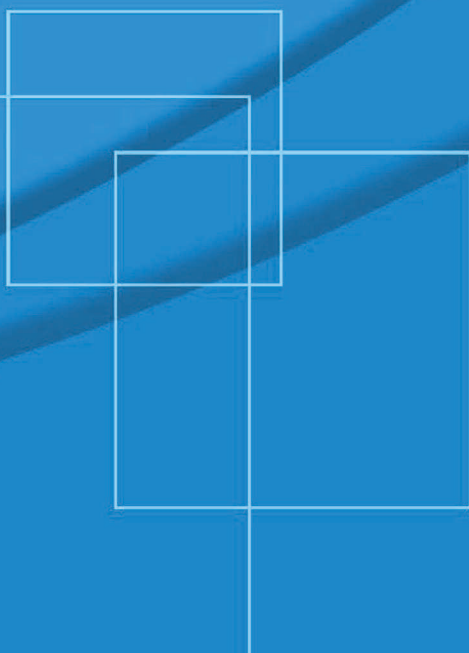




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**Analysis of the Sri Lankan  
Social Protection Schemes in the  
context of social protection  
floor objectives -  
A Rapid Assessment and  
Estimating the costs of a  
Social protection floor in  
Sri Lanka**



# **Analysis of the Sri Lankan Social Protection Schemes in the Context of Social Protection Floor Objectives**

## **A Rapid Assessment and Estimating the Costs of a Social Protection Floor in Sri Lanka**

ILO Country Office for Sri Lanka and the Maldives

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# Foreword

Sri Lanka has achieved today a greater degree of social security coverage than most countries of the South Asian region. However, with one of the fastest ageing populations in the world, high youth unemployment and substantial informal economy Sri Lanka's social security systems faces major challenges in the coming years. Institutional capacities also need to be strengthened in order to promote appropriate age and gender sensitive social protection schemes. Improved access to and delivery of these schemes is also essential in order to ensure equity and social justice. With one of the fastest ageing populations in the world, high youth unemployment and substantial informal economy Sri Lanka's social security systems faces major challenges in the coming years.

ILO Recommendation No. 202 reaffirms the role of social security as a human right and as a social and economic necessity, and provides guidance to countries in building Social Protection Floors (SPFs) within progressively comprehensive social security systems. This Recommendation expresses the commitment of governments, workers' and employers' representatives to move towards building comprehensive social security systems and extending social security coverage by prioritizing the establishment of national floors of social protection. It also provides concrete guidance to countries to establish and maintain social protection floors within strategies for the extension of social security.

ILO has provided technical assistance to the Government to conduct a Rapid Assessment which provides an overview of existing social security provisions, coverage gaps and overall coherence of the system. The Social Protection Floor guarantees are used as a benchmark to describe and assess the social security situation in the country and identify existing policy gaps and implementation issues. ILO has also provided technical assistance in developing different financial models to finance the existing gaps and provided recommendations to the Government of possible policy scenarios. The results of the study indicate that there is a need to increase government spending by 2-4% of GDP over a period of 15 years to achieve minimal levels of coverage.

Social protection is needed for economic reasons as well. If implemented effectively, social protection is essentially an investment in human capital, which will contribute to greater labour productivity and pro-poor economic growth in the long run. By supporting the most vulnerable people, social protection can help individuals and families to manage risks better (who, in the absence of social protection, may rely on short-term coping strategies with adverse long-term impacts) and thereby encourage higher investment in human capital and assets, and economic growth. Of equal importance is the fact that by addressing social and economic inequalities between sub-groups of population and promoting universal realization of basic rights, social protection can contribute towards social and political stability within countries.

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Donglin Li  
ILO Country Director for Sri Lanka & the Maldives



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## Abbreviations and symbols

AAIB	Agricultural and Agrarian Insurance Board
APPF	Approved Pension and Provident Fund
CPI	Consumer Price Index
CPS	Civil Pension Scheme
DCS	Department of Census and Statistics
DHS	Demography and Health Survey
DOE	Department of Education
EFC	Employers' Federation of Ceylon
EPF	Employees' Provident Fund
ETF	Employees' Trust Fund
EFTB	Employees' Trust Fund Board
GoSL	Government of Sri Lanka
GDP	Gross Domestic Product
HAZ	Height-for-age Z score
HDI	Human Development Index
HIES	Household Income and Expenditure Survey
IHP	Institute for Health Policy
ILO	International Labour Organization
LFPR	Labour Force Participation Rate
LFS	Labour Force Survey
MoE	Ministry of Education
MoH	Ministry of Health
OECD	Organization for Economic Co-operation and Development
OOPE	Out-of-pocket expenditure
OPL	Official Poverty Line
PPP	Purchasing Power Parity
PSPF	Public Servants' Provident Fund
SOE	Shop and Office Employees
SPF	Social Protection Floor
SSBSL	Social Security Board of Sri Lanka
TFR	Total Fertility Rate
THE	Total Health Expenditure
UNCEB	United Nations Chief Executives Board
UNCRC	United Nations Convention on the Rights of the Child
WAZ	Weight-for-age Z score
WCO	Workmen's Compensation Ordinance
WHZ	Weight-for-height Z score
W&OP	Widows', Widowers' and Orphans' Pension Fund
-	Zero
—	Missing
—	Not applicabl

