 per cent of GDP - a substantial increase from 0.1 per cent of GDP in 2014. Expenditure on other transfers and subsidies to households that include school welfare programmes, assistance to elderly and disabled persons, etc., too has shown a notable increase. Some of the increased expenditures arise from political-economy factors where

Table 9.1
Expenditure on Transfers and Subsidies

Item	2009	2010	2011	2012	2013	2014	2015	2016[a]
	Rs. million							
Current transfers and subsidies	190,168	196,216	216,602	234,692	248,549	317,674	419,420	439,065
O/w to households and other sectors	148,993	156,194	171,438	187, 895	195,288	251,665	345,483	371,392
Samurdhi	9,267	9,241	9,044	10,553	15,256	15,042	39,994	43,950
Pensions	85,139	90,995	99, 936	111,682	122,813	126,136	155,320	167,845
Fertilizer subsidy	26,935	26,028	29, 802	36,456	19,706	31,802	49,571	35,000
Other	27,652	29,931	32, 656	29,203	37,512	78,685	100,598	124,597
	As a Percentage of GDP							
Current transfers and subsidies	3.9	3.5	3.3	3.1	2.9	3.0	3.8	3.5
O/w to households and other sectors	3.1	2.8	2.6	2.5	2.3	2.4	3.1	3.0
Samurdhi/	0.2	0.2	0.1	0.1	0.2	0.1	0.4	0.4
Pensions	1.8	1.6	1.5	1.5	1.4	1.2	1.4	1.3
Fertilizer subsidy	0.6	0.5	0.5	0.5	0.2	0.3	0.4	0.3
Other	0.6	0.5	0.5	0.4	0.4	0.8	0.9	1.0

Notes: a: Approved estimates for 2016.
Source: CBSL, *Annual Report*, various years.



The high cost of transfer programmes related to poverty and vulnerability highlights the need to reform these programmes to improve their efficiency and sustainability.

welfare-based politics come to the fore during electoral cycles. The cost of these transfers to households has increased from around Rs. 37.5 billion in 2013 to over Rs. 100 billion in 2015, raising its percentage share of GDP from 0.4 to 0.9 per cent.

The high cost of transfer programmes related to poverty and vulnerability highlights the need to reform these programmes to improve their efficiency and sustainability. The rising cost of the pension scheme for the public sector workers emphasizes the urgent need to reform it, not only to reduce the fiscal burden but also to ensure its sustainability. This is particularly important given Sri Lanka's rapid population ageing, where only around 40 per cent of the elderly are currently covered by some form of an old age income security programme.[1]

The rising cost of the Samurdhi programme also requires a detailed analysis of the Samurdhi / Divineguma programme; this is needed to identity its issues and weaknesses so that efficiency of the programme can be improved and the fiscal burden reduced. Samurdhi/ Divineguma has been the largest poverty alleviation programme in Sri Lanka since 1995.

[1] The reform options for Sri Lanka's pension system were discussed in detail in the *State of the Economy 2015.* For details see Chapter 10 on "Reforming Sri Lanka's Social Protection System" in IPS (2015) *Sri Lanka: State of the Economy 2015*, Institute of Policy Studies of Sri Lanka, Colombo.

It has multiple components that include a welfare programme, a livelihood development programme and a microfinance programme. Until 2014, the Samurdhi welfare programme was administered by the Department of the Commissioner General of Samurdhi (DCGS), while the livelihood development and microfinance programmes were administered by the Samurdhi Authority of Sri Lanka (SASL). Since 2014, all the components were taken under the purview of the Department of Divineguma Development (DDD), established by amalgamating the DCGS, SASL and three other institutions under the Divineguma Act, No.1 of 2013.

The government spends a large sum of money annually on the Divineguma programme. As per the budget estimates for 2016, the cost (which includes that of transfers, personal emoluments like salaries and allowances and capital expenditure) is around Rs. 57 billion. This accounts for about 80 per cent of the total budget estimate of the Ministry of Social Empowerment and Welfare (MOSEW) for 2016.

The (estimated) budget of the DDD has increased in 2016 from its 2015 level - both in terms of the value and as a share of the total budget estimate for the Ministry. The increase in the Divineguma budget is mainly due to the increase in the estimated cost of transfers under the welfare programme, and the cost of personal emoluments such as salaries, wages and personal allowances. As shown in Table 9.2, the welfare programmes accounts for over 75 per cent of the overall budget of the DDD, while the personal emoluments account for about 20 per cent of the Divineguma budget. The budgetary allocations for the welfare programmes (primarily, the cash transfer programme) is over Rs. 43 billion in 2016, while allocations for the other components like livelihood development and microfinance programmes are relatively low. For example, the budget for the livelihood development programme was Rs 1.2 billion in 2015 while the same amount has been estimated for 2016.

Sections 9.3-9.5 examine the three key components of the Divineguma programme -

Table 9.2
Divineguma Department - Budget Estimates 2016 (Rs '000)

	2016 Estimate
Total Recurrent Expenditure	**55,990,320**
Personal Emoluments	11,678,000
Salaries and wages	5,208,000
Overtime and holiday payments	10,000
Other allowances	6,460,000
Transfers	43,970,000
Welfare programme	43,950,000
Public institutions	
Property loan interest to public servants	20,000
Other	342,320
Total Capital Expenditure	**1,247,600**
Livelihood development programme	1,200,000
Other	47,600
Total Expenditure	**57,237,920**

Source: MOF, *Budget Estimates 2016;* Interviews with the Department of Divineguma Development.

welfare programme, microfinance programme and the livelihood development programme.

9.3 Divineguma Welfare Programme

The Divineguma (or Samurdhi) welfare programme comprises a monthly cash transfer programme, social security/insurance programme and a housing assistance programme for low income groups. It aims at addressing consumption shortfalls and reducing vulnerability among the poor. It is the main component of the Divineguma programme in terms of its budgetary allocations, accounting for over 75 per cent of the total Divineguma budget.

