

Sri Lanka
State of the Economy Report 2011

Chapter 5
Social Protection as an Indispensable Instrument

by
Ayodya Galappattige, Ruwan Jayathilaka
& Wimal Nanayakkara

5. Social Protection as an Indispensable Instrument

5.1 Introduction

Equitable access to productive employment opportunities - ensuring a broader participation of society - is a key cornerstone of an inclusive approach to growth and development. In Sri Lanka, as in many comparative developing countries, predominant trends in occupation groups - on spatial distribution, types of vulnerabilities, etc. - are to be observed. These could be the result of location, resource endowments, socio-cultural dynamics, political importance, etc. They are directly linked to the availability of economic opportunities as well.

The poor are often unable to participate fully in the growth process, because of multiple deprivations and adverse shocks which prevent them from investing in human and physical capital. Low investments result in low returns and continued poverty. In Sri Lanka, for instance, the poor are to be found in certain occupational groups such as agriculture and fishery, and the distribution of such households suggest disparities in access to economic opportunities across the country. Different types of workers are also prone to different vulnerabilities. Certain vulnerabilities such as old age are common across groups, while others such as natural disasters are occupation specific.

In this context, the role of social protection in providing a trajectory out of poverty is critical. Over time, broader definitions of social protection have gone beyond merely provision aspects in the event of a shock (a residual or compensatory response) to encompassing a transformative role with a 'springboard' effect. Thus, even as Sri Lanka makes significant strides in reducing overall poverty rates and bridging sectoral gaps, different types of vulnerabilities amongst different occupational groups have continued to limit equitable access to growing economic opportunities across the country. This Chapter tries to identify poor socio-economic groups, their

Social protection policies going beyond the provision aspect to envelop production and distribution with a springboard effect for socio-economically vulnerable groups, promote inclusive growth

vulnerabilities and regional spreads as a means of highlighting groups/regions that need particular attention in social protection - in both provision and promotive aspects of social protection for inclusive growth.

5.2 Poverty and Inequality in Sri Lanka

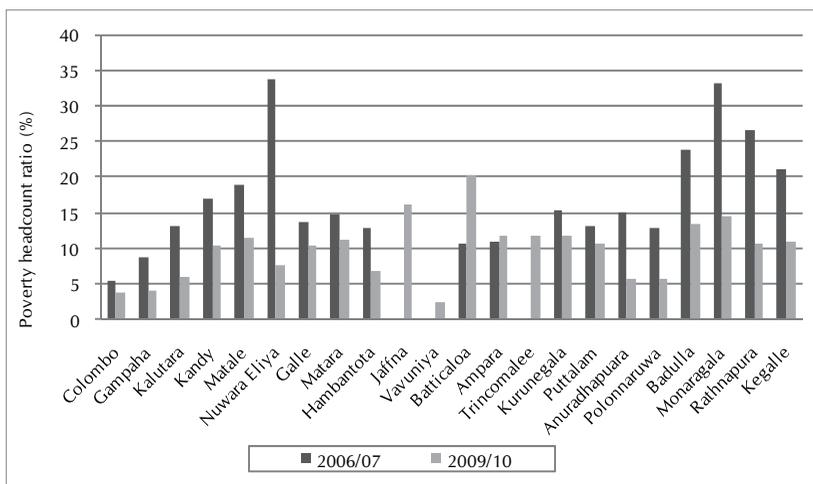
The national poverty headcount - the percentage of the population below the poverty line - computed by the DCS declined from 15.2 per cent in 2006/07 to 8.9 per cent in 2009/10.¹ During the three year period, the PHCR decreased by 41 per cent, the highest drop ever witnessed in Sri Lankan history. Sectoral data is also indicating a drastic decline in poverty - especially, a decline in poverty in the rural sector similar to the drop in poverty at the national level (nearly 40 per cent decline from 15.7 in 2006/07 to 9.4 in 2009/10) as this sector is the main contributor to poverty. In the urban sector, the PHCR shows a 21 per cent decline (from 6.7 per cent in 2006/07 to 5.3 per cent in 2009/10) while in the estate sector, poverty is estimated to have declined by nearly two-

thirds (from 32 per cent in 2006/07 to 11.4 per cent in 2009/10) during this period.

However, intra-province variations in poverty levels are still found to be large in 2009/10. In the two poorest provinces, Eastern and Uva, the incidence of poverty is 14.8 per cent and 13.7 per cent, respectively. However, poverty levels in these poorest provinces in 2009/10 are significantly low, compared to poverty levels of the poorest provinces in 2006/07 (the two poorest provinces in 2006/07 were Uva and Sabaragamuwa where poverty levels were 27 per cent and 24 per cent, respectively).

There are also substantial variations in poverty between districts. Poverty levels range from 20.3 per cent in Batticaloa to a mere 3.6 per cent in the Colombo district (Figure 5.1). Ampara and Batticaloa are the only districts to have witnessed an increase in poverty during the last three year period.² The Nuwara Eliya district shows a drastic reduction in poverty levels (from 33.8 per

Figure 5.1
Poverty Headcount Ratio by Districts (2006/07 and 2009/10)



Source: DCS, HIES (2006/07 and 2009/10).

¹ It should be noted that the HIES conducted by the DCS did not cover Mannar, Mullaitivu and Kilinochchi districts in the Northern Province.

² HIES 2006/07 survey has not been conducted in the Trincomalee and other districts in the Northern Province.

cent in 2006/07 to just 7.6 per cent in 2009/10). With more than 50 per cent of the population in the Nuwara Eliya district to be found in the estate sector, it is conceivable that the remarkable outcome is partly related to a 40 per cent wage increase to estate workers in September 2009. Monaragala, and Ratnapura districts which were the poorest districts in 2006/07 next to Nuwara Eliya, are also showing more than a 50 per cent reduction in poverty during this short period of 3 years. However, the Monaragala district is still the second poorest district (with headcount ratio of 14.5 per cent), next to Batticaloa district. Although the Badulla district also shows a reduction in poverty of 44 per cent,

it is still fourth amongst the poorest districts of Sri Lanka.