## Executive Summary

The main objective of this rapid assessment is to examine the extent and effectiveness of social protection policies and programmes in Sri Lanka, applying the framework of the UN's Social Protection Floor (SPF) Initiative. The SPF is an initiative of the United Nations' Chief Executives Board (UNCEB) that was adopted in April 2009, which seeks to promote integrated strategies for providing access to essential social services and income security for all.

The ILO-endorsed SPF framework comprises the following four guarantees: access to essential healthcare (including maternity care); (2) basic income security for children; basic income security for persons of economically-active age who are unable to earn sufficient income due to sickness, unemployment, maternity and disability, and, (4) income security for older persons.

In terms of the first guarantee (access to healthcare), since the 1960s, public healthcare services financed by government, have been universally accessible to all citizens of Sri Lanka and available almost wholly free of charge to all citizens and legal residents. The only exception until the 1990s was in the case of plantation workers who had to rely on employer-financed services, which were generally inferior to those available from public financing.

The available evidence consistently shows that Sri Lankans have higher levels of access to services and financial risk protection in health than other middle-income countries. Total government spending on healthcare was estimated at Rs. 95 billion in 2011, representing 42% of total health expenditure in the country. Geographical disparities appear to be reducing and are modest by international standards.

Despite the successes in the health sector, public healthcare spending as a share of GDP is lower in Sri Lanka than that of comparable countries, and has declined from 1.9% in 1990 to 1.4% in 2011. This has been accompanied with higher levels of out-of-pocket spending, exposing greater numbers to impoverishment and financial risk. Further improvements in access to healthcare in Sri Lanka will require substantial increases in government expenditures on health as a share of GDP.

In terms of income security for children, the Government of Sri Lanka (GoSL) provides both free education as well as nutrition programmes for poor and undernourished mothers and children. As per the Education Ordinance of 1939, public school education at primary, secondary and tertiary levels are provided free of charge. Sri Lanka has legislated compulsory education for children aged between 6 and 14 years of age. In 2011, 99% of children between six and 14 years of age were enrolled at a school. Marginal differences (if any) exist in school enrolment rates between boys and girls and between geographical regions.

However, education provision suffers from limited funding, and this funding shortfall is manifested in low levels of quality, and significant inequalities in the quality of schooling that poor and rich children, and between provinces. Total public expenditure on students aged 6 and 14 years (excluding administration costs) has, in fact, declined from 3% to 1% of GDP between 2006 and 2012. Public expenditure levels fall far short of other comparable countries, with the country investing far less in each student than other comparable Asian countries. To realize the goal of making Sri Lanka a regional knowledge hub as envisaged by Mahinda Chinthana and also to reduce the inequalities in access to education that are a significant cause of unhappiness for parents, the government needs to substantially increase investment in primary and secondary education.

In terms of benefits for those of active age, legislation exists providing those currently employed with rights to sickness, disability, and maternity and employment injury benefits. All employees, whose employment is governed by the Shop and Office Employees (SOE) (Regulation of Employment and Remuneration) Act No. 19 of 1954 (for private sector workers) and the Establishments Code (for public sector workers), are eligible to receive a certain number of days of leave from work due to sickness. The Workmen's Compensation Ordinance (WCO) of 1934 states that employers are liable to compensate an employee for injuries caused due to work-related accidents. The Maternity Benefits Ordinance No. 32 of 1939 sets out benefits to women employed in any trade. Unfortunately, only formally employed workers are guaranteed to receive these benefits, those in the informal sector may or may not benefit.

Despite this, the existing ordinances lack compliancy with ILO conventions both in terms of depth and breadth of coverage. Maternity benefit ordinances do not provide benefits to female domestic workers, subsistence agricultural workers or women working from home. Similarly, the WCO only provides, on average, one-tenth of the minimum compensation an employee should receive according to ILO C121 requirements. This is the lowest level of protection provided by any scheme in Asia.