The cost of the welfare programme increased substantially in 2015 with an increase granted in the monthly benefits to families - twice during the year, in January and in April 2015. Since April 2015, the identified families receive a monthly grant between Rs. 420 and Rs. 3500. The amount received depends on the family size, except for the so-called 'empowered family' category that is given the minimum amount of Rs. 420. There are deductions from the monthly grant to three different funds: (i) compulsory savings - that can generally be withdrawn after the beneficiary reaches the age of 60, (ii) the social security fund that provides cover for the beneficiaries in the event of illness, death, marriage and childbirth; and (iii) the housing fund to provide housing assistance to low-income families. The net cash transfer amount (after the deductions) is transferred to the beneficiary's account at a Divineguma bank.

As at December 2015, the cash transfer programme covered 1,453,078 families. About 41 per cent of the beneficiary families receive the maximum monthly grant of Rs. 3500, followed by nearly 32 per cent that received Rs. 1500. About 18 per cent received Rs. 2500 per month, while 10 per cent received the lowest monthly grant of Rs. 420 (Table 9.3).

Despite the large number of beneficiaries and considerable government spending, the Divineguma welfare programme, in particular its cash transfer programme, has many shortcomings; inefficiencies of the targeting mechanism; lack of clearly defined eligibility criteria; lack of clearly defined entry and exit

Table 9.3
Divineguma Welfare Programme (As at December 2015)

Beneficiary Family Categories	No. of Beneficiaries (as at December 2015)[a]	Value of Monthly Grant		Total Expenditure 2015 (Rs. mn.)
		Jan-Mar 2015 (Rs.)	Value Increased from April 2015 (Rs.)	
4 or more family members	594,594	3,000.00	3,500.00	24,552.85
3 family members	253,246	2,000.00	2,500.00	7,450.81
Less than 3 family members	459,643	1,000.00	1,500.00	7.456.11
Empowered families	145,595	420.00	420.00	749.97
Total	**1,453,078.00**			**40,209.74**

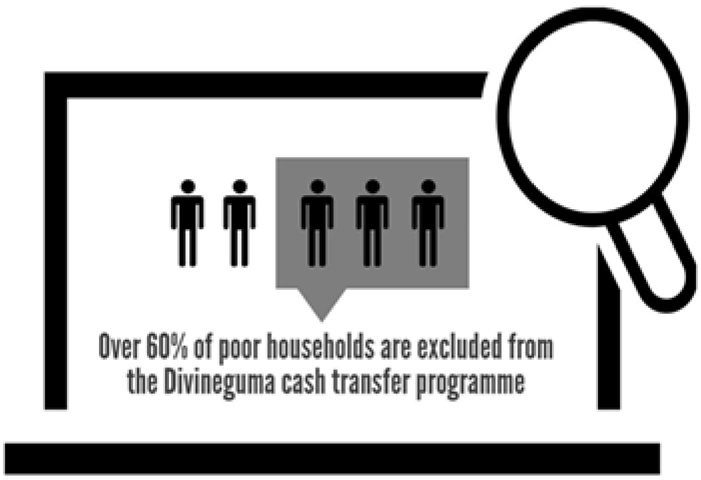
Notes: a: The number of beneficiary families was not constant during January-December.

Source: Department of Divineguma Development – Performance Report 2015.

mechanisms; issues related to the quality of benefits; and the politicization of the programme.[2]

Poor targeting is one of the main weaknesses of the Divineguma welfare programme.[3] Estimates based on DCS HIES (2012/13) show that 16.4 per cent of households in the country are receiving Samurdhi cash transfers with some households having multiple Samurdhi recipients.[4] This is around three times higher than the percentage of poor households in the country (5.3 per cent). The targeting errors are substantial - 14.4 per cent of the 16.4 per cent of Samurdhi recipient households (accounting for about 88 per cent of beneficiary households) are non-poor households, while only a smaller share of the beneficiaries are from poor households as defined by the national poverty line. By contrast, there is a substantial share of poor households who are not receiving Samurdhi cash benefits. For instance, only around 38 per cent of poor households are recipients of Samurdhi cash transfers, while over 60 per cent of poor households are currently excluded from the programme. Such inclusion and exclusion errors are observed across all the districts of the country (Figure 9.1).

As shown in Figure 9.1, the percentage of households receiving cash transfers under the Samurdhi/Divineguma programme is higher than the percentage of poor households in all the districts (except in Mullaitivu). However, a larger share of Samurdhi recipients in all the districts is non-poor households. For example, in the Monaragala district (where around 19 per cent of households are in poverty), over 30 per cent of total households receive Samurdhi benefits although nearly 24 per cent are non-poor households. By contrast, another 12 per cent of households in this district are poor, but are not beneficiaries of this programme. Unlike the other districts, in the Mullaitivu district, the percentage of households receiving Samurdhi benefits is lower than the percentage of poor households in the district.



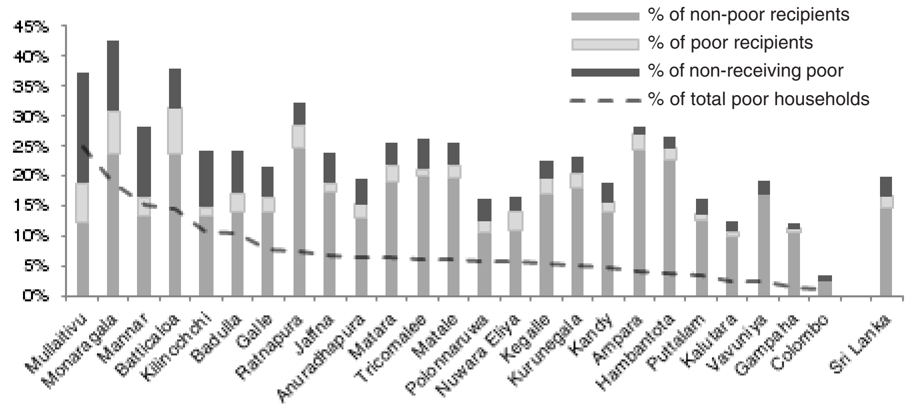
The existing targeting errors are partly due to the lack of clearly defined criteria for the selection of beneficiaries, and lack of a systematic entry and exit mechanism.