It is interesting to note that income inequality measured by the Gini co-efficient as well as by quintile ratio has declined during the three year survey period. The Gini co-efficient shows a reduction from 0.40 to 0.36 for Sri Lanka, while the highest drop is recorded in the North Central Province (from 0.40 in 2006/07 to 0.33 in 2009/10). The lowest income inequality is shown in the Northern Province while the highest income inequality (0.38) is observed in the Western Province.

Table 5.1
Types of Social Protection Measures

Provision Measures	Preventive Measures	Promotive Measures	Transformative Measures
Provide relief from deprivation, secure basic consumption.	Poverty alleviation programmes, and programmes that reduce fluctuations in consumption and avert asset reduction.	Enhance incomes and capabilities.	Address concerns of economic, political, social justice.
Social assistance such as targeted resource transfers-food/cash transfers, disability benefits, single-parent grants, publicly financed social pensions.	Social insurance designed for 'economically vulnerable groups' – people who are poor or might fall into poverty, and may need support to help them manage their livelihood shocks.	Livelihood improvement and livelihood protection programmes targeted at households and individuals.	E.g.: exclusion, exploitation of workers, discrimination against different dimensions like gender, ethnicity, religion.
Social services for those who need special care – orphanages, fee waivers/abolition of education and health charges to extend access to basic services to the very poor.	E.g.: pension schemes, insurance, maternity benefits, unemployment benefits, savings, strategies of risk diversification – such as crop or income diversification, disaster prevention practices, etc.	E.g.: microfinance, public works programmes, education, health and nutrition.	Examples of interventions include collective action, changes to the regulatory framework to protect 'socially vulnerable groups' (anti discrimination legislation), people with disabilities, victims of domestic violence, secure rights/entitlements, advocacy to enhance social equity, strengthening ability of citizens to claim rights.

Source: Adapted from Ruel, M., 2008, "Social Protection for Inclusive Growth", a presentation available at International Food Policy Research Institute (IFPRI), available at <http://www.slideshare.net/ifpri>; and Sabates-Wheeler, R. and S. Devereux, 2007, "Social Protection for Transformation", *IDS Bulletin*, Vol. 38, No. 3, Institute of Development Studies (IDS), Sussex.

5.3 Social Protection Layout

The many definitions of social protection have broadened to include policies that would provide a trajectory out of poverty, rather than being confined only to provision aspects in the event of a shock. The ADB defines social protection as a set of policies and programmes designed to reduce chronic poverty and vulnerability by promoting efficient labour markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruptions in employment or loss of income.³ The World Bank (WB) definition of social protection is even broader, and considers social protection not only as a safety net for all, but as a spring-board for the poor.⁴ The suggestion, therefore, is that social protection should treat not only the symptoms of poverty, but also its causes. In other words, to treat social protection as an investment in human capital formation - focused on avoiding social exclusion - rather than as a cost.

In yet another definition, the role of social protection policies in providing opportunities - centred on social risk management - is identified as public interventions to: (i) assist individuals, households, and communities better manage risk, and (ii) provide support to the critically poor.⁵ This broader definition includes labour market interventions, social insurance programmes, social safety nets, public provision of risk management instruments, and public actions to improve market based and non-market based (informal) instruments of risk management.

The extent to which social protection policies go beyond the 'provision' aspect to address issues related to production and dis-

tribution - to preventive, promotional and transformational roles - provides a link with inclusive growth. Table 5.1 identifies the type of social protection programmes falling under each type of measure.

Conventional social protection measures fall into the provision measures. The narrowly targeted safety nets, social assistance and social services also can be recognized as provision measures. The preventive, promotional and transformative measures are more proactive measures. Preventive measures are aimed at preventing deprivations. Poverty alleviation initiatives and social insurance programmes which are meant for economically vulnerable groups can be identified under this.

The inclusion of promotional and transformative aspects is subject to criticism that it makes the concept of social protection too distant from its original conception. However, these two aspects have been incorporated in most of the working definitions used by funding agencies, including the ADB and the WB. Promotional social protection measures are designed to improve incomes and capabilities. Among development programmes, livelihood improvement and livelihood protection programmes which target income stabilization come under this. Transformative measures address concerns of economic, political and social justice. Policies falling under the latter three measures are 'spring-boards' and serve as a trajectory out of poverty.

However, these measures are not mutually exclusive. Preventive measures could have promotive effects too. For example, a person might diversify income earnings as a means of being prepared for a disaster, which

³ Ortiz, I., (ed.), 2001, *Social Protection in Asia and the Pacific*, ADB, Manila.

⁴ Holzmann, R. and S. Jorgensen, 2000, "Social Risk Management: A New Conceptual Framework for Social Protection and Beyond", Social Protection Discussion Paper No. 0006, World Bank, Washington, D.C.

⁵ *Ibid.*

Table 5.2
Causes of Risks

Social	Domestic disturbance including domestic violence, functions, social commitments, commitments to extended families, crime, terrorism, civil strife, etc.
Economic	Unemployment, loss of employment, livelihood shocks, loss of crops, business failures, financial crises, etc.
Political	Discriminatory laws, discriminatory policies, riots, political default of programmes.
Health related	Illnesses, injuries, disabilities, epidemics, etc.
Life cycle related	Birth, marriage, death.
Natural/environmental	Natural disasters like floods, rain, landslides, earthquakes, tsunami, droughts, environmental pollution, deforestation, etc.

