

Social Security in Sri Lanka

**A review of the social security system for the
Ministry of Labour Relations and Manpower**

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Acknowledgements

This paper has been prepared as a willing contribution by the Social Security Department of the ILO to the celebrations marking the fiftieth anniversary year of the Employees' Provident Fund of Sri Lanka. It is hoped that the paper will provide a basis for future collaboration, with the goal of not only strengthening the EPF and other social security institutions in Sri Lanka but also of making a significant contribution to the overarching objective of extending social security coverage to all.

The paper therefore reflects a set of insights gained during a long period of years of joint work, and visits to Sri Lanka by members of the staff of both the ILO's Social Security Department, under the guidance of the Director, Michael Cichon, and the multi-disciplinary advisory team for South Asia, based in New Delhi. Most recently, a brief mission to Colombo was undertaken by Emmanuelle St-Pierre Guilbault and John Woodall, with a view to calibrating the Department's perspective against those of the ILO's partners in Sri Lanka itself. The assistance of the Director, Tine Staermose, and staff of the ILO Office in Colombo, notably Pramo Weerasekera and Ravi Samithadasa is much appreciated. Special thanks are due to Karuna Pal for the presentation in Chapter 5 of estimates relating to a possible system of universal basic social security benefit package for Sri Lanka.

Executive summary

With a well-established tradition of social protection measures and a long history of social programmes, Sri Lanka has achieved today a greater degree of social security coverage than most countries of the South Asian region. Through the establishment of a variety of social security schemes and social assistance programmes, the Government of Sri Lanka has shown over the years a continuous commitment to providing some form of income support to its population and workforce, whether in the formal or informal economy, together with medical care on a universal basis.

While most of the population enjoys food, health care, primary education and housing security, a significant proportion still lives in poverty and with very little income security. With one of the fastest ageing populations in the world, high youth unemployment and an important informal economy, Sri Lanka's social protection system faces major challenges. The 50th anniversary of the Employees' Provident Fund provides an excellent opportunity for assessing the results achieved by the social security system of Sri Lanka and to set in motion a process of planning for further enhancement through the extension of coverage under existing schemes and programmes and through the implementation of new complementary provisions to reach all those in need.

Together, formal social security arrangements are estimated to have extended eligibility for social security participation to more than one half of the population in working age and to more than a third of the overall population. Yet, existing schemes, mainly oriented towards the provision of old-age benefits, show gaps in coverage, both in terms of the range of contingencies covered and of the number of persons effectively protected. At the present time, there is no protection in case of unemployment and only limited protection in case of disability and for survivors in case of death of the breadwinner, and no statutory sickness or maternity benefits. Data shows that effective coverage is well below the numbers of those who should be eligible. A further area for concern is the inadequacy of benefits provided under existing schemes for private sector workers and workers in the informal economy to ensure sufficient income replacement, as a result both of their payment in lump sum form rather than periodically and to the low levels of replacement rates, together with the non-indexation of benefits. There are, in addition, concerns as to the lack of financial and fiscal sustainability of the schemes. The absence of coherence and planning in the design, management and modes of financing of the schemes and the lack of coordination between them also hampers the efficiency of the overall system to adequately deliver protection.

The role of social assistance programmes and their positive impact has long been a highlight of the social development of Sri Lanka. Most importantly, the Samurdhi programme provides cash transfers to over 40 per cent of the population and has since its implementation contributed to alleviating poverty in many parts of the country. However, it does suffer from a number of shortcomings, which limit its capacity for preventing and fully addressing chronic poverty, notably deficient targeting, administrative obstacles, inefficiency of the delivery system, non-coordination of the different benefits provided under the programme and inadequate levels of benefits. Other safety nets, limited in scope and coverage, are rather oriented towards the provision of punctual relief and therefore do not ensure the provision of regular income.

In view of the gathering global economic and financial crisis, of recent global increases in food and oil prices and of the inflationary context prevailing in the country, the need for an overarching social assistance system guaranteeing some income support to all those in need and for a strong social security system based on solid principles, becomes even more pressing. Bearing in mind the strong commitment of the Government of Sri Lanka to human development and poverty reduction and to achieving the related Millennium

Development Goals by 2015, and taking into account national circumstances and the ILO's long experience in the country, it is suggested that the following measures be considered.

In the short-term, the establishment of a national forum for social dialogue should be envisaged, to ensure the representation and participation of all stakeholders in the development of a comprehensive national strategy for the extension of social security and coverage. It is suggested, in this respect, that the ILO National Task Force on Social Security be revitalized, under a name reflecting a new and ongoing commitment. It would be advisable that a national strategy for social security include measures concerning both formal social security schemes and social assistance. With regard to formal social security schemes, it is recommended that an inventory of all social security statutory provisions and of proposed amendments be undertaken, so as to provide an overview of the current system and of its gaps. In parallel, an examination of the possibility of converting the payment of old-age benefits provided under the ETF, EPF and other provident and retirement schemes into periodical payments should be undertaken. Where social assistance is concerned, the formulation of an explicit policy towards the implementation of a basic social security benefit package, integrated within the framework of the Samurdhi programme and complementing existing provisions, may be envisaged, so as to guarantee essential income support to the most vulnerable, especially needed in times of crisis.

In the medium-term, an assessment of the modalities and prospects of designing and establishing a maternity insurance scheme in compliance with the ILO Maternity Protection (Revised) Convention, 1952 (No. 103), ratified by Sri Lanka in 1993, would be proposed. As a next step, an assessment of the modalities and prospects of integrating existing and future social security schemes could be foreseen as well as an assessment of the modalities and prospects for the integration of policy-making and oversight functions, presently distributed amongst many Ministries, within the government. These would contribute to streamlining the administration, strengthening the management and increasing the overall cost-efficiency and effectiveness of the schemes and of the administration. This could lead to the establishment of a conducive regulatory environment and create the conditions necessary for ensuring the financial sustainability of the schemes.

As in the past, the ILO is ready to support the further development of social security in Sri Lanka and to provide support for the realization of this objective, in particular with regard to the proposals outlined in this report.

1. Introduction

Social security as it has developed in Sri Lanka – A success story

The development of the schemes

Sri Lanka has a well-established tradition of providing social protection measures and a long history of social programmes.¹ Historically, the immediate family, the extended family, and the community played a key role in providing for social protection needs. These traditions have continued until recent times in an informal manner, though with changes in form and coverage over the years. To these informal mechanisms was added a formal system of social security with a strong social assistance component, which reflected the welfare state approach adopted in the West, and more particularly modelled on Britain's post-war universalistic approach to welfare.² As early as 1901, a mandatory pension scheme for civil servants (PSPS) was established, followed in post-independence years by several contributory provident funds.

More particularly, the country has a history of early and high levels of coverage for health, education, poverty transfers driven by early experiences of democratic politics and global recession in the 1930s and characterized by the predominance of general revenue financing. In the aftermath of the 1930 global depression and following the malaria epidemic of 1934-35, major social initiatives were undertaken, notably the provision of free education and health care in order to ensure equitable access. The 1930s and 1940s notably saw the expansion of tax-funded hospital services, stemming from the realization by the public authorities that sickness directly impoverished households and that private charitable action was inadequate to meet the needs of the rural poor when faced with major illness.³ The Maternity Benefit Ordinance, adopted in 1939, gave access to all employed women – except casual employees – to maternity benefits paid by their employer for a leave period of 6 weeks.⁴ Social assistance for the poor under the form of cash transfers was first introduced in 1939, under the Poor Law Relief. In 1940, a food ration system was adopted by the Government of Sri Lanka to assure the availability of a minimum quantity of food to households.

The post-independence years were marked by the adoption of social policies based on the notion that economic development should be underpinned by a sound social protection regime. On the one hand, these years saw the expansion of the welfare state, through the

¹ *Social security and social protection* are terms which may be defined in a variety of ways. While keeping in mind the concern of the Government to assess its social programmes on a broad basis, the specific purpose of this document is to focus on the schemes and programmes designed to address the vulnerability of individuals – workers and their family members – to those contingencies which lead to loss of income-earning capacity (for example through old-age or sickness) or their need for access to health care.

² Institute for Participatory Interaction in Development, *Mapping of the Informal Sector Social Security Schemes in Sri Lanka*, ILO, Geneva, 2004, p. 1.

³ Gaminiratne et al., *Diagnostic Report on the Social Security in Sri Lanka*, ILO, Geneva, 2004, p. 33.

⁴ Maternity Benefit Ordinance No. 32, 1939.

implementation of policies including rice rations, food subsidy programmes and provision of food and cash transfer systems, financed mainly by taxes on the plantation sector. The 1950s were, on the other hand, marked by the introduction of formal schemes, predominantly contributory, including (for the services) a social insurance pension scheme. Although the establishment of a universal pension system was envisaged at that time, the financial implications of setting up such a scheme were considered too daunting. This was partly due to the composition of the workforce, a large proportion of which was in subsistence agriculture and non-formal employment and the large proportion of the population who were not of adult age or participating in the workforce. In addition, the practical and technical difficulties of designing and managing a national pension system, given the then existing capacity of the national administration, would have influenced policy makers in addition to the relatively low rates of economic growth that Sri Lanka policy makers had experienced since the global recession of early 1930s. The Employees' Provident Fund (EPF) was thus established in 1958 as a contributory old-age benefit scheme for private sector workers. Provident Funds for other categories of workers were established in the years to follow, and later the Employees' Trust Fund (ETF) was established in 1981, one of whose explicit objectives was to promote a less restrictive model than hitherto for investment of the fund's assets, including the acquisition of equities.⁵

Slowing economic growth and increasing government deficits in the 1960s led to economic reforms and changes in social policy in the 1970s, which resulted in cuts in social expenditure. This had a dramatic impact on the provision of social protection, where existing social welfare programmes were replaced by less comprehensive ones, of the "safety net" type, focusing on low-income groups (e.g. food stamp scheme, school mid-day meal programme, grants for the poor) for the two decades to follow. In 1989, the Janasaviya poverty alleviation programme was implemented, stemming from the recognition that a broad-based and participatory approach to alleviating poverty was needed, as opposed to providing simply nutrition interventions or social assistance in terms of grants.⁶ The Janasaviya programme further comprised a skill development component, with the objective of upgrading the quality of life of the poor, complemented by the straightforward provision of food to beneficiary families. The programme was funded in its entirety by the Government until 1994, and was then replaced by the Samurdhi poverty alleviation programme, launched in 1995. Samurdhi comprises the great majority of Sri Lanka's social assistance provision, presently implemented in 22 districts of the island out of 25, with proposals for its extension, or at least of some of its components, to districts not covered yet.⁷ The overall objectives of the programme are to integrate young persons, women and disadvantaged groups into economic and social development activities and to promote social security and alleviate poverty. Implementation of these objectives is ensured through the articulation of the programme along three main axes: a welfare component, a savings and credit programme and rural infrastructure development projects.

⁵ See Rannan-Eliya, R.P.; Eriyagama, V. *Assessment of the Employees' Provident Fund in Sri Lanka*, Research Studies: Demographic Transition and Pension Series No. 3, Institute of Policy Studies, Colombo, 2003, p. 1.

⁶ Salih, R., *The Samurdhi Poverty Alleviation Scheme*, Social Security Department, ILO, Geneva, 2000, p. 8.

⁷ According to the website of the Ministry of Nation Building and Estate Infrastructure Development, the Samurdhi Subsidy Program will be expanded to those Districts of Jaffna, Mannar, Kilinochchi and Mullaitivu in Northern Province, and UN cleared areas in Vavuniya Districts where Samurdhi Subsidy Program is not functioning (www.samurdhi.org).

At the same time, the Government has recognized the difficulty of including a range of groups of workers in the ordinary social security schemes because of the nature of their activities (for example, having irregular incomes, and often considered to be part of the informal economy/unorganized economy), but who nevertheless constitute an important part of the country's workforce, and has authorized the setting up of dedicated pension schemes, generally on a voluntary, contributory basis. The first of these was the Farmers' Pension and Social Security Benefits Scheme, established in 1987 in recognition of the need to ensure some form of security to agricultural workers who, for the most part, reached old age without any resources on which to fall back, becoming mostly dependent on family support and state welfare. A corresponding scheme targeting fishers was introduced in 1990,⁸ and, finally, a scheme covering other categories of self-employed workers was established in 1996, with the overall objective of "providing leadership and initiative to self-employed persons and those employed in the informal sectors to enhance their socio-economic conditions and thereby make them contribute to social development".⁹

In the meantime, Sri Lanka had ratified the ILO Maternity Protection (Revised) Convention, 1952 (No. 103),¹⁰ in 1993, thereby committing itself to provide medical care and (income replacement) cash benefits for a minimum maternity leave period of twelve weeks to a significant proportion of its female population, as required under the Convention.

Today's socio-economic trends and general social security context

Sri Lanka has a population of rather more than 20 million, a significant proportion of which lives in poverty.¹¹ While the country's economy has enjoyed a steady growth over the last decades, translating in a rise in income for certain groups, not all have benefited from this expansion. The country has witnessed a gradual increase in inequality between the richest and poorest segments of society as well as between its wealthiest and poorest provinces. While recent data from the Department of Census and Statistics show that progress has been made in reducing extreme poverty in most parts of the island, a high

⁸ For a more detailed overview of these schemes, see Eriyagama, V.; Rannan-Eliya, R.P., *Assessment of the Farmers and Fishermen's Pension and Social Security Benefit Schemes in Sri Lanka*, Research Studies: Demographic Transition and Pension Series No. 3, Institute of Policy Studies, Colombo, 2003.

⁹ Social Security Board Annual Report, 1999, reproduced in Eriyagama, V.; Rannan-Eliya, R.P., *Assessment of the Pension and Social Security Benefit Scheme for the Self-Employed Persons in Sri Lanka*, Research Studies: Demographic Transition and Pension Series No. 3, Institute of Policy Studies, Colombo, 2003, p. 2.

¹⁰ Maternity Protection (Revised) Convention, 1952 (No. 103).

¹¹ According to the statistics of the UNDP Human Development Report, 2007, 25 per cent of the overall population lived below the national poverty line in the period 1990-2004 (<http://hdrstats.undp.org>). The most recent estimate of the prevalence of poverty, made by the Department of Census and Statistics of Sri Lanka on the basis of the Household Income and Expenditure Survey (HIES) of 2006-2007, shows a lower proportion of 15.2 per cent, living below the official poverty line in 2006-2007 (see <http://www.statistics.gov.lk/poverty/index.htm>). It should be noted however that (a) the definition of the poverty line made not be comparable with that for the earlier figure and (b) the Department was unable to conduct the HIES in six of the districts most severely affected by poverty.

proportion of the population, about 40 per cent by some estimates,¹² live on less than US\$ 2 per day, only just above the poverty level, and are thus very vulnerable to falling into poverty in case of small declines in income.

The latest data shows that although labour force participation rates have increased steadily over the last decades, with a growing participation of women in the labour market, the country is still characterized by a relatively low labour force participation rate (about 50 per cent in total, with the proportion of women as low as 33.4 per cent) and high rate of youth unemployment (15 per cent for age group 20-29).¹³ The main factors contributing to unemployment are: the important labour market constraints, frequent population displacements due to conflict and natural disasters, e.g. droughts, which affect, particularly, agriculture and (inland) fisheries, and the tsunami of December 2004, which has affected all sectors and the effect of which is still being felt throughout the country, particularly among the younger generations.

The informal economy constitutes a significant part of the Sri Lankan economy and labour market, with a share of 62 per cent of the total employment in the country in 2007.¹⁴ The main types of occupation in the informal economy are: agriculture (where the estimated proportion of informal workers is as high as 83 per cent), mining and quarrying (85 per cent informal), hotels and restaurants (56 per cent informal), manufacturing (47 per cent), education (15 per cent informal). According to estimates by the Department of Census and Statistics, 52 per cent of the total non-agricultural jobs are in the informal economy. The workers occupying these jobs tend to be those who are less well educated, and disproportionately self-employed (46 per cent), with low levels of income security and informal terms and conditions of work. The incidence of poverty among households with at least one informal economy worker is well above the national average, exceeding it by 60 per cent in urban areas, 40 per cent in rural areas. Households with informal economy workers represent more than half of the total, and more than 70 per cent of the poor. Studies confirm the expectation that the incidence of poverty increases with the number of unemployed in the household and that it decreases with the level of education.¹⁵

Persons with disabilities experience particularly poor employment prospects, and are therefore vulnerable to poverty, the incidence of poverty among households in receipt of disability benefits being 52 per cent above the national average. The elderly are also vulnerable to poverty, but the distribution of poverty is uneven, affecting especially those above 80 years of age, with a poverty incidence 10 per cent above the national average.¹⁶

A notable feature of the demographic profile of Sri Lanka is that it is one of the fastest-ageing countries in the world. According to the latest demographic projections of the

¹² See among others the figures quoted by the Ministry of Finance and Building of Sri Lanka for 2005-2006 in *Sri Lanka – New Development Strategy: Framework for Economic Growth and Poverty reduction*, Discussion Paper, Colombo, May 2005, p. 26.