[2] For a detailed discussion, also see IPS (2015), “”Reforming Sri Lanka’s Social Protection System” in *Sri Lanka: State of the Economy 2015*; Tilakaratna, G., *et al*., (2013), “Safety Nets in Sri Lanka: An Overview”, report prepared for the World Bank, Colombo (unpublished).

[3] IPS (2015); Tilakaratna *et al.* (2013) and Glinskaya, E. (2000). *An Empirical Evaluation of Samurdhi Program* (http://siteresources.worldbank.org/INTDECINEQ/Resources/SamurdhiJune042003.pdf).

[4] In Samurdhi/Divineguma cash transfer programme, the unit considered is family not household, and hence some households can have multiple beneficiaries.

Figure 9.1
Percentage of Samurdhi Beneficiary Households by Poverty Status and District



Source: Estimated based on data from DCS HIES 2012/13.

Box 9.1
Conditional Cash Transfer (CCT) Programmes: *Bolsa Famîlia* (Brazil)

Bolsa Família is the world's largest conditional cash transfer programme, providing benefits to poor and extremely poor families in Brazil. The programme was established in 2003, scaling up and coordinating scattered existing social protection initiatives. Within a decade of its establishment, the programme has benefited over 14 million households (amounting to 50 million people) and cut poverty by 28 per cent in Brazil within a decade for just 0.5 per cent of GDP.

Bolsa Família's cash transfers are conditional on participants meeting health and education targets that focus on human capital formation. Basic benefit structure includes the provision of monthly cash payments through a debit card to the beneficiary families.

Bolsa Família uses the Means Testing targeting method to identify beneficiaries for the programme. Municipal agents use a standardized questionnaire to collect information on income and input this information to Brazil's database on the beneficiaries of all targeted social programmes called Cadastro Único (CadÚnico). This database is considered a prominent feature of the Bolsa Família programme as it facilitates the effective monitoring and management of all participants in every social assistance programme in the country. The database is screened annually to ensure eligibility of all families participating in Bolsa Família.

Families within the programme continue to receive cash transfers as long as they are eligible, with re-certification occurring every two years. Over the course of two years, municipal workers verify compliance with conditionalities on a bi-weekly basis for education, and on a bi-annual basis for health care.

Sources: World Bank. (2016), "Bolsa Família: Brazil's Quiet Revolution", available at: http://www.worldbank.org/en/ news/opinion/ 2013/ 11/04/bolsa-familia-Brazil-quiet-revolution; The Economist, (2015), "Helping the Poorest of the Poor, available at: http://www.economist .com/news/international/21638333-developing-countries-have-started-weave-social-safety-nets-heres-how-they-should-do-it; Coady, D., et al., (2004), Targeting of Transfers in Developing Countries: Review of Lessons and Experience, World Bank, Washington, D.C., Mostafa, J. and K. da Silva, K. (2007), Brazil's Single Registry Experience: A Tool for Pro-poor Social Policies, available at: http://www.ipc-undp.org/doc_africa_brazil/Webpage/ missao/ Artigos/ CadastroUnicoJoanaMostafa.pdf.

Currently, there is no clearly defined eligibility criteria for selecting beneficiary families. The majority of families that were selected for the Samurdhi programme in the mid-late 1990s have simply continued as beneficiaries, with a relatively small number of 'new entrants' and 'exits' over the years. There is no systematic mechanism to identify the 'new poor' families who deserve to be included or to remove the non-poor families who are not entitled to receive benefits. The Divineguma cash transfer programme also does not have a stipulated assessment timeline in which the beneficiaries are to be (re)assessed for their eligibility to remain, or enter/exit the programme.

In this context, Sri Lanka can learn from the experience of a successful cash transfer programmes such as Brazil's Bolsa Familia conditional cash transfer programme (Box 9.1). Bolsa Familia's clearly defined entry and exit mechanism serves as a good example; beneficiaries are selected methodically after collecting information on their income via a standardized questionnaire; after selection, beneficiaries need to be re-certified every two years. Such a systematic selection can provide a solution to politicization of beneficiary selection in the Divineguma programme. Additionally, if the targeting mechanism is fine-tuned to ensure that only the deserving can enter the programme, the quality of the benefits provided can also be raised (as the number of beneficiaries will automatically decrease with the exit of non-deserving beneficiaries). Moreover, in the Bolsa Familia, receiving the cash grant is conditional on beneficiaries meeting certain health and education targets set by the government. The conditional nature has also contributed to ensuring that basic health and education standards are met among the Brazilian poor.

Furthermore, the availability of a database on all the beneficiaries of all the targeted social programmes in Brazil has also facilitated the effective management and monitoring of all beneficiaries across the country's various social assistance programmes.

9.4 Divineguma Livelihood Programme

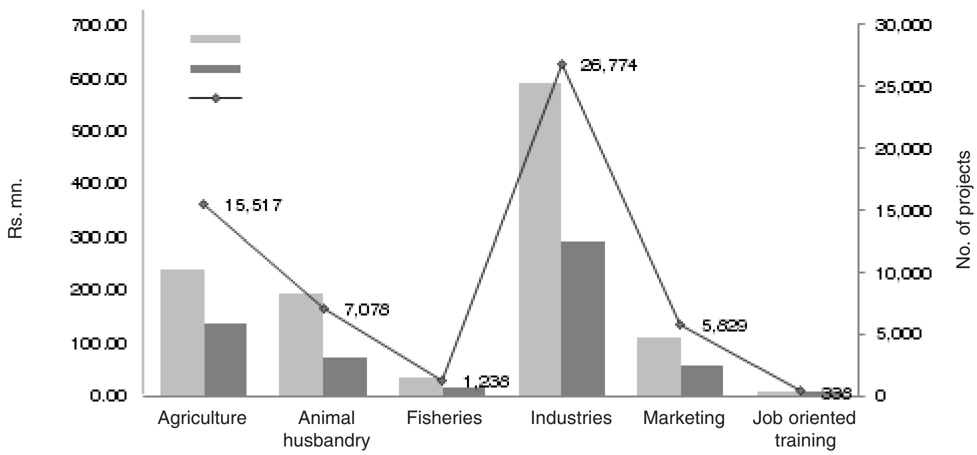
The livelihood development programme is another component of the Divineguma programme that aims at addressing poverty by empowering low-income families via enhancing their capacity to generate income. This programme targets a variety of sectors including agriculture, fisheries, animal husbandry and micro-industry. Since the establishment of the DDD in 2014, over 150,000 livelihood development projects have been carried out under this; the projects were mostly aimed at assisting beneficiaries to acquire certain machinery/equipment that could help enhance their earning potential. The projects were at least partially funded by the government. The proportion of the project cost that should be borne by the beneficiary depends on the level of poverty/vulnerability of the family. For example, in 2015, low-income families with a member who suffers from chronic illness or long-term disability could receive up to 90 per cent of the project cost as a grant while contributing only 10 per cent. In addition to providing individual project assistance, the livelihood programme has also carried out some village/region based projects during 2014-15.

