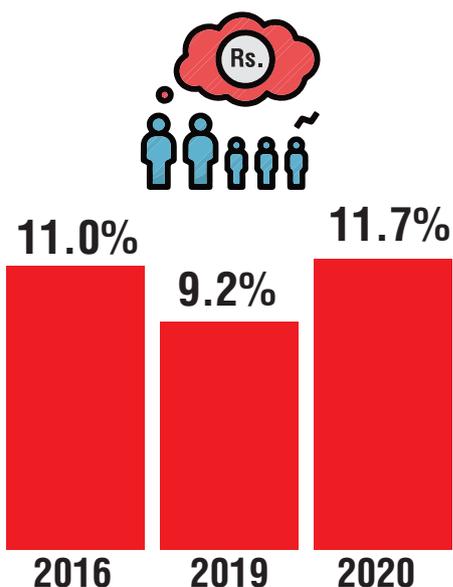




## COVID-19, POVERTY AND SRI LANKA'S SOCIAL PROTECTION RESPONSE

The COVID-19 pandemic has led to massive disruptions in the lives and livelihoods of people across the world. It has pushed millions of people into poverty causing a reversal in the global movement towards poverty alleviation. Consequently, many countries are likely to witness a widening as well as deepening effect with regards to poverty in the coming years. A study by the World Bank (WB) estimates that over 500,000 Sri Lankans have fallen into poverty as a result of the crisis. This has led to an increase in the USD 3.20 a day poverty rate from 9.2% in 2019 to 11.7% in 2020, implying a reversal in the progress made towards poverty reduction in Sri Lanka since 2016 (11%)<sup>1</sup>.

### Poverty Rate at USD 3.20 Per Day



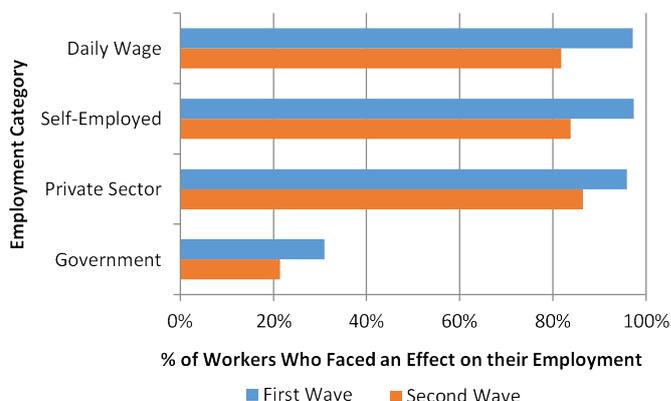
Source: World Bank (2021)

### Effects of COVID-19 on Low-Income Households in Sri Lanka

The adverse effects of the pandemic on households, especially on those from low-income groups are further confirmed by the findings of a rapid household survey conducted by IPS across 10 districts during April-May 2021<sup>2</sup>. The findings show that about 80% of respondent households experienced a reduction in their income during the first wave of the pandemic and around 60% reported an income fall in the second wave.

This decrease in household income was primarily due to employment-related shocks. Around 88% of those employed in the pre-COVID period experienced an impact on their employment during the first wave and 76% in the second wave. The most widely cited impact on employment was temporary job loss

Figure 1 - Effect of COVID-19 on Employment in the First and Second Waves, by Employment Category



Source: Based on the IPS Household Survey on the Impact of COVID-19 (2021).

<sup>1</sup>World Bank. (2021). Sri Lanka Development Update 2021: Economic and Poverty Impact of COVID--19. Colombo: World Bank.

<sup>2</sup>The survey aimed at investigating the effects of COVID-19 on households, income and employment, in particular, to assess the effectiveness of social protection measures taken by the GOSL in response to the pandemic. It covered 300 households from 10 districts (9 provinces) and primarily focused on low-income households.

or lack of work during this time. Around 95-97% of daily wage earners, self-employed workers as well as private sector employees in the sample have faced employment shocks in the first wave, with these percentages being 82-86% in the second wave.

About 48% of households covered in the IPS survey in the first wave took various measures to cope with income shocks during the pandemic. These coping mechanisms varied from borrowing from informal and formal sources, pawning/mortgaging/selling assets as well as reducing consumption and non-consumption expenditure. Although a similar pattern was observed in the second wave too, the percentage of households that took such additional measures to cope with the crisis was much less – about 28%. In both waves, the majority of households that used additional measures to cope with the crisis have adopted multiple coping strategies.