Source: Adapted from Jimenez, E., 2008, "Social Protection and the Welfare of Children and Youth at the World Bank", a presentation available at www.unicef.org from <http://www.anekadownload.com/download/dl/child-welfare-program-in-bangladesh-.ppt>.

has a promotive effect. At the same time, the person might not have taken advantage of those opportunities otherwise. The diversification of income thus improves income earning capacity and the overall well-being of the individual concerned. Further, in designing social protection policy, the different forms in which risks arise - and which makes households vulnerable - have to be recognized. They can be idiosyncratic or covariate risks. Table 5.2 identifies the major causes of risks and examples for each.

Measures identified in social protection policy designing are related to vulnerabilities arising at different stages of the life cycle.

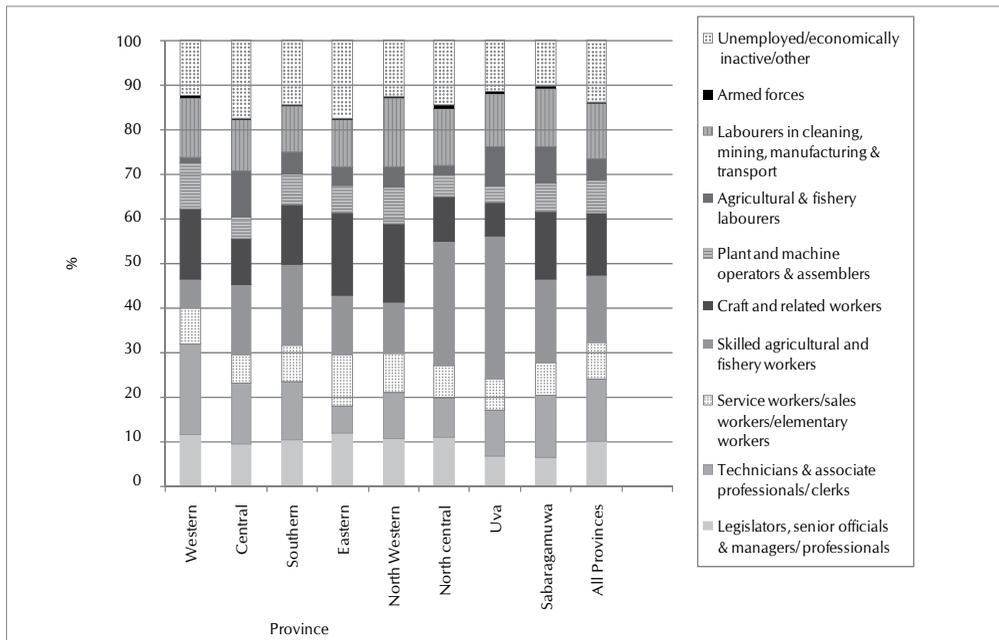
Table 5.3 identifies a few types of social protection interventions by life cycle stage. It suggests the need for comprehensive approaches towards social protection that ties up the intervention stages, life cycle and different forms of vulnerabilities. This highlights the importance of broad based social policies. When policies are narrowly targeted, they are highly unlikely to bring in the development linkage. Moreover, when interventions are narrowly designed to address specific risks, they tend to neglect the underlying nature of vulnerability that exposed the households to such risks.

Table 5.3
Examples of Social Protection Interventions by Life Cycle Stage

Life Cycle Stage	Examples of Social Protection Interventions
Elderly	Pensions/food and cash transfer
Adults	Public works/income generation/employment related/food and cash transfer
Youth	Public works/income generation/vocational training/skill development/education
Maternal stage	Health/nutrition
Prenatal/ infants	Health/nutrition/food and cash transfer
Pre-school	Early childhood care and development (ECCD)/food and cash transfer
School age	Education/cash, food, vouchers, fee waivers, transport

Source: Ruel, M., 2008, "Social Protection for Inclusive Growth", a presentation available at International Food Policy Research Institute (IFPRI), available at <http://www.slideshare.net/ifpri>.

Figure 5.2
Percentage of Households by Socio-Economic Group in Each Province



Source: Calculated using data from DCS, HIES 2006/07.

5.4 Social Protection in Inclusive Growth in Sri Lanka: Who Needs the 'Push'?

There are predominant trends observed in different socio-economic groups, such as trends on spatial distribution, types of vulnerabilities, etc. These could be the result of natural location, resource endowments, socio-cultural dynamisms and political importance. They are directly linked to the availability of economic opportunities as well. Households headed by skilled agricultural and fishery workers are found to be the predominant socio-economic group in all provinces of Sri Lanka, with the exception of the Western Province (Figure 5.2).⁶ This group accounts for around 30 per cent of households in the North Central and Uva Provinces, followed by Sabaragamuwa (18.6 per cent) and Southern (18.2 per cent)

Provinces.⁷ It hints at disparities in access to economic opportunities across regions in Sri Lanka.

The other dominant socio-economic groups are households headed by craft related workers and labourers in all the sectors. In most deprived provinces, such as Uva, Sabaragamuwa as well as Central and North Western Provinces, more than 20 per cent of the households are headed by labourers in different fields (agriculture, mining, manufacturing, transport and cleaning). It is also evident that there is a high percentage of households headed by economically inactive people in all provinces. Whilst all provinces have a relatively higher percentage of households headed by technicians and in associated professions, the distribution is skewed towards the Western Province.

⁶ The socio-economic group here is based on the occupation of the head of the household.