The projects carried out are funded via three sources: Treasury grants, beneficiary contribution, and the Livelihood Revolving Fund (LRF). For the most part, livelihood projects are funded from Treasury grants that are allocated for the livelihood development programme. Whenever these Treasury grants are given to beneficiaries in the form of a loan (as opposed to a grant), it is re-collected to the LRF which is then used to finance livelihood projects when the Treasury grants are not sufficient.

In 2014, there were instances where the whole cost was borne by the DDD. In fact, over 60 per cent of projects carried out in 2014 were funded fully by the department.[5] However, provision of full financial support was abandoned in 2015 to better ensure beneficiary commitment. In 2015, almost 30,000 of the projects (i.e., 53 per cent of total projects) were funded under the scheme which requires the least contribution from DDD, where only 40 per cent of the project cost is provided as a grant (see Table 9.4). Furthermore, it is under this scheme that the highest amount of beneficiary capital has been mobilised (i.e., Rs. 474 million or 82 per cent of total beneficiary contribution). However, another 26,692 projects were provided with 90 per cent of the project cost as a grant by the DDD with a total cost of Rs. 712 million. The DDD spent approximately Rs. 2 billion to support a total of 56,777 projects in 2015. The highest expenditure has been incurred on projects related to industries/small enterprises. In 2015, 26,774 industrial projects were supported under the Divineguma livelihood development programme incurring a total cost of Rs. 590 million (Figure 9.2).

In 2016, there was a significant shift in the livelihood development policy of the DDD. Before 2016, it mostly aided beneficiaries to acquire machinery and equipment required for income generating activities. However, since 2016, the DDD is now concentrating its efforts to help finance business/project proposals of selected beneficiaries. Earlier, the focus was on aiding the maximum possible number of beneficiaries; now, the strategy is to identify

Figure 9.2
Project Breakdown Based on the Sector and Contributory Source - 2015



Source: Department of Divineguma Development, "Livelihood Division Performance Report 2015",

[5] Department of Divineguma Development, "Livelihood Division Performance Report 2015",

beneficiaries with entrepreneurship potential and viable project proposals with financial feasibility.

Under this new strategy, each district is authorized to identify a certain number of beneficiaries: this number will be decided by the number of Samurdhi beneficiaries in the district as well as its poverty level. Similar to the previous years, it is not necessary for the beneficiaries to be Samurdhi subsidy recipients; any low-income family member can submit their project proposal for consideration. The selection will be done by the grass-root level officers including the Divineguma Development Officers and Grama Niladaris. Project proposals are evaluated on their feasibility to be self-sustaining within a given period of time. In this case, the minimum beneficiary contribution is 50 per cent. The balance 50 per cent is provided by the DDD as a grant. The beneficiary can either invest his own capital, or he can apply for a loan from Divineguma banks.

Before 2016, the livelihood programme provided assistance for individual beneficiaries as well as for village/region based projects. In the latter case, the DDD worked in tandem with existing societies in the village or with Divineguma community based organizations (CBOs). The assistance provided was generally in the form of machinery/equipment. However, with the change in the livelihood development strategy to provide financial assistance to those with entrepreneurship potential to realize their business plan, there will be no more village/region based machinery/equipment procuring projects.

Another change in the livelihood programme in 2016 is the introduction of a special project scheme for the estate sector, aimed at helping estate sector workers to earn an additional income. In this case, the minimum beneficiary contribution required is 10 per cent with the DDD providing up to 90 per cent of the capital required as a grant. However, the size of the projects will be smaller compared to the other projects because the estate sector families have been identified as having comparatively less financial capacity.

9.4.1 Improving Efficiency of the Livelihood Development Programme

Since the Divineguma livelihood development programme was introduced in 2014, there has been a trend towards increasing the beneficiary contribution to the livelihood programme. The 2014 practice of fully financing projects was terminated in 2015 and the programme succeeded in mobilizing around Rs. 578 million as beneficiary contribution (Table 9.4). Decreasing the grant component was also taken as a step to ensure beneficiary commitment because there have been cases where, after receiving the machinery/equipment free of charge, the beneficiary has not actively used it to generate income.

When formulating poverty reduction policies it is important to ensure that they are conducive to communities/beneficiaries becoming self-sustaining in the long run. Government hand-outs can induce a culture of dependency. Therefore, the DDD's stance to increase the beneficiary contribution of livelihood assistance (as opposed to the grant component which does not have to be paid back) can be considered as a progressive step.