¹³ Department of Census and Statistics, Ministry of Finance and Planning, *Sri Lanka Labour Force Survey*, Final Report, Colombo, 2007, available at: www.statistics.gov.lk

¹⁴ Total employment in 2007 amounted to 7,472,932 people (including 15,141 in age category 10-15), Department of Census and Statistics, Ministry of Finance and Planning, *Sri Lanka Labour Force Survey*, Final Report, Colombo, 2007, available at: www.statistics.gov.lk

¹⁵ Department of Census and Statistics, Ministry of Finance and Planning, *Sri Lanka Labour Force Survey*, Final Report, 2007, available at: www.statistics.gov.lk

¹⁶ World Bank, *Sri Lanka: Strengthening Social Protection*, Washington, 2006, pp. 23-25.

United Nations Development Programme (UNDP), the share of the population under age 15 will decrease from 24.2 per cent in 2005 to 21.4 per cent in 2015, while the share over age 65 will increase from 6.5 per cent in 2005 to 9.3 per cent in 2015. Other projections show an increase of the share of the population over 60 from about 10 to 20 per cent over the next 25 years.¹⁷ The unprecedented speed of (proportional) ageing reflects, in fact, not only increasing longevity but also a rapid decline of fertility below the replacement level.

Current challenges

Broadly, Sri Lanka has achieved today a level of social development superior to most developing countries and social security coverage more extensive than most countries of the South Asian region, through schemes and systems providing income support in old age (and to surviving widows etc), and disability, together with health care, achieving a relatively high level of coverage for formal economy workers and some, at least, for their informal economy counterparts. Existing schemes, however, do show gaps in coverage, both in terms of the range of contingencies covered and of the number of persons effectively protected. At the present time, there is no protection in case of unemployment and only limited protection in case of disability and for survivors in case of death of the breadwinner. No statutory sickness or maternity benefits are provided, and while, in principle, all employed women (except casual employees) have access to maternity benefits paid by the employer, generally for a period of twelve weeks, (under an employer's liability system), these are limited to two childbirths. In addition, the statistics show that effective coverage is well below the total number of eligible persons. Population ageing presents major challenges for economic and social management and, more particularly for the social security system. The high level of dependency that is likely to affect old-age benefit schemes in the near future needs to be addressed through the development of effective solutions that will seek to assure elderly people of a decent standard of living in retirement without imposing a too high burden on the non-elderly.¹⁸ Deficiencies can also be identified in social assistance provision and the health care system.

While most of the population enjoys food, health care, primary education and housing security, a significant proportion of the population still lives in poverty and with very little income security. With one of the fastest ageing populations in the world, high youth unemployment, and significant poverty, Sri Lanka's social protection system faces major challenges today in ensuring sustainability and achieving an appropriate level of well-being for all of its people. In view of the recent global increases in food and oil prices and of the inflationary context prevailing in the country, the need for a strong social security system based on solid principles becomes even more pressing. Adding to these rather problematic economic factors, external and internal, country-specific factors to which Sri Lankans are frequently exposed constitute important sources of insecurity. Recurrent natural disasters (e.g. floods, landslides, drought,) together with an on-going civil conflict in the North and East of the country amplify the need for effective health care, disability and survivors' schemes.

In this context and on the occasion of the 50th Anniversary of the Employees' Provident Fund, this paper seeks to provide a brief analytical review of the Sri Lankan social security system and to formulate policy proposals for the extension of social security in the country, taking into account the national context and current challenges. The analysis will comprise,

¹⁷ Ibid.

¹⁸ Gaminiratne et al., *Diagnostic Report on the Social Security in Sri Lanka*, ILO, Geneva, 2004, pp. 22 and 39.

firstly, an overview of the existing major social protection schemes and of their gaps and weaknesses, and look at proposals for reform under consideration by the Government. The paper will then examine the possibility of implementing a basic social security benefit package building on the existing system, to guarantee access to minimum benefits for all Sri Lankans in view of today's socio-economic needs and realities, with some consideration of the fiscal and financial implications of such a project. Finally, the paper will include a brief commentary on the prospects for the improvement of existing schemes and the extension of social security coverage, in the framework of international social security standards and worldwide agreed social security principles, together with indications of the potential role the ILO could play in support of such a process.

2. Overview of the existing social protection system

The overall structure of the existing social protection system in Sri Lanka is fragmented. There is a fairly well-established formal system of social security in place through which the state and employers in the public and private sectors provide standard types of social protection, i.e. pensions and cash lump sum benefits, mainly to persons in organized and semi-organized spheres of employment through structured and institutionalized arrangements. These comprise a social security scheme for government employees, largely (and certainly in the past) funded by the state, and various provident funds, essentially for private sector workers, and voluntary schemes for workers in the informal economy, which are funded (in principle) through employer-employee contributions. At present, all existing social security schemes are employment based, the eligibility for coverage and nature of the benefit being determined by occupation. These existing schemes are generally administered by the Government, through a number of Ministries, Departments and Boards. These schemes coexist with other forms of statutory arrangements, providing for benefits on an employer's liability basis in case of maternity and termination of employment. Complementing these schemes, the state provides social assistance to those who are not covered by the formal system and the poorer sections of society, through public social welfare schemes, entirely state-funded.¹⁹ Health care is also provided to the population by the State on a universal basis.

2.1 Formal social security schemes

There exist in Sri Lanka a variety of social security schemes for workers in the formal and informal economy, most of which take the form of provident funds or retirement savings schemes and therefore do not strictly take the form of social insurance schemes. Together, these schemes cover approximately 3.1 million of workers, or 22 per cent of the population over 15 years of age.

2.1.1 Social Security Schemes for public sector workers

Under the management of the Department of Pensions of the Government of Sri Lanka, the schemes covering public sector workers and their families mainly consist in the Public Servants' Pension Scheme (PSPS), the Public Servants' Provident Fund (PSPF) and the Widows and Orphans Pension (W&OP) scheme.

Public Servants Pension Scheme (PSPS)²⁰ – Established in 1901, as a mandatory pension scheme financed (at least for pension benefits) by the government budget, the PSPS is the oldest scheme existing in Sri Lanka. It covers permanent public sector employees, including civil servants, the armed forces, provincial and local government employees, government teachers and judicial officers. Entitlement to an old-age pension arises after ten years of service in a permanent post, which is payable from age 55 (men) or age 50 (women). The PSPS is a defined benefit (DB) scheme, where the monthly benefit is determined as a percentage of the salary, in proportion to the number of years of an individual's membership. The monthly benefit after 30 years of service corresponds to 85-90 per cent of the last salary, according to the 1996 pension formula. The formula itself has

¹⁹ Institute for Participatory Interaction in Development, *Mapping of the Informal Sector Social Security Schemes in Sri Lanka*, ILO, Geneva, 2004, p. 4.

²⁰ Established by Section 2 of Ordinance No. 2 of 1947, which made the Minutes on Pensions part of the written law of Sri Lanka (Ceylon at the time) from 1901.

been adjusted in the past, on a somewhat *ad hoc* basis. In addition to the monthly pension, a lump sum corresponding to two years of the last drawn salary is paid at the time of retirement. Beneficiaries are also entitled to cost of living adjustments (again, implemented on an irregular, *ad hoc* basis, rather than in accordance with any indexation procedure) and special allowances. The scheme is administered by the Department of Pension (central government), now in the Ministry of Public Administration and Home Affairs.

It may be noted that proposals have been made on several occasions that the PSPS should become contributory for members, and from 2003 to 2007 new members (although not existing members) were required to contribute, the contribution rate established being 6-7 per cent from employees and of 12 per cent of the payroll from the Government (as employer). It is understood that this modification to the scheme did not complete the Parliamentary process for its statutory authorization, and in any case the scheme has now reverted to its previous “non-contributory” status.

Public servants and members of their family (or dependents), when applicable, are also covered in case of total disability, work injury and survivorship, under mandatory contributory schemes affiliated to the PSPS. Under the *Widows, Widowers and Orphans Pension Scheme*,²¹ family dependents (spouses until remarriage, children up to 22 years of age (female) or 26 years of age (male) and disabled children, on a lifetime basis) are entitled to the benefit to which the beneficiary was entitled at the time of death, in its full amount for the spouse and in a proportion of 50 per cent for the children. The contribution rate is determined as a percentage of the contributors’ salary and varies between 4 per cent and 7 per cent, depending on the salary scale. Under the work injury scheme, any permanent public employee or judicial service officer, who is not in receipt of a pension, is entitled to a benefit when injured while at work or while being occupied with a work related matter, or when commuting and traveling for work purposes.

Membership of the PSPS is compulsory, and the rate of coverage of those eligible is virtually, therefore, 100 per cent. Covering about 800,000 civil servants and 120,000 retired pensioners with an annual total expenditure of around Rs. 63 billion, corresponding to 11.5 per cent of the Government revenue, or 1.9 per cent of GDP²² in 2006, it is the second largest programme in the country.

The Public Servants Provident Fund (PSPF)²³ – The PSPF was established in 1942 as a mandatory contributory old-age benefit scheme for government employees not eligible for coverage under the PSPS, as a transitional scheme until they become eligible to join the latter. Both the government and the employee contribute at respective rates of 12 per cent and 8 per cent of the employee’s salary (20 per cent in total). Upon becoming eligible to join the PSPS, an employee ceases contributing to the PSPF and is entitled to withdraw the accumulation of his or her own contributions with interest. The Government contribution is, however, transferred to provide entitlement to pension under the PSPS.

The PSPF is also administered by the Department of Pensions under the Ministry of Public Administration and Home Affairs. The control and management of the fund is vested in a board of management chaired by the Director of Pensions and including the Solicitor General, the Commissioner of Labour, the Deputy Director of Irrigation and one member nominated by the contributors.

²¹ Established by the Widows, Widowers' and Orphans Pension Act, No. 24 of 1983.

²² Thilakaratne, K.A., “Workshop on Social Protection in Sri Lanka, Civil Servants Pension Scheme”, Colombo, 2006.

²³ Established by the Public Service Provident Fund Act, 1942.

As under the PSPS, coverage under the PSPF is mandatory and thus covers, in principle, 100 per cent of those eligible, comprising around 50,000 public sector employees in 2002.²⁴

2.1.2 Social security schemes for private sector workers

Statutory schemes

The main schemes covering private sector workers are the Employees' Provident Fund (EPF), the Employees' Trust Fund (ETF) and the Approved Private Provident Funds (APPFs). Altogether, these schemes cover an estimated 2.2 million workers, representing about 30 per cent of the labour force.

*The Employees' Provident Fund*²⁵ – Established in 1958 to provide income security in old-age to private sector workers, the EPF constitutes perhaps the most important old-age benefit scheme in the country, both in terms of persons covered and of assets. With an active membership of 2 million people, representing around 25 per cent of the labour force, and an asset base of Rs. 490 billion at the end of 2006, the EPF has a significant impact on the fiscal status of the country.²⁶

The EPF is a compulsory defined contribution scheme, which operates individual accounts for all private sector workers. Employees must contribute a minimum proportion of 8 per cent of their wages, and employers at a rate corresponding to 12 per cent of the payroll, up to retirement, at age 55 for men and 50 for women. Employees older than 55 (men) or 50 (women) must also compulsorily contribute.

The scheme provides for old-age, disability and survivor's benefits to its members, in the form of a lump sum corresponding to the total contributions paid by the employer and the employee, plus interest. The interest rate is adjusted periodically by the Monetary Board (convened by the Central Bank of Sri Lanka), at an annual interest rate of not less than 2.5 per cent, and presently around 11 per cent per annum. Benefits are paid upon fulfilment by the contributors of certain conditions. Old-age benefit is payable upon retirement, at 55 years of age (men) and 50 years of age (women) and at any age if other conditions materialize (e.g. if the government closes the place of employment, if the contributor emigrates permanently, etc.). Disability benefit is payable upon assessment of the existence of a permanent and total incapacity for work and survivor's benefit is payable upon the death of the contributor, when the death occurs prior retirement, to his/her legal heirs or named beneficiaries. It is notable that, presently, workers have no individual registration numbers; it being employers who register with the scheme. Another feature of the scheme is that members are not allowed to withdraw from their accounts when changing jobs, (except on joining the civil service) As a result, individual accounts remain open until members (or former members) reach retirement age, the total number of individual accounts being at present close to 12 million. The EPF rules include a number of features designed to enhance the appeal of the scheme to members. One such allows members to withdraw funds from their individual account when getting married, and then restart contributing under a new account. A member's account may also be used to

²⁴ Gaminirathe N.et al., *Diagnostic Report on the Social Security Situation in Sri Lanka*, ILO, Geneva, 2004, p. 23.

²⁵ Established by the Employees' Provident Fund Act, No. 15 of 1958.

²⁶ Central Bank of Sri Lanka, Annual Report 2006 - Employees' Provident Fund, Colombo, 2007, p. 79.

guarantee a housing loan from an approved lending institution, to an amount corresponding to up to 75 per cent of the balance of the account.

While the Ministry of Labour Relations and Manpower provides general supervision of the scheme, its administration lies with the Fund itself. Responsibility for custody and investment of the EPF's financial assets and the payment of grants is statutorily attributed to the Monetary Board of the Central Bank of Sri Lanka.

Employees' Trust Fund (ETF) – Introduced in 1981 with the stated purpose of promoting stock ownership amongst (or on behalf of) employees, the ETF is a mandatory, defined contribution old-age benefit scheme covering all employees in the formal economy. It is funded by contributions from employers (alone) at a rate of 3 per cent of gross wages. Membership is also open to self-employed persons, on a voluntary basis. Most of the ETF's significant features (and, in fact, its membership) are similar to those of the EPF. Since 2002, it has included a housing loan scheme. Unlike the EPF, the ETF allows members to withdraw the balance of their individual accounts when they change employment. Another difference between the two schemes is that the ETF regulations allow for much more extensive domestic equity investments (at least in principle). Responsibility for the general supervision of the Fund lies with the Ministry of Finance. It is administered by the ETF Board, composed of 6 members named by the various Ministers concerned with its operation, one member representing Employers and two members, nominated by the Minister in charge of the ETF, after consultation with “the most representative” trade unions.

In 2006, the ETF's active member accounts reached nearly 1 million and its invested assets portfolio roughly Rs. 64 billion.²⁷

Approved Private Provident Funds (APPFs)²⁸ – The APPFs are private provident funds set up on an “occupational” basis by private companies (in a few cases, one fund may serve several companies), upon approval of the Commissioner of Labour, with membership restricted to the employees of the sponsoring company or companies. Membership of an APPF may be allowed in substitution for membership of the EPF, provided the basic contribution requirements stipulated by the government are met. Each APPF is managed by a Board of Custodians (including participant representation) under individual rules approved by the Commissioner of Labour and under the general supervision of the Department of Labour. Both employees and employers contribute to the schemes, in a proportion that varies from one scheme to the other. The contribution rate must, however, be no lower than the one required under the EPF. Benefits provided are the same as under the EPF. More flexible than the EPF, APPFs allow contributors to withdraw the balance of their account as a lump sum when they leave their employer and allow for more liberty in investment than other provident funds. Enrolment in 2006 was estimated at around 250,000 workers.²⁹

²⁷ Employees' Trust Fund Board, Annual Report 2006, Colombo, 2006.

²⁸ Employees' Provident Fund Act, No. 15 of 1958.

²⁹ These numbers were the ones referred to by the Institute for Health Policy of Sri Lanka, in a presentation on Sri Lanka's Schemes for Informal Sector Workers (by R.P. Rannan-Eliya), Workshop on Extending Pension Coverage to Informal Sector Workers in Asia, Bangkok, November-December 2006.

Other statutory benefits

Severance pay under the Termination of Employment of Workmen Act (TEWA)³⁰ – There is at present no formal unemployment benefit scheme in Sri Lanka. However, the Act, generally referred to as “TEWA”, was promulgated in 1971 and governs provisions following the termination of employment in certain circumstances in the country (in particular, reduction or closure of the operations of an enterprise). Private sector employees working in establishments with 15 workers and more and with at least 6 months of employment are entitled, in principle, to a severance payment from the employer upon dismissal or lay off, by way of compensation. While the severance payments are mandatory and are paid as a lump sum to all qualifying workers who are terminated or laid off, there is some controversy as to the minimum statutory amount of severance pay, which was formerly left to the discretion of the Labour Commissioner, although now subject in principle to a defined schedule. In practice, past compensation packages have varied from an amount corresponding to six months, up to five years’ pay.³¹ The statutory coverage of the TEWA is about 55 per cent of private sector employees.