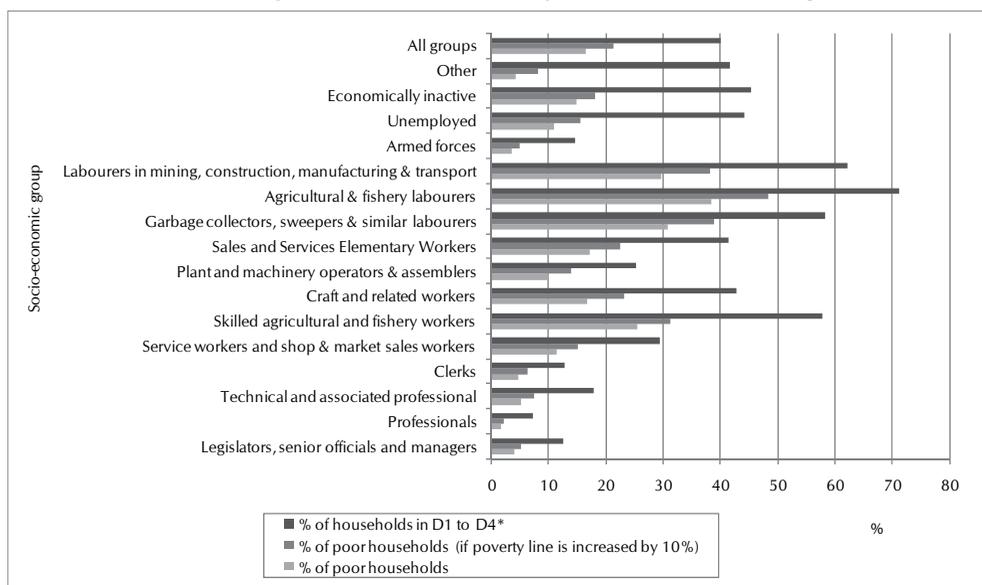
⁷ Occupational groups and their percentages may have changed from 2006/07 to 2009/10.

When occupations of the heads of households are minor or unskilled in nature, or if they are of a less productive sector, the income generated often does not provide an adequate means for living. For instance, nearly 40 per cent of households headed by agricultural and fishery labourers are found to be poor (Figure 5.3). More than 70 per cent of households in this group are within the first four household expenditure deciles. It is also noteworthy that as much as one-fourth of households headed by even skilled agricultural and fishery workers are among the poor - with nearly 60 per cent households in this group found to be within the first four household expenditure deciles. Households headed by labourers of all types, which include labourers in mining, construction, manufacturing, transport, cleaning, etc., are among the poorest socio-economic groups. They occupy the highest percentage of poor households, highest percentage of households lying in the lowest four household expenditure deciles, and have

lowest per capita household expenditures (Figure 5.3). The importance of prioritizing social protection policies towards such groups who are disadvantaged compared to the others is, therefore, critical.

Agriculture and fisheries are the main sources of livelihood in the N&E of Sri Lanka,⁸ with 24.8 per cent of households in agriculture. Apart from agriculture and fisheries sectors, unskilled daily labour is a prominent source of primary employment for 20.9 per cent of surveyed households. However, 5 per cent of households are estimated not to have any income earner and a further 63.4 per cent of households with only one income earner. This indicates high vulnerability to risks and difficulties such households can face in post-conflict recovery efforts. Although livelihood constraints are found to have eased with the end of the conflict, increased competition and resource limitations have led many to abandon their traditional occupations for

Figure 5.3
Percentage of Poor Households by Socio-Economic Groups



Note: D1 to D4 consists of first four household expenditure deciles.

Source: Calculated using data from DCS, HIES 2006/07.

⁸ UNDP, 2011, 'Socio-Economic Baseline Analysis: For Eleven Conflict-affected Districts in Sri Lanka'.

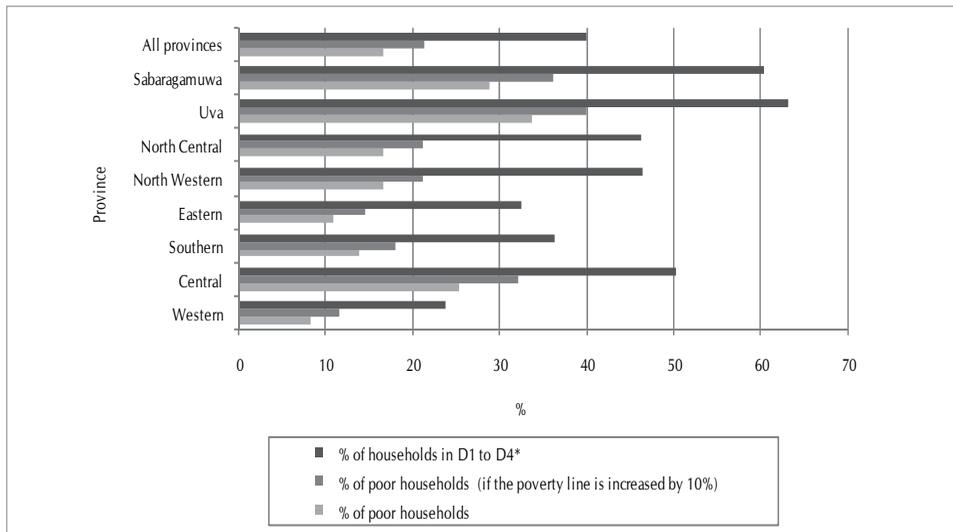
daily wage labour.⁹ Gender disparities with regard to engagement in income generation/livelihood activities are also found to remain high in the N&E, with only 38.6 per cent of females engaged in employment compared to 90.2 per cent of men. A relatively high number of widowed women are reported in most districts in the N&E, pointing towards the realities surrounding gender dimensions of socio-economic vulnerabilities.

Not only are many households poor in certain occupational categories, but the non-poor may also be highly vulnerable to fall into poverty. For example, if the poverty line is increased by 10 per cent, a substantial proportion of households fall into poverty, indicating that they are very close to the poverty line (Figure 5.3). All types of households with the head of household as a labourer appear to be sensitive: for the households headed by agriculture and fishery

labourers, the percentage of poor household increases by almost 10 percentage points (from 38.5 to 48.3 per cent); for other labourer categories, the percentage increases by more than 8 percentage points. This clearly indicates that they are vulnerable to economic shocks and therefore, could slip back to poverty easily. The other socio-economic groups which are at a higher risk of slipping back to poverty are those headed by skilled agricultural and fishery workers, craft and related workers, and sales and service elementary workers.