Table 9.4
Project Breakdown based on the Sector and the Contributory Scheme - 2015

Sector	Project Cost (90% as a grant, 10% beneficiary contribution)			Project Cost (50% as a grant, 50% beneficiary contribution)			Project Cost (40% as a grant 10% beneficiary contribution 50% from LRF)			Total		
	No. of projects	Dept. contribution (Rs. mn.	Beneficiary contribution (Rs. mn.)	No. of projects	Dept. contribution (Rs. mn.	Beneficiary contribution (Rs. mn.)	No. of projects	Dept. contribution (Rs. mn.)	Beneficiary contribution (Rs. mn.)	No. of projects	Dept. contribution (Rs. mn.)	Beneficiary contribution (Rs. mn.)
Agriculture	6,797	141.96	28.17	29	0.50	0.40	8,691	94.47	108.70	15,517	236.93	137.27
Animal husbandry	4,488	143.15	22.79	3	0.09	0.07	2,587	49.56	49.76	7,078	192.79	72.61
Fisheries	659	22.58	3.17	3	0.08	0.29	576	11.02	12.34	1,238	33.67	15.80
Industries and entrepreneurship	11,946	337.86	40.53	40	1.15	1.13	14,788	251.72	248.20	26,774	590.73	289.86
Marketing development	2,704	63.46	5.62	14	0.37	0.18	3,111	45.18	50.37	5,829	109.01	56.17
Job oriented training	95	3.64	1.80	-	-	-	243	5.26	4.73	338	8.90	6.53
Total	**26,692**	**712.66**	**102.08**	**89**	**2.18**	**2.06**	**29,996**	**457.20**	**474.10**	**56,777**	**1,172.03**	**578.24**

Notes: These figures do not include the 2,603 special projects undertaken by the DDD in 2015 which were aimed at a variety of purposes including the development of minor irrigation works and provision of drinking water facilities.

Source: Department of Divineguma Development, "Livelihood Division Performance Report 2015", The stance taken since 2016 of providing financial assistance to execute selected business plans can also be considered as an improvement in the strategy which up to this point focused on maximising the number of beneficiaries, rather than ensuring the financial viability of the projects carried out. This is especially evident in the lack of an evaluation mechanism capable of measuring the actual economic outcome (e.g., the additional income received by the beneficiary) of the projects. However, the new strategy is capable of naturally addressing this shortcoming due to two main reasons; the number of beneficiaries will be significantly reduced, which will simplify the monitoring mechanism; and the nature of the new strategy is such that there is a heavy emphasis on evaluating the results and the progress of the projects since the project proposals are selected on the basis of their capability to become self-sustaining within a given period of time.

The Divineguma livelihood programme could be further improved by taking an Asset Based Community Development (ABCD) approach (discussed in detail in Box 9.2) where particular attention is paid to linking micro-assets of the community to the macro-environment of the community through an endogenous mechanism, instead of the current, apparently ad-hoc nature of livelihood assistance based on beneficiary requests financed by injecting external resources to communities.

ABCD has been globally identified as an approach that is appropriate in an increasingly diverse world where there is no one-size fits all approach to community development. Any national level poverty reduction strategy in Sri Lanka should take into account regional disparities; even within the same districts, there exists areas that require different approaches to development.

When formulating poverty reduction policies it is important to ensure that they are conducive to communities/ beneficiaries becoming self-sustaining in the long run.

The DDD is already poised to make such an approach to community development possible. CBOs and the Divineguma community based banks (or 'Divineguma banks' which comprises of over 1,000 banks) that have already been established around Sri Lanka can easily facilitate such an approach. Furthermore, the Divineguma Development Officers who represent the DDD at the grass-root level can also play a key role in guiding this process.

Box 9.2
Asset Based Community Development (ABCD)

Asset Based Community Development (ABCD) is a "strategy for sustainable community driven development. The appeal of ABCD lies in its premise that communities can drive the development process themselves by identifying and mobilizing existing, but often unrecognized assets, and thereby responding to and creating local economic opportunity." It has been identified as an innovative alternative to need-based approaches to development and relies on the existing strengths of communities instead of injecting external resources to the community.

Thus, ABCD focuses on existing resources within a certain community and linking micro-assets to the macro environment, thereby ensuring social mobilization and sustainable community development. ABCD recognizes five types of assets: individuals, associations, institutions, physical assets and, connections. Individuals are the residents in a community and possess various skills. Associations are small informal groups of people who have come together around a common interest. Institutions are paid groups of people who are professionals and are structurally organized. Physical assets are assets such as land, building, space and funds. Connections are the relationships between people. ABCD builds on these assets that are already found in the community and mobilizes the individuals, associations and institutions to come together to build on their assets.

Source: www.abcdinstitue.org; Mathie, A. and G. Cunningham (2003), "From Clients to Citizens: Asset-Based Community Development as a Strategy for Community-Driven Development", *Development in Practice*, 13(5).

In fact, it can be argued that the DDD is already moving towards an ABCD approach by examining the modifications made to the Divineguma livelihood development programme. First, it took steps to curb the charitable nature of its assistance by making beneficiary contribution compulsory. This is important because ABCD focuses on mobilizing existing resources, as opposed to continuously injecting new resources to the community which would be less sustainable and would lead to a culture of dependency. Then in 2016, the assistance provided was made more tailor-made. The DDD can further facilitate ABCD by prioritising project proposals that are centred on utilizing the existing resources within the community, instead of simply providing beneficiaries with financial assistance.

9.5 Divineguma Micro-finance Programme

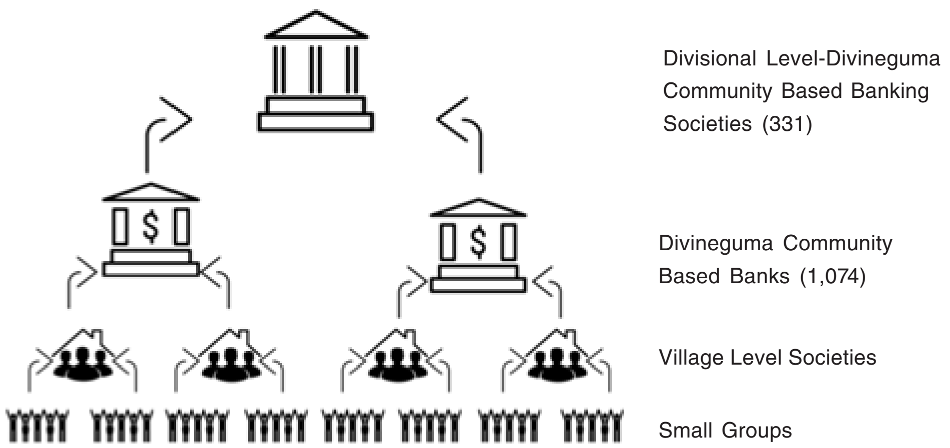
The Divineguma microfinance programme aims at promoting savings habits among low-income families and providing them with access to loan facilities to enhance their investment potential and support their income generation activities. This programme is implemented through the Divineguma banks; the banks also play an important role in implementing the Divineguma cash transfer and livelihood development programmes.