Maternity benefits on an employers’ liability basis under the Maternity Benefits Ordinance³² – There is at present no statutory benefit scheme in Sri Lanka providing for maternity benefits by means of social insurance or public funds. Under the amended *Maternity Benefits Ordinance*, first adopted in 1939, maternity cash and medical benefits should be provided by employers to all (formal) employed women, with the exception of casual employees, for a period of twelve weeks, comprising two weeks before delivery and ten weeks after. The cash benefit is equal to the full wages of the women protected. The period of entitlement to the benefits is reduced from the third childbirth to six weeks (comprising 2 weeks before delivery and 4 weeks after). Slightly different rules apply in the case of employed women covered under the Shop and Office Employees’ Act,³³ who are entitled to 84 days paid maternity leave (paid by the employer) for the first two deliveries and 42 paid leave for subsequent deliveries.

2.1.3 Social security schemes for workers in the informal economy

In 2007, approximately 4.4 million persons, corresponding to 62 per cent of total employment, worked in the informal economy, with agriculture as the main sector of activity (83 per cent).³⁴ At present, three public social security schemes provide benefits for specific groups of workers of the informal economy: farmers, fishermen and self-employed persons. All three schemes are voluntary and limited in personal coverage to the occupational category they respectively target. Members are required to contribute, and are entitled to benefits related to their contributions according to one or more defined schedules. Their principal aim is to provide income support in retirement, but include some minor, additional benefits and risk protection measures. Together, these schemes are estimated to cover nearly 850,000 workers.

³⁰ Termination of Employment of Workmen (Special Provisions) Act of 1971.

³¹ Termination of Employment Digest, ILO, Geneva, 1998 (as subsequently updated), p. 302.

³² Maternity Benefits Ordinance No. 32, 1939, as amended.

³³ Act No. 19 of 1954 on Shop and Office Employees.

³⁴ Department of Census and Statistics, Ministry of Finance and Planning, Sri Lanka Labour Force Survey, Final Report – 2006, Colombo, 2007.

Farmers' Pension and Social Security Benefit Scheme³⁵

Established in 1987, the Farmers' Pension scheme is a voluntary scheme targeted at the approximately 2 million persons estimated to be directly or indirectly engaged in agriculture. Affiliation to the scheme is open to farmers between 18 and 59 years of age whose main source of income is agriculture, including livestock farming. Farmers owning more land than the stipulated limit, or affiliated to another pension scheme (e.g. the EPF), are excluded from coverage under the scheme. Benefits provided to contributors under the scheme mainly comprise: a monthly old-age pension, upon reaching 60 years of age; a death gratuity, in case of death of the contributor, for his/her spouse; and a disability benefit, in case of permanent partial and total disability, consisting in a monthly allowance or a lump sum, to which is added accumulated contributions with interest. While the financial design of the scheme implies the anticipated need for partial funding in future by the government, i.e. by grants from the Ministry of Finance, it is supposedly funded principally by members' contributions, where the rate of contributions is indicated by government gazette as a schedule of standard payments, in a proportion that varies depending on the age of the contributor at enrolment. The choice is left to the farmer, once enrolled, of paying the contributions either on a regular periodic basis (twice a year) until reaching retirement age or as a one-off payment made in the year of enrolment at a discounted rate.

The scheme is managed operated and implemented by the Agricultural and Agrarian Insurance Board (AAIB), an administrative body under the supervision of the Ministry of Agriculture. The AAIB generally acts upon the recommendation of the Advisory Committee, a statutory entity mainly composed of high level officials involved in the management of the scheme or policy making (e.g. Chairman of the AAIB, Director of Pensions, Chief Actuary of the Insurance Corporation, Commissioner of Labour, Superintendent of the Department of the EPF of the Central Bank of Sri Lanka, or their representative) and representatives of the various Ministries concerned with the scheme.

This scheme had enrolled an estimated 715,000 members at the end of 2003,³⁶ increased from 67,500 in 2002, of whom, however, less than 500,000 were considered active contributors, with a coverage rate of those eligible around 50-60 per cent.³⁷ The total assets of the scheme at the end of 2003 totaled about Rs. 2.6 billion.

Fishermen's Pension and Social Security Benefit Scheme³⁸

The Fishermen's Pension and Social Security Benefit Scheme, set up in 1990, is targeted at those who make a living by fishing or fish farming, at sea or in lagoons or inland bodies of

³⁵ Established by the Farmers' Pension and Social Security Benefit Scheme Act, No. 12 of 1987. For a thorough analysis of the scheme, see Eriyagama, V.; Rannan-Eliya, R.P., *Assessment of the Farmers and Fishermen's Pension and Social Security Benefit Schemes in Sri Lanka*, Research Studies: Demographic Transition and Pension Series No. 3, Institute of Policy Studies, Colombo, 2003.

³⁶ Annual Report 2003, Agricultural and Agrarian Insurance Board, Colombo, 2003.

³⁷ According to the data reported Gaminirathe N. et al., *Diagnostic Report on the Social Security Situation in Sri Lanka*, ILO, Geneva, 2004, p. 23.

³⁸ Established by the Fishermen's Pension and Social Security Benefit Scheme Act, No. 23 of 1990. For a thorough analysis of the scheme, see Eriyagama, V.; Rannan-Eliya, R.P., *Assessment of the Farmers and Fishermen's Pension and Social Security Benefit Schemes in Sri Lanka*, Research Studies: Demographic Transition and Pension Series No. 3, Institute of Policy Studies, Colombo, 2003.

water, between 18 and 59 years of age. Similar to the Farmers' Pension Scheme, it is a voluntary scheme funded by members' contributions together with, presumably, government grants in the future. Contributions are collected either on a regular periodic basis (4 times per year) or as a one-off payment in the year of enrolment, depending on the choice and financial capacity of the contributor. Contributors are entitled to benefits similar to the ones provided by the Farmers' Pension and Social Security Benefits Scheme, comprising an old-age monthly pension as of 60 years of age, based on the amount of contributions paid, a survivors' benefit disability benefit (in case of partial or total permanent disability) and a death gratuity. The scheme is also administered, operated and implemented by the Agricultural and Agrarian Insurance Board (AAIB), under the supervision of the Ministry of Fisheries and the Fisheries Department and advised by an Advisory Committee with a similar composition to that of the Farmers' Pension and Social Security Benefits Act, with the necessary adaptations.

The scheme had enrolled around 50,000 members at the end of 2003,³⁹ up from 48,000 in 2002, of whom 40,000 were considered active contributors, in a proportion of about 50-60 per cent of those eligible.⁴⁰ The total assets of the scheme at the end of 2003 amounted to approximately Rs. 290 million.

Pension and Social Security Benefit Scheme for Self-employed⁴¹

This scheme is targeted at self-employed persons between 18-59 who are not eligible to join other pension schemes, not liable to pay income tax, and who belong to certain stipulated occupational categories.⁴² The scheme is essentially of the Defined Contribution (DC) type, but with benefits payable according to a pre-determined schedule. The funding relies in effect on a partial, but not well-specified, subsidy by the Ministry of Finance (Treasury). Contributors to the scheme are entitled to two categories of benefits, linked to two different funds: a pension benefit, providing retirement income and a disablement benefit financed on a social insurance basis. The old-age pension consists in a monthly cash benefit, the amount of which is determined on the basis of the age of the contributor at retirement, the period of contribution and the total amount contributed. In addition, contributors to the scheme are entitled to a disability benefit in case of partial/total and permanent disability and their legal heirs to a death gratuity consisting in a lump sum, under certain conditions. In case of death of the contributor after retirement, his/her spouse is entitled to the pension to which the contributor would have been entitled until the age of 80, provided he/she is not entitled to a pension from the scheme in his or her own right (in which case he/she will be entitled to the balance of the contributions plus interest). The scheme provides for flexibility in the payment of contributions, which may be done on a regular basis (with a choice between three schedules, prescribed by regulation) or as a lump sum (with a discount), at the convenience of the contributor. The scheme is managed and operated by the Sri Lanka Social Security Board, under the general supervision of the Ministry of Social Services.

³⁹ Agricultural and Agrarian Insurance Board, Annual Report 2003, Colombo, 2003.

⁴⁰ According to data reported in Gaminirathe N. et al., *Diagnostic Report on the Social Security Situation in Sri Lanka*, ILO, Geneva, 2004, p. 23.

⁴¹ Established by the Social Security Board Act, No. 17 of 1996. For detailed information on this scheme, see Eriyagama, V.; Rannan-Eliya, R., *Assessment of the Pension and Social Security Benefit Scheme for the Self-Employed Persons in Sri Lanka*, Research Studies: Demographic Transition and Pension Series No. 5, Institute of Policy Studies, Colombo, August 2003.

⁴² These categories are specified By Order of the Minister of Health, Highways and Social Services, published in Gazette (Extraordinary) No. 948/10 of November 6, 1996.

In 2002, about 75,000 persons were enrolled, out of which approximately 60,000 were considered to be actively contributing.⁴³

Other occupational groups

Provision for a number of specific occupational groups has been considered or implemented by concerned Ministries or Departments, although to date none has grown to significant size. The ILO has provided advice to the government in relation to several such proposals, including schemes which would serve, respectively, domestic workers and construction workers.

Micro insurance schemes⁴⁴

A certain number of, essentially, community-based initiatives have been implemented by several non-governmental organisations (NGOs), providing “micro-insurance” cover against certain “risks” for their members and families.

The largest, micro-insurance scheme, Yasiru, was initiated in 2000 by the All Ceylon Development Council, a medium size NGO operating in 7 rural districts. Targeted at low-income earners between the ages of 18-65, without any permanent employment, this insurance scheme is organised under the Yasiru Mutual Provident Fund Society, affiliated to the parent body. Members pay monthly “premiums” ranging from Rs. 10 to Rs. 150 for insurance cover in case of death, disability and hospitalisation. Benefits range from Rs. 3,000 to 120,000. The micro-insurance funds of the society are reinsured with a reinsurance foundation in the Netherlands. By 2004, Yasiru, with eight active partners, numbered some 60,000 members, and had accumulated equity and reserves of almost Rs. 5 million (\$50,000).

Based on commercial principles, a second scheme is managed by the All Lanka Mutual Assurance Organisation (ALMAO) which operates through the Sanasa movement, a comprehensive, nationwide network of savings and credit cooperatives in the objective of providing some affordable protection for the poorest. Since its start in 1991, ALMAO has experienced rapid development, with a membership in 2004 of roughly 50,000 members and equity of almost Rs. 50 million. Coverage under the scheme relates to disability, hospitalization and death. The amount of the benefit paid in case of occurrence of a contingency, determined by the amount of deposit available in members’ accounts and the age of the member, ranges between Rs. 3,000 and Rs. 50,000.

In Hambantota, the Women’s Development Foundation has started a micro insurance facility accessible to both members and non-members as from July 2002. This scheme was set up in order to provide better coverage to those facing difficulties in meeting expenses related to accidents, illnesses, hospitalization and loss of life. The organization consists of a network of societies at the village level and micro-banking institutions in the form of small banking units. Its funding is composed of membership shares and members’, children’s and other deposits. Membership in the organization in 2003 exceeded 28,000 persons.

⁴³ According to the data reported Gaminirathe N. et al., *Diagnostic Report on the Social Security Situation in Sri Lanka*, ILO, Geneva, 2004, p. 23.

⁴⁴ See ILO Social Security Inquiry in Sri Lanka, Geneva, 2005, pp. 47-51 and Enarsson, S. and Wirén, K., *ALMAO and Yasiru, Sri Lanka*, CGAP Working Group on Micro insurances – Good and Bad Practices, Case Study No. 21, January 2006, available at:

http://www.microfinancegateway.com/files/31892_file_cstudy21.pdf

2.2 Social assistance and cash transfers to the poor

Sri Lanka has a more extensive programme of social assistance than most countries in the region, of which the Samurdhi Programme is by far the dominant scheme. It is complemented by several other small but nonetheless valuable social assistance arrangements, albeit with little coordination.

2.2.1 The Samurdhi programme⁴⁵

The core of the national system of social assistance, mainly providing (through cash transfers) for those in the informal economy, is the Samurdhi scheme, introduced in 1995 as a comprehensive poverty alleviation programme with the purpose of creating opportunities for young persons, women and other vulnerable and disadvantaged groups. Samurdhi has three major components: (a) the provision of a consumption grant transfer to eligible households, (b) a savings and credit programme operated through Samurdhi banks together with loans for entrepreneurial and business development, and (c) a set of workfare and social development programmes with the objective of rehabilitation and development of community infrastructure. The main focus, for the purposes of this paper, is on the first of those.

The welfare element of the Samurdhi programme is comprised of three main subcomponents: a welfare grant (transfer component), an insurance scheme (compulsory for certain categories of families) and social development programmes focusing on disadvantaged categories of people, to be implemented with the assistance of NGOs. The Programme is tax-financed, and administered by the Department of the Commissioner-General of Samurdhi, now within the Ministry of Nation Building and Estate Infrastructure Development.

The welfare grant consists in the distribution of monthly coupons to families receiving less than Rs 1,500 per month⁴⁶ to be exchanged for food, goods, and, when applicable, to pay compulsory insurance premiums and for compulsory savings. The amount of the coupons and the types of coupons distributed monthly are determined by the family earnings and the number of family members. The total amount of the benefit varies between Rs. 100 (family with one member, only for the purchase for food) and Rs. 1,000 (families with more than 5 members and earning less than Rs. 500). Depending on the category to which they belong, the beneficiaries can claim their net entitlement in cash or kind, with deductions being made at source, as prescribed, in respect of savings and insurance, (when applicable). Entitlement to benefits from the scheme ceases when the income of the family concerned exceeds Rs. 2,000 per month for 6 continuous months or one of the family members finds employment. The income transfer is not indexed to inflation.

While the welfare grant provides immediate relief through punctual measures, the insurance scheme has a longer term objective of poverty alleviation, as it aims at reducing the vulnerability of the poor in the face of life contingencies such as death, birth, marriage or sickness in the family. Contribution to the insurance scheme is compulsory for families receiving a monthly welfare grant of Rs. 500 and Rs. 1,000 and is deducted at source. Beneficiaries are entitled to a lump sum upon the occurrence of one of the contingencies,

⁴⁵ For a comprehensive and detailed overview of the Samurdhi programme, see Salih, R., *The Samurdhi Poverty Alleviation Scheme*, ILO, Geneva, 2000.

⁴⁶ These amounts are changed from time to time, and a major review of Samurdhi was undertaken in 2007; the amounts shown here are the latest figures available to the authors at the time of preparing this document.

varying according to the contingency (Rs. 5,000 for the death of family member, Rs. 3,000 or 1,000 for the marriage of a child, Rs. 2,000 for the birth of the first or second child, Rs. 50 per day of hospitalisation in case of sickness, up to a yearly maximum of Rs. 1,500).

The overall responsibility for the administration of the Samurdhi now rests with the Ministry of Nation Building and Estate Infrastructure Development, the programme itself being administered and managed by offices at national and sub-national/local levels, under the authority of the Commissioner-General of Samurdhi.

At the end of 2007, approximately 2.1 million households benefited from the Samurdhi income transfer programme, corresponding to 41 per cent of the total population.⁴⁷ Government expenditures for the Samurdhi programme corresponded to about 0.4 per cent of GDP in 2004⁴⁸ (having declined from the 0.9 per cent of GDP allocated in 2001). The Samurdhi programme was, in fact, streamlined significantly in 2007 within a total allocation of Rs. 9.6 billion for that year.⁴⁹ The implementation of a more rigorous selection process for the targeting of the groups in need has led to a reduction of beneficiaries, the figure being around 38 per cent of the population. Further cuts are to be expected, in the light of the new fact that the Central Bank of Sri Lanka is known to have expressed concern as the high budgetary costs of running the programme.⁵⁰

2.2.2 Other social assistance arrangements

In addition to the Samurdhi programme, government agencies operating at local levels provide a range of less significant social assistance arrangements, targeted at specific categories of persons and contingencies. These various arrangements mainly consist of: income support for disabled soldiers and families of service personnel who have died in the ongoing conflict, assistance for persons displaced by the conflict, and emergency assistance to people affected by natural disasters such as droughts and floods, supervised (now) by the Ministry for Social Services and Social Welfare; free textbooks and school uniforms to children, administered by the Ministry of Education; and assistance for indigent elders and families with disabled persons and people with incapacitating illness who are unable to work, managed by the Provincial Councils.

In 2002, assistance under these programmes was provided to 20,000 disabled ex-soldiers, 100,000 internally displaced persons and 400,000 families with disabled persons and people with incapacitating illness who are unable to work.

⁴⁷ According to data from the Central Bank of Sri Lanka, quoted in World Bank, *Sri Lanka: Strengthening Social Protection* (Part 1), Washington, 2006, p. 67.

⁴⁸ *Ibid.*, p. 63.

⁴⁹ Proposed amount(s) for the financial year 2008-09 have been declared by the government in the framework of the 2008 budget read by the Minister of Finance (also, indeed, Prime Minister), at a level of about Rs. 11 billion. See Annual Report 2007, Central Bank of Sri Lanka, available at: <http://www.cbsl.gov.lk>

⁵⁰ *Ibid.*

2.2.3 Health care system⁵¹

Recognized as one of the most comprehensive and advanced in South Asia, the health care system of Sri Lanka has significantly contributed to the social development of the country, by considerably reducing the rate of child mortality⁵² and increasing the life expectancy of the population,⁵³ allowing the country to attain a relatively high rank (for a developing country) on the Human Development Index (0.743 in 2005).⁵⁴ Having succeeded in providing a high degree of risk protection against the financial risks of illness, the system has achieved one of the primary objectives of its creation.