In terms of geographic disparities, Uva, Sabaragamuwa and Central Provinces remain the lagging regions in the country.¹⁰ Among them, Uva and Sabaragamuwa are the poorest with more than 60 per cent of the households in the first four household expenditure deciles (Figure 5.4). If the poverty line is increased by 10 per cent,¹¹ nearly 7 per

Figure 5.4
Poor Households and Households in First Four Household Expenditure Deciles by Province



Note: D1 to D4 consists of first four household expenditure deciles.

Source: Calculated using data from DCS, HIES 2006/07.

⁹ *Ibid.*

¹⁰ As per 2009/10 HIES data, Eastern, Uva and Northern Provinces are the poorest.

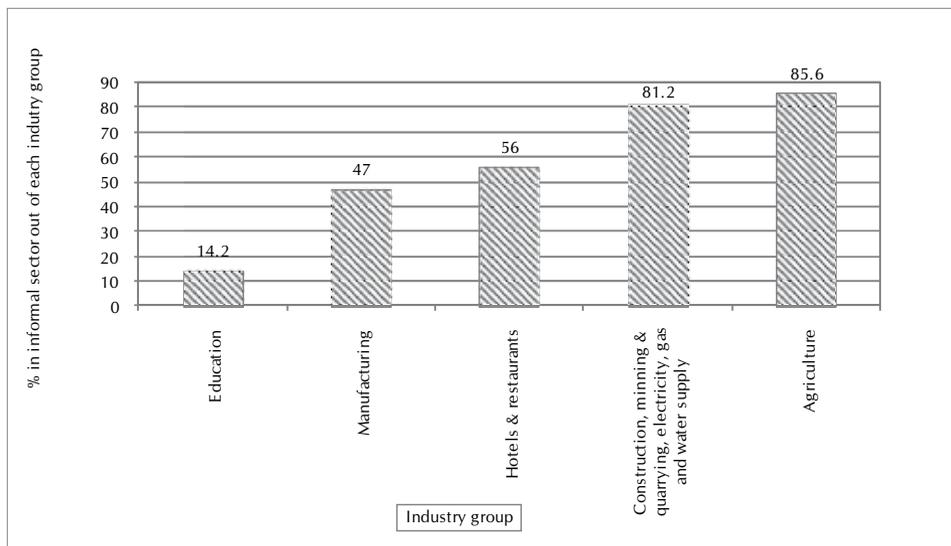
¹¹ Estimated by using district official poverty lines.

cent of the non-poor households in Uva, Sabaragamuwa and Central Provinces could slip into poverty, indicating that there are significant numbers of households just above the poverty line. The average per capita household expenditure is also relatively low in these three provinces. Vulnerable occupa-

tional groups in these regions need special attention on social protection, and specifically on promotive and transformative social protection measures.

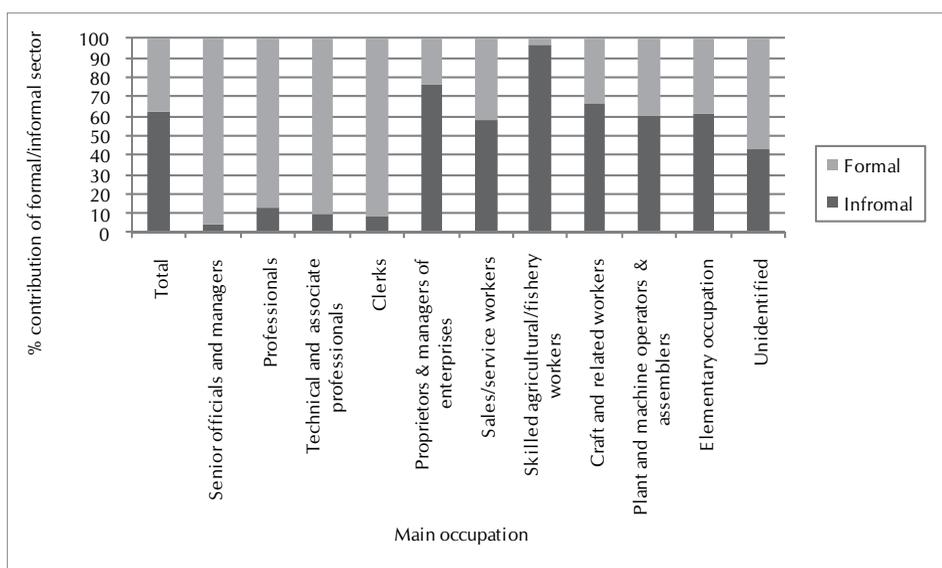
Employment activities in the informal sector have been expanding over the years in Sri