At the inception of the Divineguma programme (then called the Samurdhi programme), the benefits of its welfare component (cash stamps and food stamps) were channelled via the cooperative shops and the compulsory savings were deposited at state banks like the Bank of Ceylon and the People's Bank. However, with the establishment of the Samurdhi banks in the late 1990s, these banks came to play a major role in the implementation of the overall Samurdhi/Divineguma programme. Currently, the Divineguma monthly cash transfer is directly transferred to the beneficiary's bank account at a Divineguma bank. The banks are also involved in the selection of beneficiaries for the livelihood development programme.

As shown in Figure 9.3, the structure of the Divineguma community based banking system is based on small groups (generally comprised of five members) at the village level. In order to be eligible for a loan from a Divineguma bank, it is necessary to be a member of a small group and have a group account at the Divineguma bank. Village level societies are created from all the small groups in a village. Currently there are around 40,000 village level societies. These societies fall under a Divineguma bank in the area. The banks are managed by a manager and a governing board (*Palaka Mandalaya*). In a given Divisional Secretariat (DS) divisional level, all the Divineguma banks fall under the Divineguma Community Based Banking Society of the DS division. At present, there are 331 such societies and 1,074 Divineguma banks. At the district level, the District Divineguma Director oversees the Divineguma programme while at the national level, the Board of Management oversees the activities of the banks and the banking societies.

Under the Divineguma microfinance programme, low income families have access to a range of loan products including consumption loans, livelihood loans, agriculture loans and housing loans. As shown

Figure 9.3
Structure of the Divineguma Banking System



Source: Compiled by the IPS.

in Table 9.5, a bulk of the loans has been granted for self-employment and livelihood activities. Over 3.3 million loans with a total value of Rs. 80 billion have been granted for self-employment activities during 1998-2015. This is followed by over 1.1 million loans for consumption (with a value of Rs. 6 billion). The number of housing loans granted, although lower than the number of consumption loans, amounts to around Rs, 20.5 billion during 1998-2015.

In order to promote savings habits among low income earning families, Divineguma banks also offer various savings products to their members and non-members from low income groups. These include member deposits, shares, non-member deposits, children's deposits, deposits designed for female members ('Diriyamatha'), group deposits, compulsory savings, and deposits for school children ('Sisuraka'). Currently, Divineguma banks have over 4 million savers including around 3.4 million members. Total savings of the banks amounted to around Rs. 63 billion by end of 2014. There were over 12 million bank accounts in total, including 3.4 million member deposits, 1.1 million children's savings accounts

Table 9.5
Progress of Some of the Divineguma Credit Programmes 1998-2015

Type of loan	From 1998 to 2015	
	No. of Loans Granted	Financial Value (Rs. bn.)
Self-employment loans	3,386,475	80.03
Livelihood loans	191,146	4.44
Cultivation loans	886,544	11.96
Fishermen loans	15,616	0.33
Swa Shakthi loans	90,697	2.82
Divi Neguma Diriya Saviya loans	33,767	2.87
Consumer loans	1,108,384	6.36
Distress loans	140,275	0.48
Housing loans	460,037	20.56
Yovun Diriya loans	517	0.02
Jana Pubudu loans	377,625	11.50
Mihijaya loans	17,615	0.87
Kirula development loans	2,766	0.63
Rata Viruwo loans	12,105	3.65
Divi Neguma Sahana Aruna loans	313,057	6.37
Total	**7,036,626**	**152.89**

Source: Department of Divineguma Development, "Annual Progress Report 2015".

and 2.3 million compulsory savings accounts. However, the compulsory savings (made of the deductions from the cash transfer) account for nearly 40 per cent of total savings of the Divineguma banks.

The main source of funding for the Divineguma banks is internal - i.e., savings deposits of their members and non-members. The loans from a Divineguma bank are primarily funded by the bank's savings.[6] A Divineguma bank can give up to 80 per cent of the deposits held at the bank as loans. If a bank exceeds the maximum, it has the option of obtaining a loan from the DDD. However, the salaries and other allowances of the permanent employees of Divineguma banks are paid by the government and are included under the budget of the DDD (see Table 9.2).

9.5.1 Addressing Weaknesses and Improving Efficiency

Given the large number and volume of savings deposits and loans of the Divineguma banks, it can be argued that these banks have played an important role in improving access to financial services among low income groups, particularly among females. Nevertheless, the Divineguma banking system has a number of issues and weaknesses that need to be addressed to ensure its sustainability, protect the clients and to ensure sustainable access to financial services among low income groups.

Inadequate regulation and supervision of the Divineguma banks is an issue of concern, particularly given the large volume of savings it has mobilized from low income groups. Until

Table 9.6
Divineguma Savings Products as at 31.12.2014

Savings Product	No. of A/Cs	Amount (000')
Member deposits	3,452,413	14,445,613
Shares	3,676,389	8,499,497
Children's deposits	1,155,734	2,461,307
Diriyamatha deposits	998,132	1,713,336
Non-member deposits	577,469	2,778,047
Group deposits	458,012	7,690,748
Compulsory savings	2,312,173	25,194,058
Sisuraka deposits	180,649	347,048
Total	**12,810,971**	**63,129,654**

Source: Department of Divineguma Development.

[6] There are few exceptions such as the loans funded by the Livelihood Revolving Fund, created through government funds.