The Sri Lankan health care system is comprised of a public and a private component. Public health care is universal, free of charge, and includes a wide range of promotional, preventive, curative and rehabilitative health care. Provided through an extensive network of institutions, e.g. health care centres and hospitals, under the responsibility of the Ministry of Health and Nutrition, public health care is exclusively financed by general revenue taxation, including donor funds, paid into the consolidated fund of the government. Private health services are financed for the most part (90 per cent) by households' out-of-pocket direct payments, and for the rest from employers and private insurance payments.

The Government, as the main financier of health care, is currently feeling the "pincer" effect of two factors, namely the relatively rapid increase of costs of health care, which is an international phenomenon, and the loss in real value caused by accelerating inflation in SL Rupee terms, which reflects the rather persistent weakness of the economy, certainly by comparison with important neighbours in the region.

⁵¹ This section is mainly based on Chapter 4 of Gaminirathe N.et al., *Diagnostic Report on the Social Security Situation in Sri Lanka*, ILO, Geneva, 2004, pp.33-34, and on the information available on the website of the Ministry of Health and Nutrition of Sri Lanka (www.health.gov.lk).

⁵² From a rate of 100 per 1000 live births for under-five mortality in 1970, to a rate of 14 per 1000 in 2005, according to UNDP (<http://hdrstats.undp.org>).

⁵³ From 65 in the 1970-1975 period to 70.8 in the 2000-2005 period, according to UNDP (<http://hdrstats.undp.org>).

⁵⁴ Ibid.

3. Gaps and weaknesses of existing social security and assistance schemes

While Sri Lanka has achieved the highest degree of social security coverage among South Asian countries, there is still considerable progress to be made. According to ILO estimates, about 28 per cent of the working age population is effectively covered under social security pension and benefit schemes, mostly comprising employees in (relatively) formal employment who (or whose employers) are not defaulting on contribution obligations. While a significant, if declining, proportion of the population lives in severe poverty, social assistance programmes provide cash transfers to approximately 1.9 million poor families. In the absence of basic social protection or adequate income replacement, the remainder is left extremely vulnerable in the face of “life risks” such as death, disablement, sickness and outliving of resources in old age. In addition, existing schemes suffer from important deficiencies which prevent them from efficiently and adequately delivering benefits to those covered. As for the country’s health care system, although providing universal coverage and standing out among those in the region, it appears to be seriously hampered in responding to the changing needs of the population, reflecting principally under-funding and shortage of qualified personnel.

3.1 Income security systems⁵⁵

Lack of adequate coverage

Together, existing social security arrangements for the formal and informal economy are estimated to have extended eligibility for social security participation to more than half of the population of working age⁵⁶ (around 54 per cent) and more than a third of the overall population (around 36 per cent). In addition to the significant proportion of the population not covered under any existing scheme, a certain proportion of workers eligible to participate in these schemes are not effectively covered.

People without coverage either lack the necessary cash income – are too poor – to contribute to one of the schemes, or are not in a position to engage in remunerative employment. Two-thirds (5 to 5.3 million) of non-protected people are of working age but fail to fulfil the eligibility criteria under any of the schemes (e.g. farmers excluded by age limits, employers, migrant workers, domestic workers, students, seafarers, contract workers and casual workers). Around 70 per cent of this group lacking coverage is made up, in fact, of women. In addition, around 6.7 million people - representing children and the elderly - are not of working age and therefore not eligible for coverage under any of the existing schemes. Except for migrant workers, most of these people have very limited and irregular, if any, income and are not generally in a position to self-finance their own income security schemes. Given the contributory nature of existing schemes (with the

⁵⁵ This part of the paper is mostly based on the findings of Gaminirathe N.et al., *Diagnostic Report on the Social Security Situation in Sri Lanka*, ILO, Geneva, 2004. The statistics used here are the ones provided in this study. See also Rannan-Eliya, R.P. and Eriyagama, V., *Assessment of the Employees’ Provident Fund in Sri Lanka*, Research Studies: Demographic Transition and Pension Series No. 3, Institute of Policy Studies, Colombo, 2003, pp. 13-15 and Eriyagama, V.; Rannan-Eliya, R.P., *Assessment of the Farmers and Fishermen’s Pension and Social Security Benefit Schemes in Sri Lanka*, Research Studies: Demographic Transition and Pension Series No. 3, Institute of Policy Studies, Colombo, 2003, pp. 46-50.

⁵⁶ This refers to the population between 18 and 65 years.

partial exception of the PSPS), and linkage to some form of employment contract, resulting in general targeting to people in a position to save for the long term, it is rather difficult to see how coverage could be readily extended to these groups of people under any of these schemes. Other mechanisms would be necessary to ensure the provision of basic social security benefits to those groups, in the form of redistributive transfers (from other occupational groups) or by direct general revenue-funded subsidies (e.g. universal state pension).

Moreover, participation in existing schemes is well below the total number of those who should be eligible for membership, with estimates suggesting that overall enrolment may lie in the range between 49 and 52 per cent of total eligible workers, or 26 to 28 per cent of the working age population. In total, the number of workers eligible to participate in a scheme but not enrolled or having defaulted from paying their contributions is estimated to be around 3.3-3.6 million. More specifically, the social security schemes for workers in the formal economy were estimated to cover 3.1 million persons in 2006, or 23 per cent of the workforce. The estimated coverage rate of the Farmers' and Fishermen's Pension and Social Security Benefits Schemes corresponded to 57 per cent and 42 per cent of their target audience in 2006, respectively. This gap between targeted and effective coverage may be explained by factors ranging from the lack of knowledge or interest of eligible workers about the schemes, to their inability to pay the required contributions due to the nature of their occupation and the variations in their earnings, and evasion from registration reflecting weak enforcement. Thus, in fact, the main challenge which schemes for formal workers face with regard to the extension of effective coverage relates to the enforcement of mandatory contributions, especially where small firms are concerned.

As these figures indicate, social security coverage in the country, although relatively high compared to other countries in the region, is still far from being a reality for every Sri Lankan. Most existing schemes show gaps and limitations in coverage and face efficiency and sustainability challenges that should be addressed to ensure the effective delivery of benefits to those covered. In addition, the coverage of workers in the informal economy is still insufficient in the face of the increased risks to which these workers are exposed and must be expanded to ensure the access of all the population to some form of income security. Taking into account the constraints existing schemes face in ensuring participation of those covered, it seems likely that the extension of coverage beyond the actual percentage of 40-45 per cent of the labour force will prove difficult.

In addition to inadequate personal coverage, the Sri Lankan social security system suffers from gaps with regard to the range of benefits available to those covered under existing schemes, which fail to offer protection which is comprehensive in the sense of providing for all nine "standard" branches of social security.⁵⁷ While many contingencies are protected on a universal basis (health care, child benefit subject to a means-test) or covered under one scheme or another (old-age, disability, survivorship), some are only partially covered (disability – only if total, and in the case of work injury and maternity – on an employer's liability basis) and others not at all (including, notably, unemployment).

Inadequacy of benefits to provide sufficient income replacement

Lack of periodic payments of benefits – Most contributory schemes for workers in the formal economy (i.e. EPF/ETF, APPFs) provide benefits to their members in lump sum form, rather than as periodical payments. In the absence of regular income replacement throughout the rest of his life, a pensioner is placed, in effect, in a position where he/she has to manage the lump sum benefit in such a way as to generate a flow of income,

⁵⁷ As set out in the Social Security (Minimum Standards) Convention, 1952 (No. 102).

essentially through its investment. Moreover, tools such as annuity contracts to manage the “risk” of living longer than the average (and so, in effect, exhausting the lump sum too early) are hardly available to such individuals. Arguably more flexible than the EPF, APPFs seem to be even less conducive to ensuring adequate social security in old-age, in allowing contributors to withdraw the balance of their account as a lump sum upon leaving their employer (with no obligation to transfer it to the EPF, even though that possibility exists). The use of individuals’ accounts in both the EPF and ETF, up to a level corresponding to 75 per cent of a contributor’s individual account balance, to support housing loans also creates difficulties in its application. Poorly informed about the terms and conditions of such loans, subject to repayment with interest, and in the absence of effective control on how the loan is effectively spent, many members use the money for other purposes, unaware that interest obligations are accumulating. Many of them find it impossible to reimburse their loan with interest, but there is no enforcement mechanism in place for that purpose. As a consequence, members are left indebted, often with hardly any sum left in their account to provide for their old age, and the Fund itself loses money.

Low level of replacement income – The contributory schemes offer low replacement rates, equivalent at best to 20-45 per cent of contributors’ (already low) wages, which are not adequate to ensure a sufficient income to their members in old-age or disability, or to their families in case of death. Calculations based on the average benefit provided to contributors to the EPF in 2001 show that should such a lump-sum be converted into a theoretical 25 year annuity at 12 per cent interest (even without any allowance for expenses), this would translate in a monthly payment which was less than 14 per cent of the average GDP per capita in that year and well below the poverty line.⁵⁸ This implies that beneficiaries under the scheme cannot rely on their benefit alone to live decently. With regard to the EPF, the low replacement level may be explained by the fact that the average period of contributions is relatively short in comparison to the average life expectancy of members.

In addition, the lack of adequate inflation protection characterizing all the schemes substantially weakens the degree of protection by lowering the relative benefit to which members are entitled as they age, especially as life expectancy is increasing. The absence of inflation protection effectively creates an implicit liability for the government, since it is forced periodically to finance the raising of pension and benefit levels in the contributory schemes. It seems, in fact, that there is little or no adjustment to cope with demographic ageing. The levels of benefits and replacement rates under existing schemes, irregularly adjusted with inflation, has also been identified as a possible deterrent for covered workers to participate in those schemes. Where the PSPS is concerned, it should be noted that, although the scheme offers theoretical replacement rates at retirement up to around 85 per cent, salaries in the public sector tend to be lower than in the private sector. Moreover, benefits under this scheme are subject to *ad hoc* adjustment (with only 5 pension adjustments between 1985 and 2002, seemingly more for political than economic considerations) rather than being indexed, and therefore quickly deteriorate in real terms, lagging behind inflation and the rising cost of living.

Other factors – The fact that existing schemes are linked to closely to (formal) employment also contributes significantly to increasing the gender gap in the degree of social protection available respectively to men and women. This substantially worsens the problem of inadequate income protection in old-age, as, while men tend to work for

⁵⁸ Rannan-Eliya, R.P.; Eriyagama, V., *Assessment of the Employees’ Provident Fund in Sri Lanka*, Research Studies: Demographic Transition and Pension Series No. 3, Institute of Policy Studies, Colombo, 2003, p. 14.

considerably more years than women and therefore claim higher benefits under the schemes, women live longer on average than men.

It also seems that the provisions of the schemes and their objectives, especially where long-term benefits are concerned, are not well or sufficiently understood by their members. The result is that, in many cases where benefits are paid in lump sum form, they are used to meet perceived immediate needs, rather than to provide as intended for an ongoing stream of income.

Lack of coherence and coordination

The lack of coherence and planning in the design, management and methods of financing of the schemes added to the lack of coordination between the schemes, has an adverse impact on their efficiency in providing adequate replacement income. Administered and supervised by different agencies, departments and ministries, the schemes are poorly integrated with each other. As a result, some of them duplicate the functions of others (i.e. the ETF and APPFs are effectively very similar to the EPF). This also contributes to gaps in coverage and facilitates evasion by individuals of their contribution responsibilities by making proper supervision very difficult. Possible conflicts of interest between institutions in charge of administering funds may also hamper their efficient management. The collection of contributions suffers moreover from an effective lack of coordination, and problems are seen in the enrolment and account maintenance processes. For instance, EPF members have no individual registration numbers; it is employers who register with the scheme, which leads to situations where multiple accounts are held by the same person. All of these translate into unnecessarily high administrative costs.

In addition, the schemes differ markedly from each other in terms of the basis for contribution and benefit and have not been designed to facilitate transfer from one system to another. Few schemes allow for the portability of benefits, a rare exception being in the case of those who move to or from the civil service. Civil servants moving to the private sector and vice-versa, or workers moving from one occupational sector to another, and so from one old-age benefit scheme another, stand however to lose much of their wealth accumulated for retirement. It has been suggested that the complexity of the current system, by creating disincentives for workers to change jobs, and therefore by discouraging labour market flexibility and acting as an impediment to structural changes in the economy, is in fact incompatible (or at least poorly compatible) with the needs of rapid economic development.⁵⁹

Lack of financial and fiscal sustainability

A problem common to all current schemes is their non-sustainability at the fiscal and financial levels. In addition to the high administrative costs related to the operation of the majority of schemes,⁶⁰ the schemes are governed by unsatisfactory investment rules, which have a detrimental impact on their financial health and stability. By allowing (some) contributors to withdraw the accumulated balance of their account when changing jobs and, where schemes for workers of the formal economy are concerned, by delivering the benefit as a lump sum, these rules undermine the ability of schemes to maintain their funds at a sufficient level. Furthermore, in the absence of enforcement mechanisms ensuring that

⁵⁹ Gaminirathe, N. et al., *Diagnostic Report on the Social Security Situation in Sri Lanka*, ILO, Geneva, 2004.

⁶⁰ Exception made of the EPF, the administrative costs of which correspond to less than 1 per cent of its total gross income, including operational and investment costs.

contributions are properly paid, evasion is frequent, which creates unpredictability with regard to the sums available. The statutory investment constraints imposed on the funds and the restrictive investment guidelines issued by the Monetary Board within these parameters⁶¹ are also burdensome and result in low returns and underperformance of the funds, and therefore, in lower benefits for members. With regard to the EPF more particularly, it may be noted that, in recent years, the declaration of the interest rate to be credited to members' individual accounts has become a matter of some public controversy. The current annual interest rate stands at 11 per cent,⁶² which is below the current rate of inflation, estimated at around 30 per cent. It appears that a continuing failure to address the risk aspects of inflation is undermining the real value of members' accounts and thus their social security benefits, which might be corrected at least in part by a more appropriate investment strategy.⁶³

In addition, the schemes suffer from a high dependency ratio, which is expected to increase with population ageing, the increase in life expectancy and the decrease in the fertility rate as forecast. The Farmers' and Fishermen's Pension Schemes⁶⁴ are particularly vulnerable to this phenomenon, as they cover workers from the primary sectors of the economy, likely to decline with economic development. This will result in an adverse cash flow trend, through a decrease in the number of contributors while at the same time the number of pensioners will still be increasing, and thus additional pressure on the schemes' finances.

The funds' non-sustainability has an impact on their degree of self-sufficiency. In principle, the only explicit liability for the government is the PSPS. While the other contributory funds may in theory be fully funded, and so should not experience funding gaps, estimates indicate, however, that the Farmers' and Fishermen's Pension Schemes carry significant implicit liabilities. Even at the overt level, default rates are estimated to be fairly high, at between 30 and 40 per cent. The schemes have not reached yet a state of financial self-sufficiency as intended and are still heavily funded by the Treasury, yet estimates point towards the need for further increases in the Treasury transfers to pay the future pensions. An increase in the number of persons covered, coupled with the substantial increase in life expectancy forecast, will imply a corresponding increase in their effective costs to the Treasury.

Weak administration and lack of tripartite representation

The legislation relating to the management of schemes is generally sketchy. The lack of administrative capacities of most existing schemes also constitutes a major obstacle to their well functioning. More precisely, lacking technical capacity in the actuarial, financial and

⁶¹ According to the information obtained from EPF officials in May 2008, 96 to 97 per cent of the EPF's investments are estimated to be in Treasury bonds. The ETF seems, according to this information, to have allocated investments to Treasury bonds in a lower proportion, although still significant, of 90 per cent. The remaining 10 per cent is invested in shares, but always within the country.

⁶² These numbers have been communicated to the authors by officials of the Central Bank of Sri Lanka at a meeting held in Colombo in May 2008.

⁶³ It appears from discussions held between the ILO and EPF officials that a project of indexation of benefits to cope with inflation may be under way, although no concrete proposals or recommendations to that effect have been communicated to the ILO.

⁶⁴ Eriyagama, V.; Rannan-Eliya, R.P. *Assessment of the Farmers and Fishermen's Pension and Social Security Benefit Schemes in Sri Lanka*, Research Studies: Demographic Transition and Pension Series No. 3, Institute of Policy Studies, Colombo, 2003, p. 50.

administrative functions, the agencies in charge of the schemes often prove incapable of efficiently managing the collection of contributions and the delivery of benefits, which contributes to their non-sustainability. In the absence of specific legal provisions laying down the obligation for the Funds to be regularly (e.g. yearly) subject to an actuarial review, there is, at best, infrequent evaluation of their sustainability. In practice, the high costs of hiring external (often foreign) actuarial experts to conduct actuarial valuations and reviews of the schemes, means that financial analysis rarely goes beyond the basic legal obligation of a simple audit of the Fund. With the exception of the EPF, most schemes also lack the managerial expertise to prudently and efficiently administer funds and investments, which results in avoidable inefficiencies, high costs of administration and low investment returns. In the absence of any centralised agency in charge of supervising the funds and keeping records, there is no monitoring of investment performance and therefore little incentive or pressure on the administration to perform well. There may be only limited data which is either reliable or up-to-date, with the consequence that detailed analyses of investment performance cannot be undertaken.