Figure 5.5
Informal Sector Employment by Major Industry



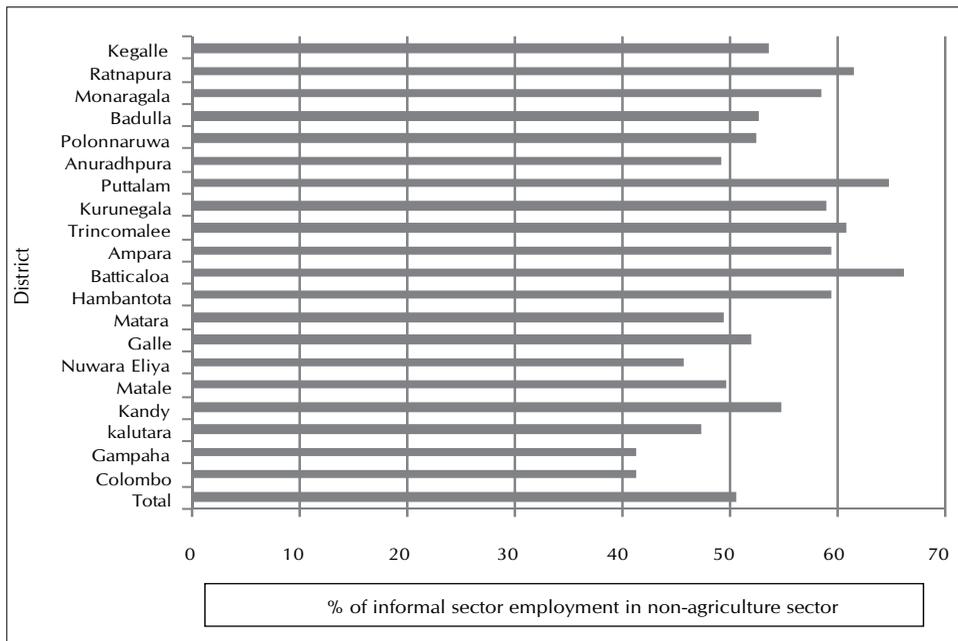
Source: Compiled using data from DCS, *Labour Force Survey*, and *Annual Report 2009*.

Figure 5.6
Formal/Informal Sector Employment by Occupational Group



Source: Compiled using data from DCS, *Labour Force Survey*, and *Annual Report 2009*.

Figure 5.7
Informal Sector Employment in Non-agricultural Sector by District



Source: Compiled using data from DCS, *Labour Force Survey*, and *Annual Report 2009*.

Lanka to account for 61.9 per cent of the employed. As evident from Figure 5.5, the agriculture sector has more than four-fifth of labour in the informal sector (85.6 per cent) which has to be taken into serious consideration in social protection policy designing. Further, almost all skilled agricultural and fishery workers (97 per cent) are also to be found in the informal sector (Figure 5.6).

However, it should be noted that the dominance of informal sector employment is not limited to agriculture. Overall, the contribution of the informal sector in non-agricultural employments is just above 50 per cent in some districts, while the contribution is over 40 per cent in all districts (Figure 5.7).

5.5 Social Protection Challenges and Gaps in Sri Lanka

Extensive social protection programmes in Sri Lanka include all types of social protection measures, including provision to trans-

formative policies. The Social Protection Index compiled by the ADB in 2007 indicates that Sri Lanka performed well, with a rank of 9 out of 31 Asian and Pacific countries. The index captures a broad definition of social protection and shows that the country had fared well in all aspects of social protection expenditure, coverage, distribution and impact.

Social protection in Sri Lanka covers components of social insurance, social assistance and labour market programmes. In 2010, the government spent 3.5 per cent of GDP on current transfers and subsidy programmes - a key component of social protection (Table 5.4). Current transfers to households increased in 2010 owing mainly to higher pension payments (which accounts for more than 50 per cent of transfers to households), as a result of a higher cost-of-living allowance and an increase in the number of pensioners.

Table 5.4
Current Transfer Payments to Households and Other Sectors (2010)

Item	Expenditure (Rs. mn.)	As % of Total Expenditure	As % of GDP
Current transfers and subsidies	196,216	15.3	3.5
To households and other sectors	156,194	12.2	2.8
Samurdhi	9,241	0.7	0.2
Pension	90,995	7.1	1.6
Fertilizer subsidy	26,028	2.0	0.5
Other	29,931	2.3	0.5

Source: CBSL, *Annual Report 2010*.

The expenditure breakdown provides an overall picture of social protection provision and priorities of the government. Looking beyond, what is important to assess is whether social protection policies in Sri Lanka are designed to 'push' the vulnerable into the economic growth process, while providing a safety net of sorts. Social protection is also not the sole responsibility of governments, but of all the stakeholders, including the private sector, NGOs, etc. Hence, the following section highlights where policy focus is needed, the extent to which that has materialized and the way forward.

5.5.1 Securing the Needs of the Most Vulnerable: Revisiting the Social Safety Net Programme

Safety nets cater to the needs of deprived groups in order to enhance their capabilities. In Sri Lanka, for instance, deteriorating nutrition levels is one of the major challenges faced, where income support in the form of safety nets has a role to play. The main income support programme at present is Samurdhi. However, it has been criticized for poor targeting. Further, the cash grant is deemed insufficient to meet the basic needs of a household and allow minimum energy intake levels. At present, while the national poverty level is estimated at Rs. 3,028, Samurdhi does not support households earning an income above Rs. 1,500. Thus,

there can be many households earning an income, but are yet poor. Hence, an important consideration should be inclusion of the vulnerable occupational categories under Samurdhi. Being in the programme is important for households as it is multi-pronged, with additional empowerment components.

5.5.2 Social Protection to Combat Multiple Vulnerabilities

Different forms of vulnerabilities in the form of economic, social, political, and natural and environment related shocks limit households - particularly economically vulnerable groups - from participating in livelihood activities. Households in vulnerable occupational groups are anyway poor and lack measures to mitigate or manage risks. The informal sector workers also lack social protection policies to help them withstand shocks. Hence, these groups are more vulnerable to unforeseen risks. Therefore, it is important to design social protection policies with particular attention on identified occupational categories.

On the one hand, the natural environment offers a range of livelihood opportunities to households, but at the same time exposes them to a range of potential disasters. Some livelihoods are often hazardous and some are more at risk from natural disasters, as a result of which certain occupational

categories are more vulnerable. For example, the agricultural sector is considered as a high risk sector as it is weather dependent and exposed to natural disasters, whereby agriculture dependent households are more likely to be worse off in the absence of proper risk coping methods. Many of the risk coping methods of vulnerable occupational groups are harmful and often affect livelihoods, income, future income, health, education, etc., catching and retaining them in the poverty trap as a result.