The primary poverty alleviation programme in the country is the "Samurdhi" scheme. It provides a consumption grant transfer to eligible households, as well as banking facilities and workfare initiatives. Government expenditure for the programme as a share of GDP has declined from 0.8% in 2000 to 0.1% in 2012. Further, not all poor families receive benefits, whilst 6% of households belonging to the richest income quintile in 2006–07 and 4% of such households in 2009–10 were receiving such benefits. Although better entry and exit procedures need to be implemented to better target the benefits, the major deficiency in the scheme is that it is inadequately funded to have any significant impact on poverty.

Formal schemes that provide for old-age income security in Sri Lanka consist of either pensions or provident funds. Almost half of the total labourforce aged between 18 and 65 years was eligible for these benefits in 2012. Periodic pension benefits are provided only to public servants, farmers, fishermen and some self employed persons. Public servants are formal employees while farmers, fishermen and the self-employed are considered as informal workers who can access pension benefits through voluntary enrolment and contribution to a number of schemes that have been established specifically for them. Private sector employees employed formally are usually eligible to be members in the Employees' Provident Fund (EPF) and the Employees' Trust Fund (ETF). Public pensions expenditures by the government amounted to Rs. 99 billion in 2012; this was roughly 1.5% of GDP and 7% of government expenditure. Expenditure on pensions by the informal sector schemes amounted to Rs. 1.3 billion in 2012 and is negligible in comparison to GDP. Refunds by the provident schemes were Rs. 55 billion, and shows an increasing trend nominally.

Sri Lanka does not rely on any formal social insurance mechanisms for social protection. Where benefits are available they are provided either through public funds (healthcare, education, poverty alleviation, pensions), *i.e.*, taxation, or through employer mandates (employment injury compensation, maternity benefits). This arrangement reflects Sri Lanka's institutional legacies and the early linkage of rights to key benefits to citizenship and not employment status, as a result of the early establishment of democratic governance based on universal franchise in the 1930s, which was prior to the existence of a large formal sector. Whilst this approach has served the country well, addressing the major gaps that remain in social protection will require substantial increases in the level of public financing, and possibly adoption of new methods of provision including some element of contributory social security financing.

## Section 1

**Analysis of social protection programmes in Sri Lanka  
in the context of the objectives of the Social Protection  
Floor: A rapid assessment**



## Introduction to ILO's social protection floor framework

The International Labour Organisation (ILO) commissioned this rapid assessment study as part of the United Nation's Chief Executives Board (UNCEB)'s Social Protection Floor (SPF) Initiative. This was adopted in April 2009 and seeks to promote integrated strategies for providing access to essential social services and income security for all. The main objective of this rapid assessment is to examine the extent and effectiveness of social protection policies and programmes in Sri Lanka with special regard to the Social Protection Floor.

SPFs are nationally-defined sets of basic social security guarantees that should ensure, as a minimum that, over the lifecycle, all people in need have access to essential healthcare and to basic income security which together secure effective access to goods and services defined as necessary at the national level. The ILO-endorsed Social Protection Floor (SPF) framework and Two-Dimensional Strategy is used for identifying major coverage gaps (if any), as well as to identify priority areas for interventions (ILO 2012).

The ILO Two-Dimensional Strategy provides guidelines on the development of social security in a country: the horizontal dimension refers to guaranteeing access to essential healthcare and minimum income security for all, while the vertical dimension refers to ensuring progressively higher protection levels as stated in the ILO Convention C102 on Social Security (Minimum Standards).

The SPF should comprise at least the following four guarantees, as defined at the national level:

1. Access to essential healthcare, including maternity care;
2. Basic income security for children, providing access to nutrition, education, care and any other necessary goods and services;
3. Basic income security for persons of economically-active age who are unable to earn sufficient income due to sickness, unemployment, maternity and disability; and,
4. Basic income security for older persons.

The SPF promotes access to essential social security income transfers and social services in the above areas and it emphasizes the need to implement comprehensive, coherent and coordinated social protection and employment policies to guarantee these transfers and services throughout a person's lifetime with special regard to vulnerable groups. The SPF framework can be used to identify and improve social security and poverty alleviation strategies and programmes in Sri Lanka in order to guarantee income security, at least at the minimum or floor level, to the whole population. It is intended that findings from the study will serve as a structural, fact-based starting point for a dialogue on how to build a social protection floor that is tailored to the needs and capacities of Sri Lanka. The SPF has gained wide support as an important component of the sustainable and resilient growth strategy and as a tool to accelerate the achievement of Millennium Development Goals.