3.2 Samurdhi and other social safety nets⁶⁵

While the Samurdhi programme as a whole and its cash transfer component constitute an important safety net helping families to cope with poverty, its real impact is diminished by a series of deficiencies, preventing it from effectively addressing chronic poverty. These may mainly be summarised as follows.

Mistargeting – In the past years, the scheme has been criticised for deficient targeting. While the programme lays down certain criteria for entitlement to the benefit, consisting mainly of a means test conducted by officers at the local level, there seems to be a lack of clear methods and guidelines on how to assess whether these criteria are fulfilled in practice. Political and ethnic considerations have also been identified as playing a role in the identification of beneficiaries, contributing to the often discretionary character of the process.⁶⁶ Mistargeting is therefore frequent, with the consequence that some people who do not need the benefit receive it, while a high proportion of the poorest people remain uncovered. Studies have found that 44 per cent of the three richest quintiles received income transfers in 1999-2000, while only 60 per cent of households in the bottom quintile received them.⁶⁷ The recent changes in the beneficiary identification process together with the political will to remedy to such problems and to curb related budgetary expenses should in future allow for a better outcome.

Administrative obstacles and inefficiency of the delivery system – The high administrative costs of implementing the Programme have also been seen as a major impediment to its efficiency and capacity to deliver effectively. With regard to the delivery of the benefit, assessments find that not only is regional coverage insufficient (in particular in the North and the East),⁶⁸ but also that the cooperative system, through which payments are made, is

⁶⁵ This section is mainly based on the findings of an analytical review commissioned by the Social Security Department of the ILO: Salih, R., *The Samurdhi Poverty Alleviation Scheme*, ILO, Geneva, 2000.

⁶⁶ Ibid., p. 15 and World Bank, *Sri Lanka: Strengthening Social Protection*, Washington, 2006, pp. 70-71.

⁶⁷ Ibid., p. 70.

⁶⁸ World Bank, *Sri Lanka Poverty Assessment – An empirical evaluation of the Samurdhi Program*, Washington, 2000.

hampered by various factors impairing its efficiency at the point of delivery.⁶⁹ Among others, obstacles identified by the beneficiaries include the poor quality of goods available through the cooperative system, corrupt practices in terms of weights and measures, the enforced sale of lottery tickets for part of the entitlement, and in some areas the difficulty of access to cooperative.

Inadequacy of the benefit – Studies carried out on the real impact of the Samurdhi cash transfer suggest that the benefit is not sufficient in amount to deal effectively with poverty. Not only is the amount of the benefit significantly reduced once the compulsory savings and insurance contributions are deducted, but it is further reduced after accounting for efficiency losses via the delivery mechanisms.⁷⁰ Beneficiaries therefore receive actual payments that are much smaller than the stipulated grant. In the absence of inflation adjustment, the benefit's real value is even further diminished and does not allow people to cope with a rise in the cost of living. In general, the net benefit is too low to cover basic household expenditures, covering only one quarter of the food consumption bill of the poorest in 1999-2000, according to the World Bank. A cash benefit which is not indexed in the context of an inflationary environment will quickly become meaningless and no longer contribute toward achieving the income security or poverty alleviation goal it set out to achieve. What is needed is to guarantee a mechanism for regular indexation of benefits (e.g. in 1999-2000, an average of 14 per cent of total household food expenditure could be met by the grant, corresponding to 5-7 days of food per month),⁷¹ and, in the broadest terms, to refocus on the primary objective of taking people out of poverty.⁷²

Other social safety nets are rather limited in scope, as they focus on specific groups of persons in specific circumstances. In the absence of a comprehensive approach, their only purpose consists in providing timely relief upon the occurrence of a contingency, without addressing the other aspects of the problem (e.g. prevention and rehabilitation in case of disability). Safety nets also suffer from coverage deficiencies. While, for instance, the specific targeting of the income support programme for disabled soldiers injured by the ongoing conflict leaves a significant portion of the poor disabled undercovered, there is some overlap between the beneficiaries of the programmes administered under Samurdhi and those under the Ministry of Social Welfare.⁷³ Again, there is a lack of coherence and coordination between Samurdhi and the other social assistance arrangements as well as among these other arrangements, with no overarching social assistance system under which programmes/arrangements would be linked, ensuring an effective and adequate delivery of benefits nationwide.

⁶⁹ Salih, R., *The Samurdhi Poverty Alleviation Scheme*, ILO, Geneva, 2000.

⁷⁰ Ibid.

⁷¹ World Bank, *An Empirical Evaluation of the Samurdhi Programme*, Sri Lanka Poverty Assessment, Washington, 2000.

⁷² See World Bank (2006), p. 69: "In 2002, the average income shortfall needed to move a person over the poverty line was four times the sizes of the actual grant. If targeted perfectly, Samurdhi could have moved 60 per cent out of the poor out of poverty with a budget one and a half times as much as was actually spent that year."

⁷³ World Bank (2006), p. 64, referring to World Bank, *Poverty and Social Impact Analysis for Sri Lanka: A Case Study*, PREM, South Asia Region, Washington, 2005.

3.3 Health care system

The conclusions of a recent Government report,⁷⁴ which confirm those of a number of studies,⁷⁵ are that the deficiencies of the Sri Lankan public health care system are mostly attributable to its inadequate funding and to the insufficiency of existing structures and management methods to increase the cost effectiveness of the provision of health care and to assure its quality.⁷⁶ The total public expenditure allocated to health in 2003 corresponded to approximately 3.6 per cent of GDP, with a heavy reliance on taxation and out-of-pocket expenditure (about 48 per cent) as financing sources.

According to the same Government report,⁷⁷ the health system is suffering from structural weaknesses preventing it from meeting the needs of the population. Busy and overcrowded health care institutions and facilities have difficulty in coping with the heavy demand, which reached an approximate rate of 0.2 inpatient admissions per capita in 2003. Causes for such a mismatch between supply of and demand for services range from insufficient diagnostic capabilities in lower primary care and outpatient departments, to patients being admitted on demand (rather than on a referral basis), and patients bypassing the lower level services (mostly in peripheral hospitals) in favour of larger city and provincial hospitals. Furthermore, the absence of clear admission and referral policies was also identified as a factor contributing to the overcrowding of the system.

In addition to these systemic problems, the lack of a comprehensive human resource strategy and the lack of coordination among all units concerned in the Ministry of Healthcare and Nutrition and the Ministry of Education have been identified as important impediments to the provision of adequate primary and specialist medical services outside the more developed regions of the country.⁷⁸ Together with insufficient funding, imbalance in the recruitment and production of different categories of staff, geographically uneven development and disparity between expected job performance and training constitute some of the major problems in this area. Overall, disparities in the requirements and supply of several categories of health personnel and shortages of specialist categories cause inefficiency and ineffectiveness in the public and private delivery systems. Understaffed and under funded, medical services at the national level experience shortages due to the inability of the government to recruit, post and retain general (e.g. family medical practitioners) and specialised staff in rural areas. The unavailability of adequate medical care in several parts of the country effectively translates to uneven population coverage under the public health system, leaving those people in regions where services are not available without coverage, unless they can afford and have access to the type of care they need from the private sector. The Ministry's report further emphasizes the need for improving the technical competency of the health staff and of encouraging positive humane attitudes in order to achieve better responsiveness.⁷⁹ Of particular concern, the

⁷⁴ Ministry of Healthcare and Nutrition, *Health Master Plan Sri Lanka – Healthy and Shining Island in the 21st century, 2007-2016*, Colombo, 2007, available at: www.health.gov.lk

⁷⁵ See in particular Gaminirathe N.et al., *Diagnostic Report on the Social Security Situation in Sri Lanka*, ILO, Geneva, 2004, p. 34.

⁷⁶ Ministry of Healthcare and Nutrition, *Health Master Plan Sri Lanka – Healthy and Shining Island in the 21st century, 2007-2016*, Colombo, 2007, p. 3, available at: www.health.gov.lk

⁷⁷ *Ibid.*, p. 3.

⁷⁸ *Ibid.*, p. 7.

⁷⁹ *Ibid.*, p. 8.

limited budgetary resources allocated for the purchase of medicines create shortages in the public health system. This contributes to the overcrowding of larger facilities, where medical supplies, medication and diagnosis equipment more reliable. Patients must often buy their own medication.

The health care system furthermore faces major administrative deficiencies, related to its organisation and management, financing, and service delivery mechanisms.⁸⁰ This is due, among others, to the absence of flexibility in decision-making processes, which prevents the effective allocation and utilisation of resources to respond adequately and in a timely manner to upcoming needs and to deal with emergency situations. The lack of an efficient management information system and of a results-based performance appraisal mechanism have also been identified as posing significant challenges to health care management.

Apart from being undermined by internal weaknesses, the health care system is also severely affected by external shocks. First, the burden of 20-year conflict has had a devastating impact on the health system in the affected areas, resulting in severe damage to its infrastructure (from primary care centres to tertiary hospitals), breakdown of preventive and promotional services, lack of other supportive facilities (e.g. medical supplies and equipment) and the disorganisation of other related systems such as education and sanitation. The conflict and the resulting collapse of the health system in affected areas have created a range of negative health impacts – both physical and psychosocial – for the population living in those areas, which the actual system, due to the damages suffered and the scarcity of human resources in these regions, can cope with only with great difficulty. Furthermore, the 2004 tsunami has caused extensive damage to the infrastructure in coastal areas, which still needs rebuilding.⁸¹

Sri Lanka's achievements in improving public health over the last decades are to say the least remarkable considering the country's level of economic development and are outstanding compared to the record of most countries of the region. However, the country's health care system currently faces major challenges in view of the country's demographic context and of the sudden rise in food prices, which are expected to put increasing pressure on the system in the years to come.

⁸⁰ Ministry of Healthcare and Nutrition, *Health Master Plan Sri Lanka – Healthy and Shining Island in the 21st century, 2007-2016*, Colombo, 2007, available at: www.health.gov.lk, p. 10.

⁸¹ *Ibid.*, p. 11.

4. Proposals under Development

This Chapter contains a brief review of a number of proposals, which are either current, or of relatively recent origin, for extending the reach and scope of social security in Sri Lanka.

4.1 Proposed amendments to the Employees' Provident Fund Act

On the occasion of the 50th anniversary of the EPF, the Ministry of Labour Relations and Manpower (MoLRM) has engaged in a reflection on some of the features of the scheme and has formulated a series of proposals for the amendment of the EPF Act,⁸² with the stated purposes of: rationalising the regulatory procedure of the EPF scheme; enhancing benefits under the scheme; expanding the scheme, and; enhancing the investment of funds. In addition to these proposals, possible avenues for reform (“re-engineering”) or enhancement of the EPF have been identified by MoLRM officials following a “study tour” to review the provident funds in Singapore and Malaysia. Based on favourable observation of these schemes, and wishing to examine the possibility that some of their features could be reproduced in the Sri Lankan system, a number of recommendations, putting forward the proposed amendments, have been developed and are at present under consideration within the MoLRM.⁸³ While these measures have been brought to the attention of the ILO by officials of the MoLRM and of the EPF, their implementation within the EPF Act and therefore their implications for EPF members, should they be implemented, have been discussed only very briefly. In the absence of further details in this regard, it should be noted that the following comments are based on rather limited documentation.

The proposals in relation to the EPF may be grouped into four main categories:

- (a) It is proposed that modernised membership identification and administrative procedures should be implemented, including in particular the introduction of a national identity card number as unique member number. The main objective is the rationalisation of administrative procedures of the EPF, but other significant benefits are expected, in the case, for example, of the re-registration of members who change employment, as well as facilitating the overdue computerisation of parts of the database and of the contribution collection process. These measures are to be welcomed, in that they should simplify the management of accounts and to some extent contribute to the streamlining of administrative procedures, but are likely to have limited overall impact in correcting other administrative deficiencies of the EPF.
- (b) Several measures are envisaged for the provision of “enhanced benefits”. In particular, the recommendations include the introduction of: a “scheme to meet medical expenses with a ceiling”; “education assistance scheme for tertiary, education and vocational education”; and an “employee insurance scheme to cover life, accidents, hospitalisation, or other prescribed purposes”. The conversion of the existing housing loan scheme into a house-purchasing scheme is also recommended.

⁸² These amendments, drafted by Mr. R.P Wimalasena, Senior Legal Advisor of the Ministry, were communicated to the ILO by officials of the Ministry of Labour Relations and Manpower in March 2008 in a document entitled “Proposed amendments to EPF Act No. 15 of 1958 to re-engineer the Provident Fund Scheme at its 50th anniversary (June 2008)”, Ref.: 4/16/1.

⁸³ These recommendations were communicated to the ILO mission team at its meeting with the Secretary of Labour in Colombo, May 2008.

In addition, the proposals include the possibility for members of the scheme to withdraw up to 30 per cent of the balance of their account, under certain conditions, to cover specific purposes, i.e. medical, education and housing expenses, as well as the possibility for a member of the scheme to withdraw a lump sum corresponding to a maximum of 50 per cent of his account, at 50 years of age. It seems that the new “schemes” to which the proposals refer effectively consist in providing wider facilities for withdrawals rather than additional benefits as such. Should they be used by a high number of members, these withdrawals may, however, have a destabilising effect on the financial equilibrium of the Fund. In addition, the proposals to allow withdrawals for specific medical circumstances could prove counter-productive if interpreted in such a way as to allow the government to any significant degree to abrogate, potentially or actually, its legal obligations with respect to medical care.

- (c) Several recommendations are put forward for the extension of personal coverage, notably envisaging the voluntary coverage of self-employed, including domestic workers, migrant workers (“returnees from foreign employment”) and “other volunteers”. In principle, these recommendations, should they be implemented, could make a useful contribution to extending coverage, on the one hand, to groups of workers who are poorly covered under existing schemes (self-employed) and, on the other hand, to workers who are not eligible at present to join any of the existing schemes. Such extension of coverage is very desirable in principle, although questions may be raised as to the extent to which such provisions have significant potential in achieving their purpose. Taking into account that there already exists a voluntary scheme for self-employed workers,⁸⁴ which however appears to have achieved only limited success due to the difficulty for the self-employed with – often – low or irregular earnings to pay contributions at the prescribed rates, the impact of these provisions in practice may not be as significant as it would at first appear.

At the same time, a suggestion has been raised that the Government may seek to increase the contributions under the EPF (from 8 to 10 per cent for employees and 12 to 13 per cent for employers). Considering that the scheme already suffers from high evasion, due presumably to the inability of members to readily meet their contribution obligations, such a proposal may not in fact be very timely.

- (d) Fourthly, some measures are proposed which would introduce a tripartite element in the management of the scheme, through the establishment of a Tripartite Advisory Board, where employers and workers would be represented, in addition to the Secretary of Labour, the Commissioner of Labour and the Governor of the Central Bank, to provide advice and make recommendations to the Monetary Board regarding the administration of the EPF. This recommendation is in line with ILO principles and, should it be implemented, would allow for a better representation of the main stakeholders, therefore ensuring that the decisions taken with regard to the management of the scheme are in the interest of the social partners. The extent to which the advice of this Tripartite Board would actually be taken into consideration in the decision-making process and the selection process for employers and workers representatives will however determine its usefulness.

An additional proposal, rather different in character, has been raised in relation to the status of the EPF for tax purposes thus:

⁸⁴ In this regard, it would be interesting to get more information on how the proposed provisions for their coverage under the EPF would integrate or coexist with the existing self-employed pension scheme.

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- (e) the recommendations include reference to possible “tax incentives”, mainly consisting of the abolition of income tax payable on members’ benefits upon withdrawal, and measures for maximizing investments of the Fund. It is common practice around the world to allow some relief from tax to encourage membership of social security schemes, particularly those providing for old-age, either by way of allowing contributions to be paid from pre-tax income, or by allowing the payment of benefits free of tax, or by allowing invested funds to accumulate free of tax. It is unusual, however, that schemes and their members are allowed to benefit from two such categories of tax “privilege”, and very rare that three are allowed. The EPF was designed originally to benefit from the third type of allowance (tax-free accumulation of investment income), but this has been “clawed back” to some extent in recent years, in the light of the strains on the national budget; the restoration of the intended degree of tax privilege would be welcome.