Social protection plays a complementary role in natural disaster management. The most common forms are immediate relief programmes, food transfer programmes, food-for-work programmes, cash transfers services, fee waiving, etc. which are ex-post measures or provision measures. A difference can be made by other social protection measures such as microfinance (which is a provision and a promotive measure), insurance, income diversification, community disaster management plans (as both prevention and promotion measures).

Natural disaster related social protection measures in Sri Lanka include insurance programmes. Apart from the farmers' and fishermen's insurance, Agriculture and Agrarian Insurance Board (AAIB) is offering crop and livestock insurance for natural disasters. The insurance covers agriculture equipment too. However, the lack of human and physical capacity for evaluation of risks is one of the major barriers constraining the programme. After the 2004 tsunami, Sri Lanka developed a National Disaster Management Plan and Emergency Operation Plan with the aim of preparing for timely and effective response, equitable relief distribution, speedy recovery, timely rehabilitation and reconstruction at

provincial, district and Grama Niladhari (GN) level. The Early Warning Dissemination Division maintains and operates Early Warning Towers and other early warning dissemination equipment. It has initiated awareness programmes on activities related to early warning, disseminates early warning messages, including to remote vulnerable villagers. Such measures act as preventive measures to mitigate the adverse effects of a disaster.

Besides natural and environmental related risks, households are exposed to multiple risks, ranging from family related shocks, banditry and crime, economic shocks, and negative political, social or legal events. Studies suggest that shocks experienced by most households are family related, such as deaths, illnesses, disablements, disputes, divorces and other life cycle events such as marriage and childbirth followed by the weather and environment related shocks.¹² These types of shocks have a bearing on the productivity of labour and output. As previously discussed, skilled agricultural and fishery workers, labourers, and sales and service workers are the occupational groups most at risk.

The low income households find it difficult to afford traditional formal insurance schemes as they are costly and formalities are high. On the other hand, microinsurance can be used as an effective tool in managing risks. The penetration of microinsurance in Sri Lanka is very low and only a handful of institutions are involved. Further, microinsurance services/products available for agriculture related and natural disaster related risks are minimal. Policy intervention on social security is required in this regard to improve the microinsurance sector.

¹² Galappattige, A., R. Jayaweera and G. Tilakaratna, 2011, "Microinsurance in Sri Lanka: Combating Multiple and Overlapping Vulnerabilities", IPS.

5.5.3 Social Protection Challenges Emerging from Demographic Transition

A key challenge for social protection is the demographic transition that Sri Lanka is undergoing. The changing demography will exert considerable demand for social protection, requiring that policies be in place before publicly financed social security schemes - where a shrinking working age population contributes towards elderly care - becomes unsustainable.

Economic and social behaviour of retirees is different from the working population in terms of time/expenditure on leisure activities, expenses on health, and income at retirement age. The share of health in total expenditure will rise due to greater demand from the elderly. Whilst a number of social security insurance programmes covering the formal and informal sectors are operating in Sri Lanka - and the government and formal private sector have a fairly wide coverage of schemes - the informal sector lacks sufficient coverage. Although the government provides coverage even to elementary permanent workers, a major criticism of the public sector pension scheme (PSPS) is the inadequacy of the replacement income due to non-indexation. Further, the non-contributory nature of the PSPS raises issues of sustainability, especially with the rising old age population. The formal sector has fairly good social security schemes - Employees' Provident Fund (EPF) and Employee Trust Fund (ETF) - which are contributory. However, some of the employers evade the requirements which leave out many of the deserving elementary level workers. Further, both these schemes are criticized for the lump sum nature of benefits received at retirement, as well as on the management and investment issue of the funds.

Whilst the Budget for 2011 proposed a pension scheme for formal sector workers who are outside the PSPS, the initial proposals ran into considerable opposition and it is currently under revision. There was criticism on the way the pension scheme was formulated, with much of the criticism based on the terms and conditions, operational issues and lack of awareness. As the proposed scheme requires 10 years of contribution, it was not clear to some people how this would address social security concerns of certain types of workers - mainly because some might not be working for such longer periods, but would be contributing until they leave the job and would thereafter be unable to reclaim their contributions. For example, in the case of garment sector workers - where there is a high turnover rate - most female workers leave employment after 5-7 years of work, making them ineligible for pension benefits despite having contributed. Another concern with the initial proposals was that its design suggested that once the money in a member's account runs out, he/she will not be eligible for a pension thereafter. Given the longevity of life and short term of contributions, how the proposed scheme would benefit pensioners in the old age was not clear. Besides, the adequacy of the retirement scheme as a replacement income was also subject to criticism.

Unlike many South Asian countries, Sri Lanka has initiated pension schemes for the informal sector too. There are schemes for farmers, fishermen and for the self-employed. However, studies highlight that the effective coverage of the eligible for such schemes are found to be very low at below 40 per cent.¹³ Also, all these schemes face the same problem of losing value in real terms as a result of inflation. This is mainly because

¹³ Gaminiratne, N., 2007, "Population Ageing, Policy Responses and Options to Extend Retirement Coverage: Case Study of Sri Lanka", Demographic Transition and Pension Series No.7, IPS.

the payments are not index-linked to inflation and hence, does not act as a replacement income. These contributory pension schemes are not compulsory as well, as there is no sufficient incentive for voluntary enrolment. The awareness about the programmes is also poor among those engaged in relevant occupations. On top of all the above, there is much criticism on the management and investment deficiencies in the schemes. Thus, the programmes are considered to be insufficient as safety nets.

The absence of a universal or means tested pension has left a large segment of the informal sector population in Sri Lanka without a formal security cover in old age. However, the government had proposed in the Budget for 2011 the introduction of one pension scheme for all self-employed, and another for foreign employed persons. These are still under discussion. In addition, provision of livelihood support to the elderly who are economically active in the informal sector should be considered. This would lessen the pressure on social protection to a certain extent.