An ILO convention is a legally binding international treaty that the governments of member countries can ratify. By doing so, they pledge to amend or adopt their country laws to be in line with relevant convention. A convention, in a way, represents a best practice approach to providing good social protection to citizens of member countries. ILO's Social Security (Minimum Standards) Convention C102 of 1952 is of particular interest when conducting this study since it prescribes certain minimum standards that ratifying countries must adhere to. It contains standards on medical care and benefits<sup>1</sup> for sickness, unemployment, old age, employment injury, maternity, invalidity, survivors and families. Although Sri Lanka has not ratified this convention, given that it is an active member of the ILO, such standards should, at least, be taken into consideration in the

<sup>1</sup> Refers to benefits either in cash or in kind; this could include, where applicable, reimbursement of the expenses borne by the person concerned.



drafting and implementation of social security policies. In this report schemes are assessed, where possible, using the recommendations of the Convention C102.

According to the Convention C102, the following groups are considered to be “covered” populations, as deemed applicable to the type of benefit:

- Prescribed classes of employees, constituting not less than 50% of all employees and also their wives and children, or
- Prescribed classes of economically active population, constituting not less than 20% of all residents and also their wives and children, or
- Prescribed classes of residents, constituting not less than 50% of all residents, or
- Where a declaration is made for exemptions from the Articles of the convention, due to an insufficiently developed system to administer the benefit, prescribed classes of employees constituting not less than 50% of all employees in industrial workplaces employing twenty persons or more, and also their wives and children.

## Country situation

### 2.1 The Sri Lankan context

Sri Lanka's economy and society have experienced major structural changes in the past decades, which present the country with substantial challenges and several incomplete agendas and constrain the choices for reforming social protection arrangements.

Following the transfer of power to elected governments in the 1930s, the country invested heavily in several initiatives to improve social protection and social security. Influenced by the colonial legacy and institutions, constrained by the limited tax base and size of the formal sector, but impelled by the popular pressures unleashed by democracy, most of these involved replication or adaptation of British policy models. Healthcare and education was made available to all through government taxation and direct provision of services. One important exception to this model of state-led financing and provision was the decision to maintain and continue with employer provided social services for workers in the plantation sector, funded by a cess on plantation exports. Significant investments were also made in establishing a nutritional floor through food subsidies. The creation of these major social protection activities not only embedded the democratic system in the country, but also bolstered it during the various national crises that occurred during 1971–2009. The expectation that the state will intervene to address key social disparities through direct government spending is an integral part of the social contract and basis of social stability.

The country considered in the 1940s, but did not establish, a contributory social security system to finance or expand social protection, deciding that many of its potential functions were already served by the existing arrangements. For example, access to healthcare was already ensured effectively through the health ministry's delivery system. A statutory scheme of workmen's compensation had already been established in the 1930s, and this was left untouched. The one area where there was no statutory provision was in the case of old age income security, but here the conclusion, based on advice from international experts, was that a contributory or tax-financed national pension scheme was both beyond the country's administrative capacity and not fiscally affordable. As an alternative, a compulsory savings based provident fund scheme, the Employee Provident Fund (EPF) was introduced in 1958 for private formal sector workers, replicating similar decisions in Hong Kong, Malaysia and Singapore. These general arrangements have been largely maintained ever since. The only notable changes being that the employer-funded and provided healthcare services for the plantation population were nationalized and integrated with health ministry services from the 1990s, following recognition that they had failed to keep up with the government funded scheme, and the gradual reduction in spending on food subsidies from the 1970s onwards, as the food subsidies were changed from a universal to a means-tested transfer programme.

The major constraint to introduction of contributory forms of social insurance in the 1950s was the reality that most Sri Lankans were dependent on subsistence agriculture and the small size of the formal sector from which contributions could have been collected. In contrast, the existence of an easily taxed and buoyant plantation export sector made it initially much more feasible to mobilize funding through taxation for social protection purposes. This choice, in favour of tax-funding of social services, had the advantages of ensuring that the surpluses generated by plantation workers were distributed widely to extend social protection to all the population instead of simply benefiting the formal sector workforce. Another important constraint was that the competitive political system the country had created by the 1950s generated a constant pressure to ensure that all social benefits be universal for all citizens. In the Sri Lankan context, this has meant that social insurance mechanisms that would cover only segments of the population lacked sufficient political support and were likely to engender considerable opposition.

Only since the late 1970s did significant changes in the economy occur. Trade liberalization in 1977 was intended not only to expose the economy to global markets and expand exports, but also to jump-start industrialization of the economy, so as to expand employment and accelerate economic growth. Policy-makers regarded export-led industrialization as the only feasible route to rapidly develop the economy. There was considerable success with these policies through the 1990s. Agriculture has declined in

importance, and industry and services have increased their contribution to economic output. Unemployment has also substantially declined, and the proportion of workers in the formal, modern and foreign employment sectors has significantly increased (Table 1).