### Social Protection Responses to COVID-19

In response to the pandemic, Sri Lanka, like many other countries in the world, adopted social protection measures like cash and in-kind transfers to assist low-income and other vulnerable groups. The main measure initiated during the first wave was provision of cash transfers worth LKR 5,000 per month for a period of two consecutive months in April and May 2020. This mainly targeted beneficiaries of

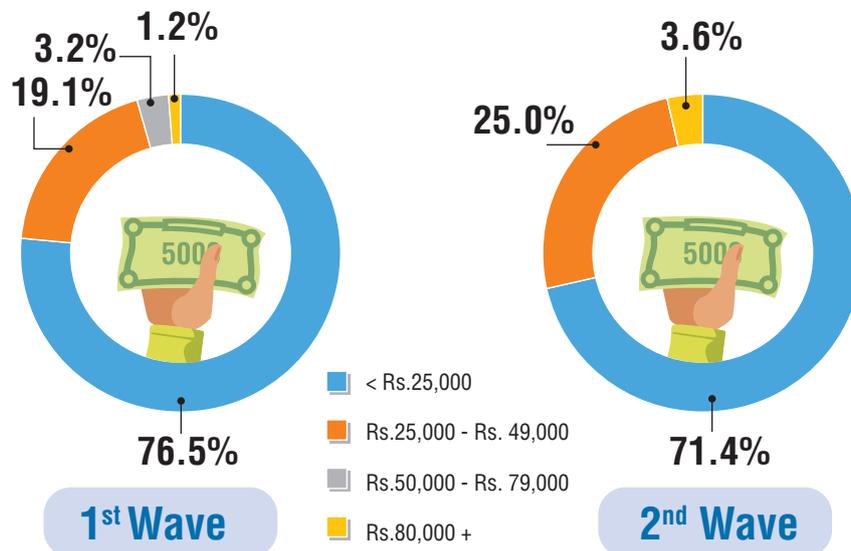
existing social protection programmes and those whose livelihoods were disrupted by the pandemic. Responses during the second wave mainly targeted poor and vulnerable households residing in lockdown areas and/or under home-quarantine. Assistance was provided to these families in the form of either a LKR 5,000 cash transfer or a dry ration pack.

### LKR 5,000 Cash Transfer

The findings of the survey revealed that nearly 84% received government assistance (LKR 5,000 cash transfer) during the first wave. In contrast, less than 20% of households covered in the survey received the LKR 5,000 cash transfer during the second wave. This is justifiable as only households under self-quarantine or in areas under lockdown received the payments in the second wave while during the first wave, cash transfers were handed out throughout the country.

The majority of the recipients of the LKR 5,000 cash transfer were relatively low-income earning households. Of the recipients in the first wave, over 75% earned a household income of less than LKR 25,000 per month on average in the pre-pandemic time, while nearly 20% earned a household income between LKR 25,000-LKR 49,000. While a smaller share of cash transfer recipients were from higher income groups, many of them were found to have faced significant income falls during this period.

Figure 2 – Share of Households that Received Rs. 5,000/- by Income Category



Source: IPS Household Survey on the Impact of COVID-19 (2021).

Over 70% of the cash transfer recipients in the second wave too were from low-income groups with an average household income of less than LKR 25,000 per month.

Over 95% of the recipients of the cash grant in both waves used the LKR 5,000 to purchase food, while a few families stated that they utilised the payments to purchase medicine and clothing items. Overall, the majority of recipient households (around 81%) found the LKR 5,000 relief amount to be 'extremely useful' during the first wave, while the respective figure was 64% in the second wave. The remaining recipients in both waves found the LKR 5,000 to be 'somewhat helpful' to meet their basic needs.

### **In-kind Support**

Only 2% of households in the survey sample reported to have received dry ration packs during the second wave while the majority of households in lockdown areas had received the LKR 5,000 cash transfer. Overall, in-kind support recipient households in the sample reported to being highly satisfied with the dry ration packs provided during the second wave.

### **Policy Recommendations**

Despite the daunting challenges it has presented, COVID-19 has also created an opportunity for the country to build back better by strengthening the social protection system to ensure greater resilience against future crises. The following policy measures are recommended towards this end:

#### **Broadening Social Protection**

Broadening social protection to provide coverage to those who are currently excluded from the system is an important step to build back better. A starting point could be extending the coverage of the existing cash transfer programmes such as disability assistance, assistance for kidney patients and elders assistance programme. Furthermore, around 60% of the Sri Lankan workforce consists of informal sector workers who account for a large portion of the 'missing middle' of the social protection system. It is vital

to broaden coverage to include the 'missing middle' to achieve universal social protection by 2030. Notably, the pandemic has created a 'new poor' by pushing those in middle-income groups in to poverty, which stresses the need for 'adaptive' social protection systems to absorb these new groups. This would require substantial fiscal space and measures such as designing new programmes to cater to the needs of those who are left out of the system.

#### **Improving the Efficiency of Existing Systems**

At present, Sri Lanka has many social protection programmes in place but the system as a whole has several weaknesses such as low coverage, targeting issues, leakages and a fragmented system. Necessary measures should be taken to improve the efficiency of the existing social protection system. This will require building an integrated social system protection system (with an integrated social registry and beneficiary registry) and creating sound delivery systems with digital payment mechanisms to ensure efficient and safe service delivery. It is also important to take steps to address widespread targeting errors of the Samurdhi subsidy programme and include the deserving poorest families who have been excluded from the programme.

*\* This Policy Insight is based on the comprehensive chapter on "Social Protection for Vulnerable Groups during Pandemics" in the 'Sri Lanka: State of the Economy 2020' report – the annual flagship publication of the Institute of Policy Studies of Sri Lanka (IPS). The complete report can be purchased from the Publications Unit of IPS located at 100/20, Independence Avenue, Colombo 07 and leading bookshops island wide. For more information, contact 011-2143107 / 077-3737717 or email: [publications@ips.lk](mailto:publications@ips.lk).*



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