5.5.4 Improving Employability/Skills as a Social Protection Measure

Improving skills of the population - and therefore access to economic opportunities - is one way of promoting employability. Poor people often remain unemployed or trapped in low productive employments as they do not possess skills to move into high productive occupations. Acquiring the skills might not be financially affordable, which makes them forgo the opportunities. Policy intervention on skills development of the poor, therefore, can increase social and economic inclusion, particularly given the significant numbers of households trapped in occupations of less productive sectors,

especially in the lagging regions, as discussed previously.

Support on improvement of skills and employability is mainly linked to training programmes. A number of Active Labour Market Programmes (ALMPs) are carried out by the government, private institutions and NGOs with the purpose of supporting employment creation and improvement of skills and employability. National Apprentice and Industrial Training Authority, Ministry of Labour Relations and Manpower, JobsNet and NGOs such as SEEDS and Arthacharya Foundation also play significant roles in providing different training facilities. The positive effects of ALMPs are constrained by some financial and institutional limitations such as lack of human resources, lack of training equipment, and some donor conditions. The overlaps and lack of coordination of the programmes have also hindered intended benefits. As a result, there is a regional imbalance of availability of training programmes.¹⁴ It is important to identify occupations in more productive sectors and target and emphasize training and skill development specific to those occupations, whilst not neglecting the skill development of lagging sectors.

5.5.5 Livelihood Support as Social Protection

Livelihood support is a promotive aspect of social protection. Support on employment creation can be either for self-employment and small businesses or to migrant workers. There are numerous government, NGO, and private sector initiatives on livelihood support. For example, the Samurdhi Authority provides several livelihood support programmes all over the island, including the provision of microfinance facilities.

¹⁴ IPS, 2010, "A Review of Active Labour Market Programmes in Sri Lanka", report prepared for the World Bank.

While in the longer term, investing for people to move into high productive sectors is important, in the short and medium term, existing sectors have to be provided with support. Various efforts are being made to improve agriculture and the SME sector by providing opportunities, filling in resource gaps, connecting with markets and improving access to facilities. One such example is the Vidatha programme, one objective of which is to help rural people uplift their economic conditions by improving access to technology. It also tries to ensure that quality products and services from the rural sector reach the market as a means of stabilizing incomes. This holds positive implications for improving local economies and on expanding economic opportunities for those who are trapped in low productive occupations.

Apart from technology, financial and market access are two other major hindrances. MFIs are playing an important role in the financial sector in Sri Lanka. Research suggests that over 60 per cent of households that have utilized financial services, have accessed institutions such as Samurdhi, Regional Development Banks (RDBs), Co-operative Rural Banks (CRBs), Sanasa Development Bank, NGOs and Community Based Organizations (CBOs), underlining the important role of MFIs.¹⁵ Further, access to credit was found to have helped nearly 30 per cent of households to better cope with various risks and vulnerabilities. Between 30-40 per cent of households indicated that employment opportunities and their business knowledge improved as a result of accessing financial services.

The sustainability of self-employment activities is important for ensuring a steady income. 'Credit Plus' services which refer to non-financial services such as vocational training, marketing assistance and other business development services (BDS) are important in this context. While the Samurdhi bank is estimated to be the largest provider of Credit Plus services, less than 5 per cent of the surveyed households were found to have received such services from the financial institutions they deal with.¹⁶ The main types of training received were vocational training which include self-employment training, technical assistance and services such as training on business and financial management, accounts, and book keeping. Business development services is also found to be an important component in microfinance, with government microfinance programmes and development banks found to be the main providers.¹⁷

5.6 Conclusion

Sri Lanka has comprehensive social protection policies, as evident from the high ranking received amongst other Asian countries. The policies fall under provision, through to transformative measures of social protection. As such, social protection has become an indispensable instrument in achieving inclusive growth objectives.

As discussed, the concentration of occupations around the low-skilled (in agriculture, industry, and manufacturing) and concentration around agriculture and fishery, whether skilled or unskilled, found primarily in lagging regions is a cause of concern in the context of productive

¹⁵ IPS, 2008, "Outreach of Financial Services in Sri Lanka: A Look at the Demand-side from a Microfinance Perspective", report prepared for the GTZ. The study was based on a household survey which covered around 3,000 households from all districts in the country except Kilinochchi, Mannar and Mullaitivu.

¹⁶ *Ibid.*

¹⁷ Tilakaratne, G., A.Galappattige and R.Perera, 2009, "Promoting Empowerment through Microfinance in Sri Lanka" in "Economic and Political Empowerment of the Poor: Sri Lanka", CPD-SACEPS Monograph Series 3, Centre for Policy Dialogue (CPD) and South Asia Centre for Policy Studies (SACEPS), Dhaka.

employment and issues of equity. The transient nature of poverty of these groups and concentration of the workforce in the informal sector serves only to exacerbate existing vulnerabilities.

Overall, existing social protection policies are deemed insufficient to cover most of the vulnerabilities. A few social protection programmes extend to informal sector workers and vulnerable occupational groups overall (with some targeted at specific groups and/or some types of vulnerabilities). However, there is no extensive targeted social protection programmes for vulnerable occupation groups in Sri Lanka at present. Except for old age income security programmes for a few types of occupation categories, the informal sector workers do not have social protection on illnesses, unemployment, etc.

Social protection policies can play a major role at both ends from provision to transformation of vulnerable occupational groups. Social protection measures can target vulnerable occupational groups through the provision of safety nets, while addressing the poor overall. Insurance, in the form of microinsurance and savings, has the potential to act as preventive measures in the face of multiple vulnerabilities that are encountered. These kinds of social protection measures will prevent households from using harmful methods of risk management which often affects their livelihoods, income, future income, health, education and keep them in the poverty trap. Skill development and livelihood support programmes, including microfinance, have a major role to play in providing social protection to foster inclusive growth.