However, the initial hopes of achieving rapid industrialization and economic growth have not been sustained. Whilst economic growth has been better than the global averages for a developing country, it has fallen short of the more relevant performance of Asian nations, including comparable economies such as China, Malaysia, Thailand and Viet Nam. Given the initial high levels of human capital in the country and other advantages, the various internal conflicts partially explain this underperformance, but the other significant reason has been a long-standing failure to consistently prioritize export-led industrialization and supportive policies such as competitive exchange rates. Industrialization has faltered, and the country's share of global trade and exports has fallen in the past two decades, and the share of exports in GDP is now comparable to those in India and Bangladesh, both much larger economies, and similar to where Sri Lanka was in the 1970s. Concurrently, industry has failed to expand adequately, and accounts for a relatively low share of employment for a middle-income Asian economy. No Asian economy has achieved developed economy status without first going through a phase of substantial industrialization. This trend and the resulting failure to rapidly expand employment in manufacturing has been accompanied by a large outflow of Sri Lankan workers in search of employment to other countries, with remittances from migrant workers emerging as the largest source of foreign exchange, and 17% of the Sri Lankan labour force employed overseas in 2010 (Ministry of Foreign Employment Promotion and Welfare 2014). This phenomenon of high dependency on migrant workers has deflected attention of policy makers away from creating jobs in the country often in favour of soliciting for jobs overseas, and has led to appreciation of the exchange rate that has had negative impacts on growth in industry and exports.

The country faces significant challenges if it aspires to complete the development path that it set itself in the late-1970s, match the economic growth of other Asian economies, and provide its people with the high living standards they desire. In particular, the economy needs to substantially deepen industrialization and the export sector, without which virtually no country has ever become developed. It also has to do this whilst facing the negative and insidious impacts on external competitiveness that arise from the large flow of remittances from the many Sri Lankans who have chosen to work and live outside the country, because employment opportunities and standard of living are better overseas. At the same time, declining population growth and population ageing means that the working age population is no longer expanding, placing a greater premium on improving labour productivity, reversing the export of workers, and increasing labour force participation rates in order to raise living standards.

These challenges imply that the country will need to focus on improving social conditions, and in particular social protection in employment and in old age, to ensure that all Sri Lankans are afforded a standard of living that befits a nation that aspires to be a wonder of Asia. All this has to occur in a context where the internal conflict that hampered socio-economic progress of the country for almost three decades came to an end in 2009, making it increasingly likely that the electorate will give further priority in coming years to reducing socioeconomic disparities and expanding social protection.

Table 1: Key macroeconomic statistics of Sri Lanka, 1980–2012

Indicator	1980	1990	2000	2005	2006	2007	2008	2009	2010	2011	2012
<b>Economy</b>											
GDP at current market prices (Rs billion)	67	322	1,258	2,453	2,939	3,579	4,411	4,835	5,604	6,543	7,582
GDP at current market prices (US\$ million)	–	7,963	16,292	23,724	28,300	32,700	40,700	42,100	49,568	59,184	59,400
GDP per capita (Rs)	4,511	18,912	65,838	124,709	147,776	178,845	218,167	236,445	271,346	313,576	373,001
GDP per capita (current US\$)	273	473	899	1,241	1,421	1,617	2,014	2,057	2,400	2,836	2,923
GDP per capita (constant 2005 US\$)	543	710	1,052	1,242	1,323	1,400	1,471	1,505	1,610	1,725	1,884
Real GDP growth rate (%)	5.8	6.2	6.0	6.2	7.7	6.8	6.0	3.5	8.0	8.2	6.4
GDP average annual growth rate for the last 10 years (%)	4.0	4.3	5.2	4.5	4.9	4.9	5.1	5.0	5.2	6.2	6.4
<b>Social indicators</b>											
Unemployment, total (% of labour force) <sup>(a)</sup>	17.9	15.9	7.6	7.2	6.5	6.0	5.4	5.8	4.9	4.2	4.0
Poverty rate (%)	–	26.1	–	–	15.2	–	–	–	8.9	–	–
Literacy rate (%) (Population above 15 years of age)	88.6	–	–	–	90.8	–	91.3	91.4	91.9	–	–
Life expectancy at birth (years)	68.0	70.0	71.0	–	–	–	71.6	71.9	74.0	74.9	74.9
<b>Money and inflation</b>											
Real interest rate (%)	(0.8)	(5.9)	8.3	0.3	1.4	2.7	2.2	9.2	2.7	1.4	4.0
Inflation rate (%)	–	–	–	9.8	10.0	15.8	22.6	3.5	6.2	6.7	7.6
Official exchange rate (Rs per US\$), period average	17	40	77	100	104	111	108	115	113	111	128

**Notes**

(a) From 1980 to 2011 the Northern and Eastern provinces were excluded from the Labour Force Survey and these statistics.