2013, the Samurdhi banking societies came under the regulation of the Samurdhi Authority of Sri Lanka (SASL), established under the Samurdhi Authority of Sri Lanka Act No. 30 of 1995. Since the establishment of the DDD in 2014, a proper regulatory framework for Divineguma banks is yet to be formed. Currently, the Board of Management of the DDD oversees the activities of the Divineguma banks but it lacks regulatory powers.

Low lending rates of the Divineguma banks is a concern that affects their financial sustainability. The lending rates charged by the Divineguma banks have decreased in recent years while the interest paid for savings have not changed significantly. For example, the lending rates have dropped from around 12 per cent (reducing balance) in 2013/14 to around 8 per cent, which is relatively low compared to other microfinance institutions in the country. However, the interest rates for savings have remained around 5-7 per cent, making it difficult for the banks to make a profit. Moreover, introduction of ad-hoc loan schemes by the government on concessionary terms and conditions at times, also affects loan repayments and the profitability of the Divineguma banks.

In addition, inadequate use of new technology and lack of computerized systems in banks, and inadequate training for bank staff and Divineguma Development Officers on microfinance principles, banking and accountancy are other constraints to improving the efficiency of the Divineguma banking system.

Low lending rates of the Divineguma banks is a concern that affects their financial sustainability.

9.6 Beyond Government Initiatives - CSR Initiatives for Poverty Reduction

Sri Lanka's significant progress in poverty reduction has been helped by overall economic growth in the country, but various government poverty reduction policies and programmes have also contributed. Despite this, approximately 1.3 million individuals are still mired in poverty according to HIES 2012/13 estimates. Moreover, there are considerable regional disparities and 'pockets of poverty' with PHCR as high as 35-45 per cent in some districts like Batticaloa and Mullaitivu.[7]

[7] DCS and CBSL, *Annual Report 2015*.

There is room to improve the efficiency of government poverty reduction programmes; the targeting mechanism can be perfected to ensure that all the poor and deserving (including all these pockets of poverty) are provided coverage. However, while improving these, it is also important to explore complementary sources of financing poverty reduction and reaching pockets of poverty in the country. One such viable option is to mobilize private sector participation in poverty reduction initiatives through encouraging and directing the Corporate Social Responsibility (CSR) related activities of private sector organizations.

CSR can be defined as the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.[8]

There is great untapped potential in using CSR expenditure as a means of financing poverty reduction in Sri Lanka. According to 2012 estimates, Rs. 4 billion are spent annually on CSR through various avenues.[9] However, this money is spent on ad hoc projects carried out by various organizations, prioritized at the discretion of individual companies. Box 9.3 discusses two different initiatives undertaken by John Keel's Holdings (JKH) and Ceylon Biscuits Limited (CBL). These highlight the potential of such initiatives to address pockets of poverty.

The two projects highlighted here differ in terms of their scale and the vision: The Munchee Samaga Gamata Sarana project by CBL has so far undertaken 92 infrastructure development projects with the aim of helping the rural and marginalized communities to meet their basic needs; the Village Adoption project by JKH has so far involved five villages with the aim of providing an integrated plan for their sustainable development.

However, both these projects are aimed at contributing to community development via community participation. Such initiatives undertaken by private sector companies illustrate the willingness of the private sector to take part in national development and their potential to contribute to the development of pockets of poverty spread around the island.

There is great untapped potential in using CSR expenditure as a means of financing poverty reduction in Sri Lanka.

8 World Business Council for Sustainable Development, Stakeholder Dialogue on CSR, The Netherlands, Sept 6-8, 1998.

9 Csrsrilanka.lk. (2016). *CSR Sri Lanka (Gurantee) Limited*. [online] Available at: http://www.csrsrilanka.lk/profile.php [Accessed 9 May 2016].

Box 9.3
CSR Initiatives for Poverty Reduction and Community Development

Case Study 01: Village Adoption Project by John Keells Holdings (JKH)

This project, launched in 2005, is aimed at uplifting the lives and living standards of disadvantaged persons and groups by empowering them to build and develop themselves and their communities in a sustainable and entrepreneurial manner. For this project, JKH has adopted an integrated development scheme asserting that developing just one aspect of a poor community is insufficient to ensure sustainable development as the causes of poverty are interlinked. For example, low employment is linked to low levels of education, so simply improving income generation activities will not be adequate to pull the village out of poverty in the long run. As such, the project includes facilitating access to basic needs like water and sanitation, as well as providing electricity and educational infrastructure facilities, and developing sustainable and diversified livelihoods to improve income generation, while also conducting gender and youth empowerment activities.

JKH takes a tailor-made approach to the development of each adopted village. The scope of the village adoption project (in terms of the number of villages) is deliberately kept limited to prevent finances and attention given to each village from being diluted. The choice of village to be adopted is subject to such considerations as the ground level presence of JKH and the capacity of JKH employees to volunteer their own time for such projects. Currently five villages have been adopted under this project: Halmillewa (Anuradhapura district), Mangalagama (Ampara district), Iranaipalai (Mullaitivu district), Puthumathalan (Mullaitivu district) and Morawewa North (Trincomalee district).

Case Study 02: Munchee Samaga Gamata Sarana by Ceylon Biscuits Limited (CBL)

The CBL initiative, launched in 2006, aims at identifying marginalized areas of the country and assisting those communities in meeting their basic needs via village infrastructural development. CBL emphasizes the importance of community participation in carrying out these projects and requires the villagers to participate in the projects carried out for the development of the village. Under Munchee Samaga Gamata Sarana, mainly infrastructure related projects are undertaken. The projects (i.e., villages) are identified based on the information gathered by the CBL field personnel who are spread all around the country. The scope of these infrastructure development projects are subject to time and cost concerns as the CBL employees work on them on a voluntary basis. The villages are provided assistance based on their requirements. Projects vary from the construction of mini-bridges, suspension bridges, roads, community facilities and health facilities, most of which are also maintained by CBL to ensure sustainability. The 92 projects carried out thus far have directly benefitted over 100,000 Sri Lankans at a cost of around Rs. 30 million.