4.2 Proposed Construction Workers’ Scheme

In the immediate aftermath of the devastating tsunami of December 2004, Ministers observed that the rebuilding effort would certainly draw many additional workers into the construction industry, for whom little or no social protection would be available. Proposals were therefore advanced, on however provisional a basis, to put in place a dedicated social security scheme for such workers, and the assistance of the ILO was sought in developing the outline scheme design. In addition, but separately, it was recognized that the activities of restoring the massive damage caused, and removal of debris, might present unusually intense hazards in the field of occupational safety and health.

The ILO’s study was carried out with a view to providing a rapid, rather than very detailed outline proposal. This envisaged a Defined Contribution (DC) scheme, based on individual accumulation accounts, there seeming little realistic alternative for workers whose employment is by nature intermittent, seasonal and shifting in location.

The study noted, however, the extreme difficulty in designing a scheme for this group of workers which would have both acceptable rates of contribution and an adequate level of benefits, particularly on old-age retirement. This difficulty would be exacerbated in regard to any sub-group of construction workers whose working pattern is characterised by long breaks between periods of activity, including, notably, women.

The ILO, moreover, advanced proposals for a new, single-occupation, stand-alone scheme with some reluctance, while recognizing the importance of the construction industry in the prevailing circumstances, in the light of repeated recommendations over many years that the fragmented structure of social security provision in Sri Lanka urgently needs to be rationalized, and schemes to be amalgamated so as, *inter alia*, to address the need to improve the efficiency of administration and policy-making.

The only evident means to resolve such difficulties effectively would be to conceive the provision of a scheme of social security for construction workers – and indeed in the case of any occupational group whose social security needs are addressed in a similar way in the future – within a framework of true “multi-pillar” provision. The starting point would therefore be to specify and design a basic pillar, onto which one or more additional benefit pillars could then be added in a fully-integrated manner, to provide benefits whose character meets the specific needs of any particular group of workers. An outline, showing how a basic benefit package, or basic pillar, could be readily developed for Sri Lanka, is set out in the next Chapter of this document.

It appears that the proposal dating from early 2005 to develop a specific scheme for construction workers has not in fact been advanced until now. If, however, the Government does now wish to promote, or go ahead with the implementation of such a

scheme, the time is opportune to consider the issue in the rather broader framework indicated here.

4.3 Proposed Unemployment Benefit Scheme

Sri Lanka has long has some statutory provision, the Termination of Employment of Workers Act (TEWA), providing for benefits to be granted when workers are made redundant in certain circumstances (see Chapter 2 above). In modern conditions, TEWA probably fails to meet very well the needs of either workers or employers. Moreover, the administration of the benefit provisions relied heavily on discretionary powers granted to the Commissioner of Labour, which however well exercised in fact, could hardly be seen as fair or equitable “across the board”. The difficulties in relation to TEWA have been partially addressed by the introduction of a defined table of benefits by way of compensation for loss of employment. However, the Act is still seen, on the one hand as an impediment to restructuring of Sri Lanka’s labour markets to meet modern and “globalized” market conditions, and on the other hand to provide for tardy and unpredictable benefit payments. The Ministry of Labour and Manpower Development (formerly Ministry of Employment) accordingly perceived the value of developing an Unemployment Benefit scheme, potentially organized on social insurance principles (hence Unemployment Benefit Insurance Fund, or UBIF) which could meet the needs of redundant workers, particularly in the light of the gathering momentum towards enterprise restructuring in the country, on a more comprehensive and sustainable basis.

Accordingly, the ILO was asked, and undertook a study in two phases during 2002 and 2003, to consider such a proposal. The provisional conclusion of the studies was that such a scheme should be both feasible and, in broad, national terms, affordable, if properly designed and implemented.

An effective scheme of unemployment benefits should be designed not only to provide cash, or income, benefits, but also to provide beneficiaries with an integrated package of services including counseling, training (or retraining) and job placement services. In this regard, Sri Lanka is well placed to go ahead with the implementation of a scheme, in that it should be possible to integrate without difficulty into the services of the existing JobsNet system.

The interim conclusion, therefore, is that the proposal to implement the UBIF has a high level of potential. However, it will be necessary at the outset to complete the policy review as to the future of the TEWA. In addition, there is a considerable need for better understanding of the needs and issues amongst the tripartite partners, in particular those of equitable treatment for the workers already affected by restructuring of a number of formerly publicly-owned enterprises, and on the basis of which the political consensus could be built which would provide the impetus to start the scheme.

5. A proposed basic social security benefit package for Sri Lanka⁸⁵

In line with the overall poverty alleviation policy goal pursued by the Government of Sri Lanka and with its reaffirmed commitment to extend social security coverage, this Chapter sets out an ILO proposal for the establishment in Sri Lanka of a basic social security benefit package consisting of a set of social security guarantees and benefits for all residents. The following proposal envisages the development of this basic benefit package in view of the country's needs and national circumstances and therefore takes as a starting point the social assistance infrastructure already in place in Sri Lanka. This is done first by considering the context into which such a proposal is rooted, then by looking at the components of the proposed basic benefit package and finally, by providing cost estimates and indications of the financial implications of establishing such a package for the Government of Sri Lanka, taking into account current levels of social expenditure. It should be emphasised that the scope and ambition of any concrete proposal, to be discussed and defined at a further stage, would be, of course, tailored to the prevailing conditions of Sri Lanka, both social and financial.

5.1 Context

As seen in previous chapters, Sri Lanka has succeeded in putting in place a social security system which provides universal health care, as well as income replacement in old-age, and to some extent disability, to, in principle, about 50 per cent of its population, together with income support for the poor through cash transfers reaching an estimated 40 per cent of the population. Reducing poverty and raising health and living standards have consistently been priorities for Sri Lanka. Accordingly, the Government has shown a strong commitment to human development through the adoption, over the years, of social policies ensuring growth through equity.⁸⁶ Yet, while existing social security schemes and social assistance programmes have certainly and considerably contributed to improving the well-being of the nation, their ability to reduce the poverty gap and ensure equitable growth in future years is questionable, as they do not at present reach all those in need of protection. By some estimates, a quarter of the overall population is still in poverty and an even higher proportion, just above the poverty level.⁸⁷

⁸⁵ The proposal elaborated here uses as a starting point the analysis and findings of a recent research carried out by the ILO Social Security Department for the extension of social security coverage: *Can low-income countries afford basic social security?* Social Security Policy Briefings, Paper 3, Social Security Department, ILO, Geneva, 2008.

⁸⁶ See, among others, the Pro-Poor Policy Framework, part of the *New Development Strategy: Framework for Economic Growth and Poverty Reduction* of the Ministry of Finance and Planning of Sri Lanka of 2005 (p. 27), where it is stated that "(i)ncreasing the income of the poor is a principal objective of the economic growth strategy of the Government".

⁸⁷ According to UNDP, Human Development Index, 2007-2008. As previously noted, however, the Department of Census and Statistics of Sri Lanka estimated in March 2008 the number of people living under the official poverty line at 15.2 per cent in 2006-2007, excluding the Northern Province and certain districts (see <http://www.statistics.gov.lk/poverty/index.htm>).

As underlined by the Ministry of Finance and Planning in the New Development Strategy (2005), economic development can promote peace;⁸⁸ to that, it should be added, based on the ILO's experience, that long-lasting peace can only be ensured if economic growth is accompanied by social development. In that respect, it has long been recognised that social protection is a powerful tool to prevent and alleviate poverty, enhance peace, stability and social cohesion. Social security transfers serve as cash injections to local economies and have a positive impact on their development; redistribution has a positive effect on growth. In addition, and even more importantly considering the Sri Lankan context, providing social security is one of the most effective policies that a State can implement to gain legitimacy and to provide stability in post-conflict situations".⁸⁹ In view of Sri Lanka's dedication to achieving the first Millennium Development Goal of halving poverty by 2015 and taking into account the existing social protection system's limitations, in its present state, to contribute much further to that goal, the time seems well chosen for the country to envisage the development of its social security system in a way that would better suit the needs of its population, and more particularly, of the most vulnerable. A new approach is thus needed, one that will take into consideration current and future socio-economic trends and that will equip the country, as a whole, to better cope with their accompanying challenges.

Considering Sri Lanka's national circumstances and based on the ILO's global and long-lasting experience in the field of social security, it appears that it may be timely to move towards a system of social protection founded on the right to universal access to coverage through the establishment of a basic benefit package. Research undertaken in recent years within the ILO, in collaboration with other international organizations, with regional organizations and with partners at the national level, and practical worldwide experience acquired through technical cooperation activities shows that it is possible to frame a minimum set of non-contributory benefits that a country should provide to its population to take and keep people out of poverty and which form the content of the basic benefit package. In line with international human rights legal instruments and key ILO constitutional documents, such a package would consist of a basic and modest set of social security guarantees. These aim at securing at least some income security/income support to all residents at each major stage of life and are provided through social transfers in cash or in kind. Such a basic benefit package would ensure that:⁹⁰

- all residents have access to basic/essential health care benefits under the aegis of the state's responsibility for ensuring adequacy of the delivery system and its financing;
- all children enjoy income security at least at the level of an appropriate poverty line through a range of family/child benefits aimed to facilitate access to nutrition, education and care;
- some targeted income support is provided to the poor and the unemployed in the age group covering (most) active workers;
- all residents in old age, with disabilities, or survivors of deceased breadwinners enjoy income security in pension form at least at the level of the poverty line.

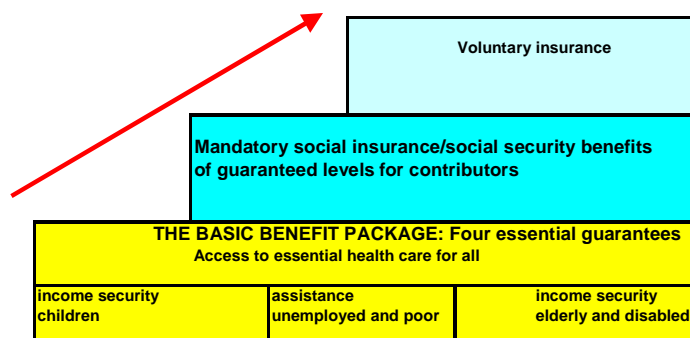
⁸⁸ *Sri Lanka – New Development Strategy: Framework for Economic Growth and Poverty Reduction*, Ministry of Finance and Planning Colombo, 2005, p. 28.

⁸⁹ *Can low-income countries afford basic social security?* Social Security Policy Briefings, Paper 3, Social Security Department, ILO, Geneva, 2008, pp. 1-2.

⁹⁰ *Ibid.*

In the framework of its Global campaign for the extension of social security to all, the ILO is promoting a universal and progressive approach to social development that envisages this basic benefit package as the first and basic pillar of the national social security structure, which provides a minimum level of protection. The additional pillars provide progressively higher levels of protection (see Figure 1).

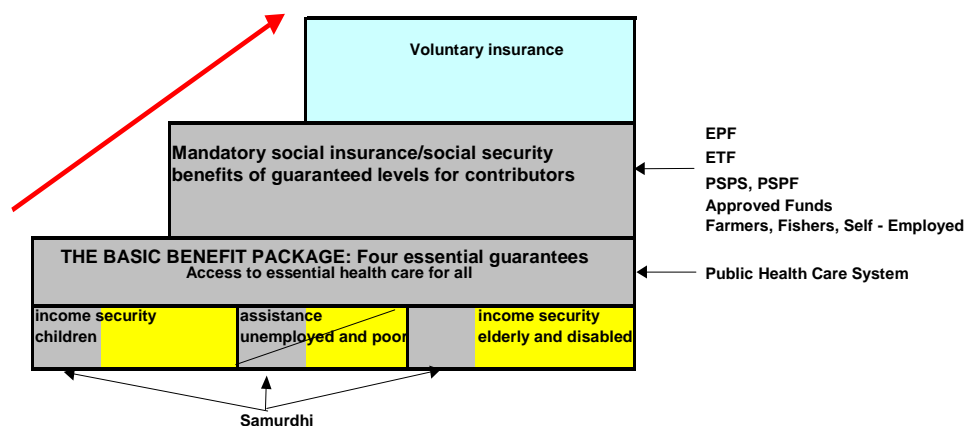
Figure 1. The social security development staircase



As illustrated in Figure 2, most elements of the proposed basic benefit package are already provided – at least partially – under the existing system and therefore would simply need to be strengthened (increased), complemented and extended to a larger (and better targeted) population base. Hence, the design of this minimum benefit package should take into account existing social assistance provisions, consisting mainly of the Samurdhi programme,⁹¹ so that the provisions envisaged build on and complement existing ones, by filling coverage gaps so as to provide at least a basic level of protection to those in need. Given the similarities between the objectives (broadly: poverty alleviation and creation of opportunities for people in need) and the targeted audience (the most vulnerable, i.e. children, the elderly, disabled persons, the unemployed and the poor) of the Samurdhi programme and of the ILO proposal for a basic benefit package, the integration of complementary provisions with existing ones should not be too problematic. With regard to the health care component of the basic benefit package, it is already well implemented in Sri Lanka, where medical care is provided on a universal basis, financed by the treasury from tax revenues, with an extensive network of health providers.

⁹¹ While there do exist other transfer programmes such as emergency assistance to people affected by natural disasters, these are ad-hoc interventions arising from specific needs and are meant to be short-term interventions. The basic social security benefit package, as described below, on the other hand is meant to provide benefits which are of a predictable nature and should cover specific and predictable contingencies (i.e. old-age, childhood, etc.).

Figure 2. The social security development staircase for Sri Lanka



As such, this minimum benefit package would constitute a basic “pillar” of provisions for all, onto which existing formal social security schemes (EPF, ETF, PSPS, PSPF, APP, Farmers, Fishermen and Self-Employed Pension Schemes) would rest, as additional “pillars”, providing higher levels of protection to specific groups of the population, by way of compulsory and voluntary insurance.

The establishment of a basic social security benefit package in Sri Lanka, through the implementation of the proposed minimum benefit package complementing actual provisions will require a commitment from the Government to increase its social expenditure in due course, part of a longer-term strategy and global vision for poverty alleviation. In order to provide some indication as to the level of long-term costs which would be expected for the implementation of a basic social security benefit package in Sri Lanka, this Chapter first sets out *illustrative* calculations by way of cost estimates, for the respective benefits that form part of the package. The analysis is based on the assumption that the government would maintain the proportion of its own expenditure which would be devoted to social protection (11.4 per cent in 2006), seeking external financing to meet excess costs.

5.2 Components of a basic social security package of benefits

As indicated previously, the ILO proposal for a basic social security benefit package in Sri Lanka, as set out in this Chapter, envisages the provision of a modest set of benefits to all residents and to some targeted groups in case of unemployment assistance, as a first pillar of the social security system and as a complement to existing programmes. The main social assistance programme currently providing cash transfers to the population and the only one which, in a cross-cutting way covers all the elements of the minimum benefit package, is the Samurdhi programme. Taking this into consideration, this Section examines the components of the proposed minimum benefit package in relation to the respective benefits provided through Samurdhi and their level, in view of identifying at a later stage the additional costs implied for the full implementation of the minimum benefit package.

Old-age and disability benefit

It is recognized internationally that universal basic pensions have a strong impact on improving the livelihoods of older persons and thus are now globally acknowledged as an effective poverty alleviation mechanism for the elderly.⁹² A “social pension” for the elderly, and especially the poor, not only brings in much needed regular income but also provides crucial financial support to vulnerable households, which may well include children. Non-contributory old-age pensions provided to all, regardless of earnings or occupation, further guarantee income support to groups of the population, e.g. women, manual labourers, self-employed, who are otherwise not covered under compulsory contributory schemes linked to formal or paid employment and who, even if eligible for voluntary schemes, are more often than not incapable of paying regular contributions. The overall impact of universal pensions on social development has also been demonstrated, as pension recipients often redistribute cash income in households, finance school fees and medication, etc.⁹³ In South Africa, for instance, the positive “trickle-down” effects of old-age pensions have been shown to equate to a reduction of 5 per cent in the number of persons living below the poverty line, with additional, demonstrable and positive impacts on health and nutrition of children.⁹⁴

In 2008, the elderly over the age of 65 represent approximately 7 per cent of the total Sri Lankan population. With an average growth rate between 2008 and 2034 of 3.8 per cent, the elderly are expected to represent approximately 18 per cent of the total population by 2034. It thus becomes pressing to ensure that these people, a significant proportion of whom are not effectively covered under existing social security schemes, have some form of income security, at least at a basic level. As seen previously, the establishment of a universal pension system had already been envisaged in the 1950s, but was not carried out, mainly for financial reasons and a lack of administrative capacities. The situation has changed since then: not only has the country been enjoying (on a long-term view) steady economic growth but its labour force participation has also been increasing. In addition, Sri Lanka’s administrative capacities have significantly improved over the years, with well qualified staff in the public administration and a suitable expertise in the field of pensions. The country has the practical and technical ability to design and manage a national pension scheme.