–datum is not available for the year

Sources: Annual Reports and Economic and Social Statistics Reports, Central Bank of Sri Lanka for varying years, Household Income and Expenditure Survey, Department of Census and Statistics, World Development Indicators of the World Bank, Labour Force Surveys, Department of Census and Statistics and International Financial Statistics 2013, IMF

## 2.2 Demography of Sri Lanka

Sri Lanka is an island nation with an area of 65,000 sq. km located in the Indian Ocean. It is a multi-ethnic and multi-religious country. According to 2011 census of the country, 75% of the population were Sinhalese, 11% Sri Lankan Tamils, 9.2% Sri Lankan Moors, and 4.2% Indian Tamils, while the rest belonged to Burgher, Malay and other minority ethnicities. Religion wise 70% were Buddhists, 12.6% Hindus, 9.7% Islam and 7.5% Christians (Department of Census and Statistics 2011).

Sri Lanka's population was 20.3 million in 2012, of which 51% were females and 26% were below 15 years of age. Sri Lanka faces a rapidly ageing population transition. In 2002, 9.2% of the population were over 60 years of age; this increased to 11% in 2006 and further to 12% in 2012. In 2050, it is projected that more than 28% of the population will be over 60 years of age (De Silva 2007). This size of the elderly population is only marginally smaller than the same projection for the OECD countries. Further, it is expected that the total population will decline in number after 2030s, thus increasing old-age dependency rates. Contracting population and the subsequent decline in growth rate is attributed to two key factors: rapid fertility decline since the 1950s and increasing life expectancy rates. The total fertility rate (TFR) was estimated to be 2.3 in 2006/07 (Department of Census and Statistics 2006-07). In 2011, TFR was estimated to be 2.25 (Abeykoon, Rannan-Eliya, and Wickremasinghe 2013). It is projected that by 2020, the TFR will fall close to 1.5 (World Bank 2008). Rising life expectancy levels, estimated to be at 74.9 years in 2012, is the other main driver behind the observed trends. Human development, via increased investment in health and education, has resulted in Sri Lankans living longer lives; life expectancy is expected to reach levels on par with OECD countries, and is projected to be 77.8 years by 2050 (World Bank 2008).

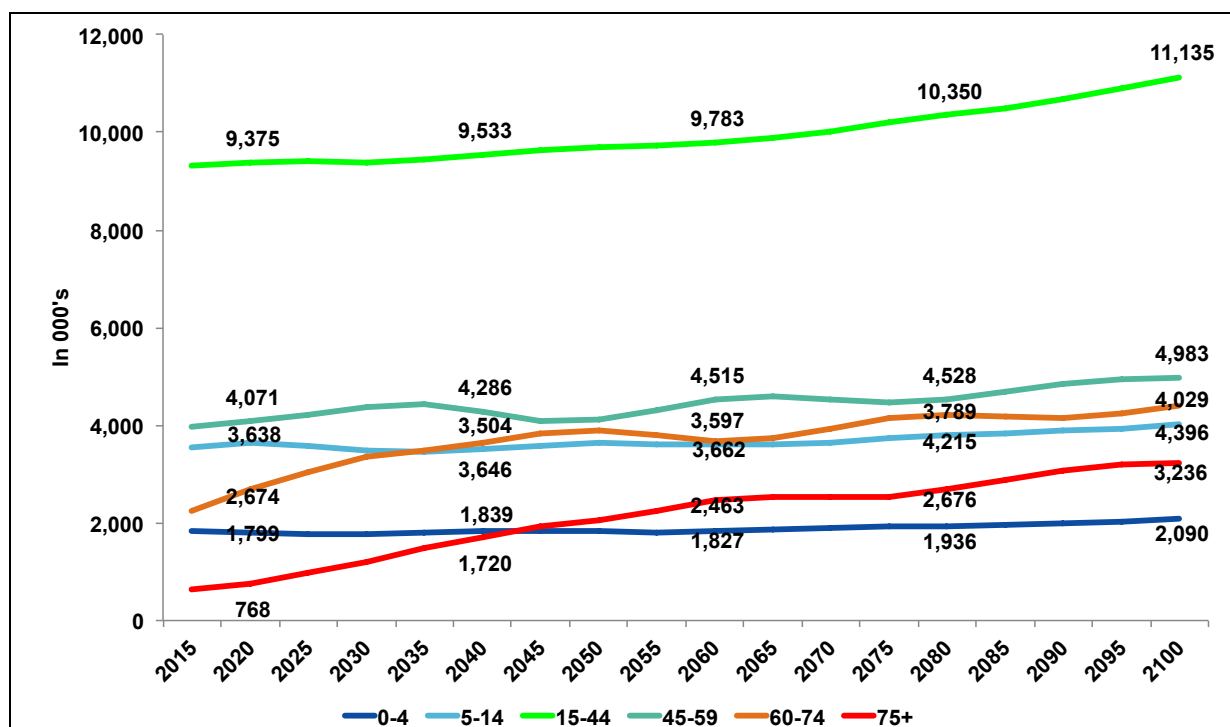
Many persons depend on their children for living arrangements in their old age. In fact the World Bank Ageing Survey, conducted in 2006 (World Bank 2008), reports that more than 77% of elderly persons in Sri Lanka lived with their children or the spouse and children. Further, both elders and their children seem to unanimously prefer the elderly person to live with children. It is considered unlikely by local experts that such living arrangements will change in the future (World Bank 2008), but Japan's experience suggests that such changes in social norms can occur rapidly once they begin. The numbers of the working age population are expected to decline in the future. The observed increase in elderly persons and the tendency to live with children will cause severe financial constraints as the cost of living continues to increase, and it becomes burdensome for the children to take care of their aging parents. The need for adult children to care for their parents directly also reduces the potential workforce available for formal sector employment. The old age dependency ratio (aged 60 and above) was 37% in 2011 and is projected to increase to over 50% in 2050 (World Bank 2008). Thus, it is of paramount importance that adequate social security schemes be introduced so that aged and ageing Sri Lankan population can be guaranteed of a financially secure old age. Table 2 shows the population disaggregated by age and sex since 1990. Figure 1 shows population projections for the major age groups till 2100 at constant fertility rates.