Source: Interviews with JKH and CBL/Annual Reports.

In such a context, it is important to explore the potential of mobilizing private sector participation in poverty reduction via CSR. To this end, an important initiative was undertaken in 2013 with the encouragement of United States Agency for International Development (USAID) which resulted in the establishment of CSR Lanka (Guaranteed) Limited. This is an initiative piloted and managed collectively by a group of private sector companies in Sri Lanka with the aim of providing strategic guidance and necessary resources to bridge the gap between ad hoc CSR projects and creating sustainable value. A key factor for its coming together is a belief that a majority of companies would like to put in more effort in relation to CSR and are willing to obtain services from a third party for CSR development.

Currently, the CSR related activities of the private sector are not aligned with national priorities nor are they particularly encouraged by the Sri Lankan government. These issues need to be addressed in order to fully utilize the potential of CSR activities to reduce poverty. Box 9.4 discusses in detail the CSR model adopted by

Box 9.4
India's Mandatory CSR Model

With the introduction of the Company Act 2013, India became the first country in the world to legally compel companies to undertake CSR initiatives: every company with an annual turnover exceeding US$ 161 million or a net worth of over US$ 80 million or a net profit over US$ 800,000 are legally obliged to spend at least 2 per cent of their average net profit over the three previous years on CSR activities.

This is a rather controversial policy initiative which sparked global debate about the nature of CSR. It has been portrayed as a backward step for India, one that is incapable of promoting genuine business responsibility and societal trust in business. The policy has been further criticised as one that treats the corporate sector as wealthy contributors and expects them to be partners in ensuring equality in income distribution instead of seeing corporations as economic powerhouses who are responsible for their impact on a large number of stakeholders and thus should be mindful of this impact throughout the course of their business operations (and not simply by allocating a portion of their profits after it is earned).

As such, the applicability of a similar policy measure in Sri Lanka is debatable. However, there are certain other components of the Indian CSR model that could be beneficial in terms of improving the state of CSR in Sri Lanka. One such policy measure is that the Indian government has clearly stated the areas where the private sector should focus their energy. Many Sri Lankan private sector companies interviewed are of the opinion that it would be very helpful if the government could guide them by identifying the areas/sectors which are in need of development. Additionally, the Indian CSR policy necessitates the establishment of a CSR committee in every eligible company to guide and monitor the company's CSR policy. Even without adopting a mandatory CSR policy, the government could encourage Sri Lankan companies to set up such CSR committees for more effective outcomes.

Source: Singh, A. and Verma, P. (2014), "CSR@ 2%: A New Model of Corporate Social Responsibility in India", International Journal of Academic Research in Business and Social Sciences, 4(10); Maira, A. (2013), "India's 2% CSR Law: The First Country to Go Backwards", Economic & Political Weekly, 48(38); Venkatesan, R. (2013), "Ordering Corporate Responsibility: A Misplaces Faith?", Economic & Political Weekly, 48(38).

the Indian government whereby all companies are legally compelled to spend a defined percentage of their profit on CSR activities. This is the first and only mandatory CSR model in the world and has led to much debate; its applicability in Sri Lanka is debatable. However, it does suggest that there is scope for Sri Lanka to take a more proactive stance towards encouraging CSR. Many private sector organizations would welcome direction and guidance from the government in identifying the areas in need of development.[10]

There is much that could be done to improve the existing government initiatives to achieve the goal of poverty eradication. Nevertheless, while improving government programmes it is also important to appreciate the potential of the private sector to contribute to the national development agenda and address pockets of poverty which seem impervious to the national level policies of the government.

9.7 Conclusion

Government expenditure related to poverty and vulnerability, especially the transfers and subsidies have shown an increase in recent years. The cost of the Divineguma/ Samurdhi programme in particular is substantial. Despite its operations for two decades and considerable coverage of population, the Divineguma programme and its key components, namely the welfare, livelihood and microfinance components have many weaknesses.

Currently, over 75 per cent of the total budget of the DDD is spent on the cash transfer programme, the cost of which has increased substantially in recent years. Although Sri Lanka's poverty level has declined significantly in recent years, with the percentage of the poor households falling to 5.3 per cent (and the poverty headcount ratio to 6.7 per cent in 2012/ 13), the number of cash transfer recipients has not reduced significantly over the years. Moreover, substantial targeting errors continue to persist with a notable share of the poor being excluded from the programme. In this context, it is pivotal to revisit the Divineguma programme to assess the right balance between its key components and improve its efficiency.

It is important to limit the coverage of the cash transfer programme to the most needy households (e.g., poor or extreme poor with no other income source, with special attention to families with disabled persons and more dependents like small children and elderly) with some mechanism to absorb those who fall in to poverty due to various shocks. While this would help reduce the cost of the cash transfer programme substantially, it is important to put more emphasis on the livelihood development and microfinance components of the Divineguma programme, which will assist low income households to improve their income generating activities and thereby increase their income in the long run. This in turn will help them to earn a sufficient income to fulfil their consumption needs, without having to depend on the government monthly cash transfer. It is imperative for the Divineguma programme to have the right balance between safety nets (like cash transfers) and safety ropes (e.g., livelihood support and access to finance) in order to alleviate poverty and to reduce the strain on the government budget.

[10] Based on interviews with various private sector organizations.

It is pivotal to revisit the Divineguma programme to assess the right balance between its key components and improve its efficiency.

While improving the efficiency in the design and focus of the Divineguma programme, it is also important to find ways to mobilize resources to finance its different components like microfinance and livelihood programmes, in the form of beneficiary contributions, savings, etc. This is key to ensure sustainability of government initiatives to alleviate poverty in the country.

Moreover, while improving the existing government poverty reduction programmes, it is vital to explore alternative ways of addressing poverty and vulnerability and reach pockets of poverty, without further pressure on the government budget. A complementary mechanism would be to encourage private sector participation in poverty reduction through CSR activities. However it is crucial that the private sector initiatives are aligned with national priorities/ national agendas to fully utilize the potential of the private sector to reduce Sri Lanka's poverty and vulnerability.