In view of its national circumstances and in the light of evidence emerging from various countries showing the positive effects of providing cash transfers to the elderly, Sri Lanka

⁹² See for instance: Barrientos, A. and Lloyd-Sherlock, P., *Non-contributory Pensions and Social Protection, Issues in Social Protection*, Discussion Paper 12 ILO, Geneva, 2003; Barrientos, A., Gorman, M. and Heslop, A., "Old Age Poverty in Developing Countries: Contributions and Dependence in Later Life", *World Development* 31 (3), 2003, pp. 555-570; Barrientos, A., "Old age, poverty, and social investment", *Journal of International Development* 14, 2002, pp. 1133-1141; Charlton, R. and McKinnon, R., *Pensions in Development*, Aldershot: Ashgate, London, 2001.; See also *Social Transfers and Chronic Poverty: Emerging Evidence and the Challenge Ahead*, Practice Paper, Department for International Development United Kingdom, London, 2004; *Age and Security: How social pensions can deliver effective aid to poor people and their families*, HelpAge International, London, 2004.

⁹³ *Age and Security: How social pensions can deliver effective aid to poor people and their families*, HelpAge International, London, 2004.

⁹⁴ *Making Cash Count: Lessons from Cash Transfer Schemes in East and Southern Africa for Supporting the Most Vulnerable Children and Households*, Save the Children UK, HelpAge International and Institute for Development Studies, London, 2005.

may wish, accordingly, to consider making this one of its priority areas of intervention for the extension of social security coverage.

At present, there are two programmes providing cash benefits to the elderly and disabled persons in Sri Lanka, the Samurdhi programme and a cash transfer programme for disabled persons who do not benefit from the Samurdhi transfers (see section 2.2.2 above). While this element of the Samurdhi programme provides benefits through cash transfers to some of the elderly, it has been found that a significant proportion, even if poor, do not in fact benefit from it. A recent estimate indicated that only 23 per cent of the poorest quintile of the elderly received benefits.⁹⁵ Moreover, the level of the benefit appears inadequate to meet the beneficiaries' most basic needs. In 1999-2000, the average Samurdhi benefit was estimated to meet on average 21 per cent of the food expenditure for recipients in the lowest income decile.⁹⁶ As this benefit level has not been indexed against inflation since then, a rough estimate on a *pari passu* basis suggests that in 2007 the average Samurdhi benefit would have covered only around 10 per cent of the food basket cost. The same probably applies to the level of the disability pension provided under the cash transfer programme for disabled persons, which consist of a rather low benefit of Rs. 100-300 per month.

According to the latest information from the Sri Lanka Department of Census and Statistics, the Official Poverty line at national level for April 2008 was Rs. 2924⁹⁷ which represents the minimum expenditure per person per month to fulfil their basic needs on a "standard" basis. The level is equivalent to approximately 20 per cent of GDP per capita.

The universal old-age and disability pension component of the basic social security scheme could therefore be set taking into account the level of the official poverty line. The illustrative cost estimate set out here is accordingly based on the assumption that the benefit may be set at a level of 20 per cent of GDP per capita. Beneficiaries would be all men and women aged 65 and older; together with persons of working age with serious disabilities. If the benefit is set, thus, in relation to GDP per capita, it should increase year by year to reflect GDP growth and ensure (largely) the maintenance of its purchasing power. The statistical data relating to disabled persons is rather sketchy, but for the purposes of this modeling process, it has been estimated that approximately 1 per cent of persons of working-age would be eligible for a disability pension. This almost certainly reflects a very conservative estimate of the rate of disability.

Based on these assumptions, and projecting benefit costs over the future period to 2034, i.e. a little over 25 years, the annual cost of providing universal basic old-age and disability pensions is estimated in 2008 at 1.5 per cent of GDP increasing to a level of 2.0 per cent by 2015. At the end of the projection period in 2034, the costs are projected to reach 3.6 per cent of GDP (see Figure 1). The level of the benefit in absolute terms would represent approximately US\$ 113 PPP per month in 2008.

Basic health care

Universal access to basic health care has been maintained in Sri Lanka, with an extensive network of health service providers. Certain areas, however, need improvement. There is

⁹⁵ *Sri Lanka: Strengthening Social Protection*, World Bank, Washington, 2006, p. 70.

⁹⁶ *Ibid.*

⁹⁷ Department of Census and Statistics, Sri Lanka:
http://www.statistics.gov.lk/poverty/monthly_poverty/index.htm

also a shortage of qualified medical staff (doctors/nurses) needed to provide health care services.

While overall spending on health in 2004 was estimated at 4.9 per cent of GDP⁹⁸ total government expenditure on health represented only 1.7 per cent of GDP in that year.⁹⁹ Statistical evidence is incomplete, but if it is assumed that 90 per cent of 2004 government expenditure on health care was spent on basic benefits this would be equivalent to 1.5 per cent of GDP.

In order to make a quantitative projection of future health expenditures, a country-specific cost base has been used. It takes into account the following individual parameters: medical staff ratio to population; wages of medical staff and overhead non-staff costs. It is assumed that 300 medical staff are available per 100,000 population. This corresponds to approximately the estimate of health personnel in Namibia in 1997¹⁰⁰ (which represents approximately 40 per cent of the level in the United Kingdom). Namibia was chosen as an example having developed an exceptionally detailed analytical framework for policy-making, which is set out in the document *Towards Achieving Health for All Namibians* and in the framework of which the government committed itself to providing access to health services to all Namibians by the year 2000.¹⁰¹ Nearer at hand, however, Thailand has a similar staff-to-population ratio and achieves even better health outcomes as measured for example in under-5 mortality. Thus it is suggested that the staffing benchmarks achieved by Namibia and Thailand may be broadly indicative of possibilities, standards and minimum requirements for universal basic health care provision. The wages of health staff were assumed to be at a minimum of three times GDP per capita, indexed year-on-year in line with per capita GDP growth. Other non-staff health costs were assumed to be 67 per cent of wage cost.¹⁰²

Based on these assumptions, the annual cost of providing access to basic health care is estimated in 2008 at 1.5 per cent of GDP (Figure 1) and throughout the projection period given that medical staff wages are set in relation to GDP per capita. This is approximately the level of current spending of government on health care. The figure represents approximately 6.8 per cent of government spending in 2008, declining to an expected level of 6.5 per cent in 2010 and to 5.0 per cent in 2034. Per capita expenditure is estimated at Rs. 3,696 in 2010 (i.e. equivalent to US\$ 133 PPP).

Basic child benefits

Observation worldwide indicates clearly that poverty rates are higher in households with children than in households without. Children in poor households experience higher mortality rates, higher levels of health-related problems due among others to malnutrition,

⁹⁸ World Health Organization Statistical Information System (WOSIS): Total health expenditure= Public Health Expenditure (PHE) and Private Health Expenditure (PvtHE).

⁹⁹ Source health expenditure: IMF Government Finance Statistics (Jan 2008) Budgetary Central Government. Source GDP: World Bank World Development Indicators online database (March 2008).

¹⁰⁰ World Health Organization Statistical Information System (WHOSIS).

¹⁰¹ *Towards achieving health for all Namibians: a policy framework*, Government of Namibia Ministry of Health and Social Services Windhoek, 1998.

¹⁰² Estimated from figures from the Government of Ghana, 1999: *Draft medium-term expenditure framework* (Accra).

and higher illiteracy rates, potentially trapping them in a vicious cycle of poverty. Economic vulnerability of poor households leads to children being required to bring in an income for survival of the household and thus not only deprives them from basic schooling but also puts these children at the risk of being forced into the worst forms of child labour. Social transfers to households with children may therefore be expected to have very positive effects, and these have been demonstrated. In Hungary and in Poland it was estimated that poverty rates for children would have been respectively 85 per cent and 33 per cent higher in the mid-1990s if family allowance schemes had not been in place, providing cash transfers.¹⁰³ In view of the important contribution of child support to social development and poverty reduction, a child benefit (in the form of a cash transfer) has thus been included in the proposed basic social security benefit package. Such a benefit is particularly relevant to the Sri Lankan context where, in 2007, 15,964 children aged 10-14 were considered part of the labour force, according to the official statistics of the Department of Census and Statistics.¹⁰⁴

In 2008, children aged 14 and under represent approximately 23 per cent of the total population of Sri Lanka. With an average rate of decline between 2008 and 2034 of (-) 0.8 per cent, this group will represent approximately 18 per cent of the total population by 2034. Under the current social assistance system, child benefit takes the form of income support integrated in the welfare grant provided to families with small means under the Samurdhi programme (see Chapter 2.2.1), which varies in its amount depending on the number of members of beneficiary families (from Rs. 100 per month for families of one member to Rs. 1500 for families of 5 and more members). Beneficiary families are also entitled to a child grant, in the form of a lump sum of Rs. 2000 for the birth of their first and second child. While these child support measures certainly help families to better cope with the extra costs of maintaining and raising children, they present some important shortcomings (see Chapter 3.2) which prevent them from fully achieving the fundamental objectives of periodical child benefits as mentioned above. Recent research shows that children in large families are particularly prone to poverty, the incidence of poverty increasing with the number of children in a household (from 27 per cent poverty rate for households with 2 children to a high 51 per cent for those with 4 children and more).¹⁰⁵

Due to the integration of the child support/benefit component in the overall welfare grant provided under the Samurdhi programme, it was not possible to determine with exactitude the total amount allocated by the Government for that precise type of benefit and the percentage of GDP it represented in recent years. As it has also proven difficult to determine the overall amount of birth grants allocated under the programme, the cost projections presented in this proposal are the total costs of providing a child benefit, and do not take into account the funds currently allocated for child support. It should be underlined, however, that any concrete proposal developed at a later stage would ideally envisage a “top up” from actual levels of spending in this regard.

¹⁰³ Samson, M., van Niekerk, I., Mac Quene, K., *Designing and implementing social transfer programmes*, Economic Policy Research Institute, Cape Town, 2006, p. 62.

¹⁰⁴ Sri Lanka Labour Force Survey, Final Report – 2007, Department of Census and Planning, Ministry of Finance and Planning, Colombo, 2008.

¹⁰⁵ *Sri Lanka: Strengthening Social Protection*, World Bank, Washington, 2006, pp. 20-21.

The level of child benefit is suggested at a level equivalent to half of the universal old-age and disability pension benefit.¹⁰⁶ For the purposes of the model projections, it has thus been set at 10 per cent of GDP per capita. The benefit would be paid for up to two children only (under the age of 14) per woman who has given birth, in order to avoid the possibility that such a benefit might be perceived as an incentive to increase fertility. The number of children qualifying for the benefit is projected in line with growth in the number of women of fertile age.

Based on these assumptions, the annual cost of providing child benefits is estimated in 2008 at 2.2 per cent of GDP decreasing to a level of 2.0 per cent by 2015. At the end of the projection period in 2034, the costs are projected to reach 1.8 per cent of GDP (see Figure 1). The level of the benefit in absolute terms would represent approximately US\$ 57 PPP per month in 2008.

Social assistance / employment scheme

Providing income security to the vulnerable category of working-age persons who are either unable to find employment or are underemployed also forms part of the proposed basic benefit package. Targeted social assistance constitutes an essential means for preventing the most vulnerable to fall into extreme poverty and to ensure that they enjoy at least minimum standards of living. In Sri Lanka, where there exists a strong link between unemployment and poverty¹⁰⁷ – the incidence of poverty increasing with the number of unemployed in the household – the provision of such benefits is crucial. In addition, linking employment and labour market policies with social security/assistance has a very positive impact on reducing unemployment, especially among the youth, and stimulating local economies, both highly needed in the country.

To a certain extent, such a social assistance/employment benefit resembles the existing Samurdhi programme which is based on means-testing and links the provision of the benefit to the work of an able-bodied member of the household (i.e. providing labour for small scale infrastructure projects). However, the design of a social assistance benefit as suggested in this proposal is based on the recent programme launched in India through the National Rural Employment Guarantee Act, which provides a guarantee of 100 days per year of unskilled work per rural household (only to adults), or an unemployment allowance if no work can be offered. In the same way as is envisaged for other benefits of the proposed basic package, this social assistance/employment component would ideally be integrated within the existing Samurdhi framework. A more concrete proposal would need to be elaborated accordingly at a later stage, as it is at present impossible to distinguish the amount and proportion which this component represents within the Samurdhi welfare grant.

Taking this into account, the social assistance/employment benefit component of the basic social security package proposed here for Sri Lanka would provide income support for an assumed beneficiary group of 10 per cent of the working-age population. The benefit would be available only to households not benefiting from any other form of cash transfer (i.e. child benefit, pensions).

¹⁰⁶ The assumed relationship between the child benefit and the old-age and disability pension is based on the equivalence scale calculations for Tanzania in Lancaster, R., and Valenzuela, R., *A cross country study of equivalence scales and expenditure inequality on unit record household budget data, Review of Income and Wealth*, 45 (4), 1999, pp. 455-482.

¹⁰⁷ *Sri Lanka: Strengthening Social Protection*, World Bank, Washington, 2006, p. 24.

It is assumed in the simulations that the employment scheme would provide a benefit set at 20 per cent of GDP per capita., a level which corresponds to the national poverty line. The benefit would be paid for a total of 100 days in the year.

Based on these assumptions, the annual cost of providing the social assistance benefit is estimated in 2008 at 0.5 per cent of GDP and at the same level throughout the projection period.

Administrative costs

For modelling purposes, it is assumed that 15 per cent of total cash benefit expenditure is spent on administration of the cash transfers (old-age and disability pensions and child benefit).

5.3 A proposed scenario

Summary of assumptions

For this modelling exercise, the costs of a basic social protection benefits package are estimated based on the following main assumptions:

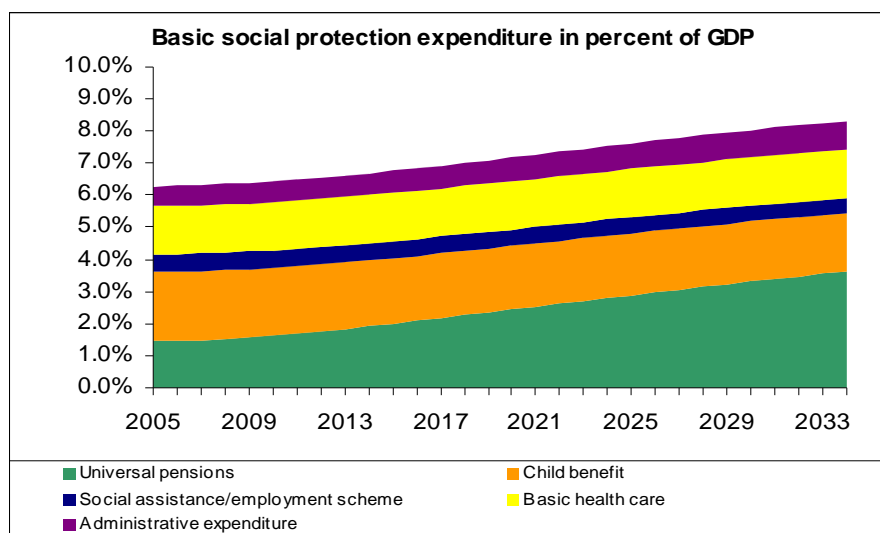
- real GDP growth is assumed in each year to equal the rate of growth of the working age population plus 3 percentage points;
- the level of total government expenditure is projected to increase by 50 per cent of current levels by year 2034, with a maximum of 30 per cent of GDP;
- it is assumed that in targeting a balanced budget, Government revenue (excluding grants) will reach the projected expenditure level by 2014;
- government expenditure on basic social protection is assumed at the 2005 level of 11.6 per cent;
- universal old-age and disability pension of 20 per cent of GDP per capita, to older persons aged 65 and over and the disabled (assumed to be 1 per cent of working age population);
- basic health care costs based on ratio of 300 medical staff to 100,000 population; medical staff wages equivalent to 3 times GDP per capita; non-staff overhead costs of 67 per cent of staff costs;
- universal child benefit at 50 per cent of old-age and disability pension per child (10 per cent of GDP per capita) for up to two children aged 0-14 per women who has given birth;
- social assistance/ employment scheme benefit set at 20 per cent of GDP per capita; provided to 10 per cent of the population for 100 days;
- administration costs of delivering cash benefits equal to 15 per cent of cash benefit expenditure.

The main results are found in a detailed table in Annex to Chapter 5.

Results

The total cost of the proposed basic social security benefit package represents 6.3 per cent of GDP in 2008, and it is estimated that this will increase to a level of 8.3 per cent of GDP in 2034 as illustrated in Figure 3.

Figure 3. Costs of a basic social security benefit package as a percentage of GDP for Sri Lanka, 2008-2034



Source: ILO calculations.

The main item of functional expenditure in the early years is on child benefits which are in 2008 estimated to cost 2.2 per cent of GDP, representing approximately 34 per cent of total expenditure. While decreasing over the projection period to a level of 1.8 per cent of GDP by 2034 (see above), by 2015 it should no longer represent the main expenditure item, being overtaken by expenditure on old-age and disability benefits, reflecting the relatively rapid growth rate of the group of persons over the age of 65. Old-age and disability pensions represent 24 per cent of total expenditure for the package in 2008 increasing to a level of 44 per cent by 2034 while child benefits decrease to a level of 21 per cent by 2034.