Table 2: Size and demographic structure of Sri Lanka's population in 000's, 1990–2010

Age group	1990	1995	2000	2005	2010
<b>Males</b>	<b>8,746</b>	<b>9,160</b>	<b>9,400</b>	<b>9,895</b>	<b>10,189</b>
0-4	908	873	847	903	943
5-14	1,923	1,867	1,733	1,681	1,706
15-44	4,209	4,494	4,641	4,782	4,670
45-59	990	1,133	1,334	1,559	1,751
60-74	560	607	645	740	871
75+	156	186	200	230	248
<b>Females</b>	<b>8,577</b>	<b>9,081</b>	<b>9,448</b>	<b>10,057</b>	<b>10,570</b>
0-4	871	844	814	867	911
5-14	1,856	1,796	1,669	1,621	1,655
15-44	4,149	4,449	4,659	4,793	4,793
45-59	993	1,166	1,392	1,664	1,876
60-74	550	635	701	839	1,020
75+	158	191	213	273	315
<b>Total</b>	<b>17,324</b>	<b>18,243</b>	<b>18,849</b>	<b>19,952</b>	<b>20,760</b>
0-4	1,779	1,717	1,661	1,770	1,854
5-14	3,779	3,663	3,402	3,302	3,361
15-44	8,358	8,943	9,302	9,574	9,462
45-59	1,984	2,300	2,726	3,223	3,628
60-74	1,110	1,242	1,346	1,578	1,891
75+	314	378	412	505	564

Note: Population estimates are available in five-year intervals, for intermediate years authors have used geometric interpolation to estimate the population sizes.

Source: Author's estimates using World Population Prospects: 2012 Revision, Population Division, Population Estimates and Projections Section, Department of Economic and Social Affairs, United Nations



Source: United Nations, Department of Economic and Social Affairs, Population Division (2013). World Population Prospects: The 2012 Revision, DVD Edition

Figure 1: Population projections at constant fertility rates Sri Lanka, 2015–2100

## 2.3 Labour force trends

The labour force of Sri Lanka consists of 8.5 million people, of which 8.1 million are employed: 31% in the agriculture sector, 26% in industries and 43% in services. Sixty one per cent of the employed are engaged in the informal sector, and 63% of them are own account workers and family workers. Fifteen per cent of the employed labour force is in the public sector, which includes government and semi-government establishments. The proportion of employed labour force in the private sector is 41%(Department of Census and Statistics 2012a).

Historical analysis of labour force data shows that participation rates for both sexes (ages 15 and above) have remained relatively stable over the years, despite the country facing many changing economic and political dynamics. Sri Lanka experiences low rates of female entry into the labour market. This is surprising for a country on a good stand with gender equality, and relatively reasonable rates of economic growth(Gunatilaka 2013); labour force participation of females aged 15-24 has declined from 33% in 2006 to 24% in 2011(The report also highlights the need to pursue policies that allow women workers to easily return to the workforce after marriage and childbirth, such as family-friendly policies to encourage institutional support for the care of young children, the equitable sharing of household burden of care between men and women, and facilitating part-time job opportunities for women.