It should be noted that expenditure as calculated in the model is gross expenditure on basic social protection, i.e. it includes expenditure for basic social protection that the government is already incurring. The Government is currently already providing social assistance through the Samurdhi programme and universal access to basic health care. The calculations here assume thus that the Government would reallocate its current spending on the Samurdhi welfare grant in order to finance the benefits as defined above. According to the latest report of the Central Bank the government was allocating in 2007 0.5 per cent of GDP for Samurdhi and 1.4 per cent for health care. Actual spending was less as the following Table 1 shows, but that must be attributed to specific events during the budget year.

Table 1. Selected social expenditure items : Voted expenditure of the Government in 2007

Expenditure item	Actual recurrent expenditure (Rs. million)	Actual capital expenditure (Rs. million)	Total expenditure (Rs. million)	in % of GDP	Approved expenditure recurrent (Rs. million)	Capital (Rs. million)	Total expenditure (Rs. million)	in % of GDP
Community dev.	45	171	216	0.01	54	156	210	0.01
Disaster management	248	504	752	0.02	298	1,506	1,804	0.05
Child development	319	272	591	0.02	325	729	1,054	0.03
Social services and welfare	550	264	814	0.02	661	282	943	0.03
Samurdhi and poverty all.	15,433	1,258	16,691	0.47	15,831	2,168	17,999	0.50
Disaster relief	405	135	540	0.02	467	403	870	0.02
Health care and nutrition	34,907	8,115	43,022	1.20	34,882	14,653	49,535	1.38
Total	51,907	10,719	62,626	1.75	52,518	19,897	72,415	2.02
In % of total govt. exp.	8.4	1.9	10.3		8.5	3.4	12.0	

Source: Central Bank of Sri Lanka, Annual Report 2007.

We assume here that the resources for Samurdhi and health care can all be considered spending for basic social security services or – if not – can be reallocated to that purpose. It is also assumed that no further administration would be needed for the basic package, i.e. that most of the administration will be taken over by Samurdhi and the Ministry of Health and hence the gross cost can be cut by 0.6 per cent. The estimates relating to the (illustrative) basic benefit package indicate that costs equivalent to about 2.5 per cent of GDP, or about 40 per cent of the overall package, could be met from the level of the expenditure which the Government is already allocating to social welfare. If the government could increase social spending to 25 per cent of total government expenditure then about two thirds of the package could be financed in the initial years. However, in view of the present size of the government deficit (7.7 per cent of GDP) a realistic expansion of social expenditure would require investments in increasing national revenues and probably substantial peace dividends to materialize before the package can be introduced in full. In practice, a basic package may be introduced gradually. Nonetheless, it may be timely to develop a master plan over the coming months, pointing towards a larger-scale redevelopment of the national framework for social security.

Annex to Chapter 5

Results

Table A.1. Cost of a basic social protection package and cost by function in per cent of GDP for selected countries in Africa and Asia, 2008-2034

Results	2008	2009	2010	2015	2020	2025	2030	2034
Total expenditure on basic benefit package in million US\$	2,248	2,587	2,977	6,007	12,072	24,016	47,238	80,073
Universal pensions	537.6	633.2	748.2	1,772	4,125	9,091	19,444	34,952
Basic health care	532.5	609.3	696.3	1,335	2,526	4,738	8,839	14,504
Basic education	–	–	–	–	–	–	–	–
Social assistance/employment scheme	190.5	218.2	249.4	472.3	875.6	1,607	2,945	4,771
Child benefit	763.9	868.7	986.2	1,818	3,299	6,064	11,000	17,293
Administrative expenditure	223.8	258.0	297.6	609.4	1,245	2,514	5,008	8,552
Total expenditure in % of GDP	6.3	6.4	6.4	6.8	7.2	7.6	8.0	8.3
Universal pensions	1.5	1.6	1.6	2.0	2.5	2.9	3.3	3.6
Basic health care	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Basic education	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social assistance/employment scheme	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Child benefit	2.2	2.1	2.1	2.0	2.0	1.9	1.9	1.8
Administrative expenditure	0.6	0.6	0.6	0.7	0.7	0.8	0.9	0.9
Total expenditure on basic benefit package in % of government expenditure	28.2	28.0	27.9	27.6	27.7	27.8	27.8	27.7
Universal pensions	6.8	6.9	7.0	8.1	9.5	10.5	11.5	12.1
Basic health care	6.7	6.6	6.5	6.1	5.8	5.5	5.2	5.0
Basic education	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social assistance/employment scheme	2.4	2.4	2.3	2.2	2.0	1.9	1.7	1.6
Child benefit	9.6	9.4	9.2	8.4	7.6	7.0	6.5	6.0
Administrative expenditure	2.8	2.8	2.8	2.8	2.9	2.9	3.0	3.0
Total expenditure on basic benefit package in % of government revenue	35.2	33.5	32.0	27.6	27.7	27.8	27.8	27.7
Universal pensions	8.4	8.2	8.0	8.1	9.5	10.5	11.5	12.1
Basic health care	8.3	7.9	7.5	6.1	5.8	5.5	5.2	5.0
Basic education	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social assistance/employment scheme	3.0	2.8	2.7	2.2	2.0	1.9	1.7	1.6
Child benefit	11.9	11.2	10.6	8.4	7.6	7.0	6.5	6.0
Administrative expenditure	3.5	3.3	3.2	2.8	2.9	2.9	3.0	3.0
Proportion of government expenditure allocated to basic social protection (2006 level)	11.6	11.6	11.6	11.6	11.6	11.6	11.6	11.6
Government financing in % of GDP	2.6	2.6	2.7	2.8	3.0	3.2	3.4	3.5
Government financing (in million US\$)	925.8	1,073	1,241	2,531	5,073	10,044	19,728	33,669
External financing required (in million US\$)	1,322	1,514	1,735	3,476	6,999	13,972	27,509	46,404

6. Steps Ahead

The 50th anniversary of the Employees Provident Fund provides an excellent opportunity for assessing the results achieved by the social security system of Sri Lanka in providing income security and medical care to the country's population, and to set in motion a process of planning for further enhancement through the adoption of targeted measures for the extension of coverage under existing schemes and programmes and through the implementation of new complementary provisions to reach all those in need. As seen previously, the various social security schemes adopted have had, and continue to have, a positive overall impact on the country's social development. It can be seen with increasing clarity, however, that the schemes' efficiency is hampered by a series of deficiencies that need to be addressed for the system to reach its full potential. In seeking to fulfil the fundamental objectives of social security, the overall objective must be that the current gaps in coverage be addressed through the extension - progressively and at a rate which recognizes the country's economic capacity - of social security to all. For that objective to be reached, and to ensure that the most vulnerable, at each stage of their life, have access to some form of income support, a strategy for the provision of social assistance, building on and complementing existing mechanisms, is also needed.

In this light, it is suggested that action, more or less immediately, along the lines of the following steps may be considered.

A) Short-term steps

1. ***Creation of a national forum for social dialogue in relation to social security***

As a first step towards the reform of the social protection system, the establishment of a national forum for social dialogue should be envisaged to ensure the consultation and participation of all stakeholders in the development of a comprehensive national strategy for the extension of social security. More particularly, it is crucial that all key players be involved in important decisions to be taken regarding the reform of existing schemes, the adoption of new provisions or any other matter related to social security, so as to ensure that their interests are represented and the successful implementation of measures adopted. Several years ago, such a task was undertaken, specifically in the context of a time-limited ILO project, by the National Task Force on Social Security. It is suggested that this should be reconvened and revitalized, starting with a review and assessment of its earlier discussions and recommendations. This may be done under a title reflecting a new and ongoing commitment, such as the Tripartite National Committee on Social Security, which should include representation for all the existing schemes and ministries, departments and agencies concerned, as well as social partners.

2. ***Development of a comprehensive national strategy for the extension of social security and coverage***

Once a national forum for social dialogue in relation to social security is established and operational, a comprehensive strategy for the extension of social security and coverage in Sri Lanka should be discussed within its framework so to ensure that concerted action is taken towards the achievement of a common goal and which reflect a shared vision for the country. From the analysis undertaken in this report and from the ILO's long-lasting experience in the country, it would be advisable that any sound strategy for comprehensive social security in Sri Lanka, understood as comprising social security under formal schemes linked to employment as much as basic social assistance to those in need, include

(a) measures concerning formal social security schemes and (b) measures concerning social assistance.

a) Measures concerning formal social security schemes

At the outset, we would observe that any measures taken for such purposes, whether in the short or longer-term, and whether consisting in the reform of actual social security schemes, the amendment of the legislation under which social security schemes are established or the development of new schemes, should comply with the fundamental principles set out in ILO social security Conventions.¹⁰⁸ Observance of these principles should go far to ensure the good governance of the schemes. Broadly:

- the State should maintain general responsibility for the proper administration of social security institutions and services and for the provision of benefits;
- to ensure the ability of schemes to pay benefits to which members are entitled, arrangements should be made (effectively a guarantee by the State) that the necessary verifications concerning financial equilibrium are made periodically and, in any event, prior to any change in benefits, the rate of insurance contributions or the taxes allocated to cover the contingencies;
- the assets of its social security system should be protected from diversion for such purposes as making up for a deficit in the national budget, which could cause insured persons to lose confidence in the institutions responsible for their protection;
- insured persons should participate in the administration (or supervision) of social security systems so as to ensure that their interests are looked after and taken into account in decision-making process; and
- finally, social security systems should be funded on the basis of collective financing of the benefits, the financial burden of which should be borne jointly by the employers and the workers.¹⁰⁹

Taking the above into consideration, the following measures may be envisaged:

Inventory of social security provisions

First a detailed inventory of all social security legislation and regulations should be undertaken, including any provision in the process of adoption, or awaiting implementation (e.g. proposed amendments to the EPF Act, Construction Workers' Scheme, etc.). This will provide an up-to-date overview of the current system and of any overlapping provisions, legal gaps and areas for reform.

¹⁰⁸ The up-to-date ILO social security Conventions are: Social Security (Minimum Standards) Convention, 1952 (No. 102); Employment Injury Benefits Convention, 1964 (No. 121); Invalidity, Old-Age and Survivor's Benefits, Convention, 1967 (No. 128); Medical Care and Sickness Benefits Convention, 1952 (No. 130); Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168), and Maternity Protection Convention, 2000 (No. 183).

¹⁰⁹ For a more detailed analysis of these principles and of ILO social security standards, see Humblet, M., and Silva, R., *Standards for the XXIst century – Social Security*, ILO Geneva, 2002. It should be said that, in general, the social security system of Sri Lanka complies quite well with these principles, although in some aspects more straightforwardly than others: in particular the principle of collective financing would be better served by a scheme based on defined benefit design rather than defined contribution design.

Examination of the possibility of converting the payment of benefits as a lump sum into periodical payments

Second, it should be underlined that the conversion of the payment of old-age benefits provided under the EPF, ETF and other provident funds as lump sums into periodical payments has been recommended by the ILO on repeated occasions in the past, and while no steps have been taken towards implementation, the issue becomes ever more urgent and should again be put forward for more intensive consideration.

b) Measures concerning social assistance:

Formulation of an explicit policy towards the implementation of a basic social security benefit package

A policy for the implementation of a basic social security benefit package, integrated within the framework of the Samurdhi programme and complementing existing provisions, may be envisaged along the lines suggested in Chapter 5 above. The implementation of this minimum social security benefit package could make a significant contribution to poverty reduction and social development in Sri Lanka by providing essential income support to the most vulnerable of its population, especially needed in times of crisis. It should guarantee that: (a) all residents have access to basic/essential health care benefits through pluralistic delivery mechanisms where the state accepts the general responsibility for ensuring adequacy of the delivery system and its financing, (b) all children enjoy income security at least at the level of an appropriate poverty line through a range of family/child benefits aimed to facilitate access to nutrition, education and care, (c) some targeted income support is provided to the poor and the unemployed in the active age group, and (d) all residents in old age or with disabilities enjoy income security at least at the poverty level through pensions for old age, disability and survivors. The implementation of such package could be achievable should the Government maintain its current level of social expenditure and would be able to mobilize additional resources so as to reach the basic levels set out in the proposal laid down in Chapter 5. Some initial external financial support for this exercise would help to kick-start the development process. A master plan outlining a larger scale social security plan could be developed as a first step in that direction.

B) Medium-term steps

3) *Assessment of the modalities and prospects of designing and establishing a maternity insurance scheme in compliance with Convention No. 103*

Having ratified the ILO Maternity Protection Convention (Revised), 1952 (No. 103), Sri Lanka is bound by its requirements, notably the provision of medical care and cash benefits in case of maternity, either through a tax financed or a social insurance scheme. In this respect taking into account the Observations and Direct requests of the Committee of Experts on the Application of Conventions and Recommendations,¹¹⁰ it is timely that the Government examine the possibility of establishing a maternity protection insurance scheme, providing for medical care and cash benefits, as prescribed under Convention No. 103, and therefore fulfil its international obligations under this Convention.

¹¹⁰ The Committee of Experts on the Application of Conventions and Recommendations is the supervisory body in charge of monitoring the application of ILO Conventions by ratifying States. Its observations and direct requests are available at:

<http://webfusion.ilo.org/public/db/standards/normes/appl/index.cfm?lang=EN>

4) *Assessment of the modalities and prospects of integrating existing and future social security schemes*

An assessment of the modalities and prospects of integrating all existing and future social security schemes under a combined, or common, administrative entity – possibly involving the EPF – should be carried out. The integration of the schemes in this way is likely to contribute, among others, to streamlining their administration, to strengthening their management and to increasing their overall cost-efficiency and effectiveness. This should also guarantee the portability of benefits between the different social security schemes.

5) *Assessment of the modalities and prospects of integrating policy-making and oversight functions*

Simultaneously, an assessment of the modalities and prospects for the integration of policy-making and of oversight functions within the government should be carried out. In the absence of a coherent policy approach at the time of their establishment, the existing social security schemes have developed in parallel to each other, with the involvement of several ministries and departments. As a result, there is a lack of common vision or perspective of social security that is critically needed to achieve its extension to all. Bringing all schemes under one general administration, supervised by a single national central social security agency encompassing all existing schemes, could provide an appropriate framework for the formulation of such common policy/vision, and increase their effectiveness in realising their goal. This could further contribute to the establishment of a conducive regulatory environment and create the conditions necessary to better ensure the financial sustainability of the schemes.

Technical advisory support

A framework of technical support will be needed for such a programme. It is envisaged that advice would be cleared through a forum based on membership of the social partners, probably through the proposed Tripartite Committee on Social Security, certainly made directly available to the Ministry of Labour and Manpower Planning.

As in the past the ILO is ready to support the further development of social security in Sri Lanka in particular with regard to the proposed programme outlined above.

7. Concluding Remarks

The social security system of Sri Lanka, including as it does provision for universal access to a high level of health care and a scheme of social assistance accessible to a wide cross-section of the poor and vulnerable, offers much to admire, and is reflected in a set of social indicators which, despite the depredations of many years of conflict, remain enviably high by comparison with both its regional neighbours and the general averages for countries at similar levels of economic development. Nevertheless, over recent years, it has become clear that the fabric of the system shows signs of deficiency, wear and tear, requiring a certain degree of maintenance and repair. Based on the observations and discourse of the foregoing Chapters, the following conclusions may be drawn.

Firstly, an urgent need in regard to the social security system of Sri Lanka is to identify deficiencies in personal coverage of persons and the possible modalities for extension, whether through schemes under government auspices or other (perhaps “grassroots”) initiatives.

Secondly Sri Lanka should assess, without delay, the potential value of establishing a system of basic social security provision with universal access for all, through a basic social security benefit package, possibly within the framework of the existing Samurdhi programme of social assistance.

Thirdly, the need has become pressing for Sri Lanka to begin the process of conversion of its existing employers’ liability scheme for the provision of maternity benefits into a maternity benefit insurance scheme, in order to comply with its international obligations arising out of the ratification of ILO Maternity Protection Convention, 1952 (No. 103).

In addition, the Government of Sri Lanka needs urgently to review the sustainability of the group-specific pension and social security schemes for farmers, fishermen, and self-employed workers and the investment parameters and asset management aspects of EPF and ETF, to ensure the ability of these schemes to deliver in the longer term and that they fulfil their objective of providing adequate support to their contributors.

Finally, those concerned with social security policy in Sri Lanka should appreciate and seek to understand the implications of the outstanding need to rationalize and integrate aspects of social security provision including, but not necessarily limited to, all of the following: the multiple and incompatible schemes presently in existence; the administrative arrangements for those schemes; the policy-making responsibilities in relation to social security and social protection; and the investment and investment management needs of the various schemes.

The ILO takes pride in the close collaboration established throughout the years with the Government of Sri Lanka in regard to social protection and is more than ready to accompany Sri Lanka along the path of development, so to assist the country in realizing the extension of social security to all.

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