Table 3), a remarkable decline over a period of five years. Interestingly, the labour force participation of males in the same age group too has declined from 53% to 45% within the same period. It may be the case that entry into the labour force is delayed due to pursuing higher education, although this can only play a small role.

Females in the age group 25-34 exhibit declining labour force participation rates, from 47% in 2006 to 42% in 2011. A study conducted by the ILO suggests that women appear to be forsaking entering the labour force for marriage and child bearing purposes. The report notes that implementing measures to enhance skills would likely encourage women to delay marriage and having children, thereby enabling them to increase job experience, in turn increasing the likelihood of them finding work if they were to re-join the workforce after raising children(Gunatilaka 2013). The report also highlights the need to pursue policies that allow women workers to easily return to the workforce after marriage and childbirth, such as family-friendly policies to encourage institutional support for the care of young children, the equitable sharing of household burden of care between men and women, and facilitating part-time job opportunities for women.

Table 3: Age specific labour force participation rates (%) of Sri Lanka, 2006–2011

Age group	2006	2007	2008	2009	2010	2011
<b>Males</b>	<b>77</b>	<b>76</b>	<b>76</b>	<b>75</b>	<b>75</b>	<b>74</b>
15-24	53	52	51	48	46	45
25-34	96	95	95	94	95	95
35-44	96	95	97	96	96	95
45-54	93	93	93	93	94	92
55-59	82	80	80	80	81	81
60-74	51	52	52	51	55	53
75+	17	16	16	14	15	15
<b>Number (in 000's)</b>	<b>4,824</b>	<b>4,853</b>	<b>5,213</b>	<b>5,173</b>	<b>5,311</b>	<b>5,578</b>
<b>Females</b>	<b>39</b>	<b>37</b>	<b>37</b>	<b>36</b>	<b>34</b>	<b>34</b>
15-24	33	30	29	27	25	24
25-34	47	43	43	43	40	42
35-44	51	49	49	50	46	48
45-54	49	48	48	47	47	45
55-59	37	35	37	36	36	34
60-74	16	16	17	17	16	18
75+	3	3	3	3	2	3
<b>Number (in 000's)</b>	<b>2,755</b>	<b>2,619</b>	<b>2,849</b>	<b>2,878</b>	<b>2,786</b>	<b>2,926</b>
<b>Total</b>	<b>57</b>	<b>56</b>	<b>55</b>	<b>54</b>	<b>53</b>	<b>53</b>
15-24	43	41	39	37	35	34
25-34	69	67	67	66	65	66
35-44	72	71	71	71	69	70
45-54	70	69	69	68	69	67
55-59	58	58	58	57	58	57
60-74	33	33	33	33	34	35
75+	9	9	9	8	8	8
<b>Number (in 000's)</b>	<b>7,578</b>	<b>7,472</b>	<b>8,062</b>	<b>8,051</b>	<b>8,096</b>	<b>8,504</b>

Source: Authors' own analysis of Labour force surveys for various years of the Department of Census and Statistics





## Current social protection programmes in Sri Lanka

Social protection arrangements in Sri Lanka are primarily composed of government-financed universal education and healthcare systems, pension-based and lump sum retirement benefits, and various poverty alleviation and financial assistance programmes. This chapter provides the readers with an overview of all social security programmes in Sri Lanka that exist currently and the coverage provided and expenditures of such programmes. Where possible the authors have provided a qualitative and quantitative assessment of the adequacy and efficiency of the programme. The existing programmes are assessed and compared to the prescriptions of the ILO's C102 Social Security (Minimum Standards) Convention of 1952, hereafter referred to as C102.

### 3.1 Health care

According to the convention C102, each member to whom this convention applies, should secure to covered persons the provision of preventive and curative healthcare benefits in respect of a condition that requires such care. For the provision of healthcare, the SPF considers that all residents of a country should be "covered". The age and gender distribution particular to healthcare in Sri Lanka is given in Table 2.

According to C102, healthcare benefits should include, in the case of a morbid condition, general practitioner care including domiciliary visiting, specialist care for inpatients and outpatients within hospitals and outside, essential pharmaceutical supplies and hospitalization when necessary. In case of pregnancy and confinement, women should have access to pre-natal, confinement and post-natal care by qualified medical practitioners and midwives and hospitalization when necessary. It may be required that the beneficiary share medical costs with the state in the case of a morbid condition. It is expected that the government and healthcare administration institutions and bodies will encourage citizens to avail themselves of the benefits provided. Healthcare benefits must be provided with the objective of maintaining, restoring and improving the health of the person so that he may be able to attend to his personal and work needs. The benefits must be granted throughout the period of ill health except in the case of a morbid condition, for which the duration of the benefit may be limited to 26 weeks per case.

Since the 1960s, public sector healthcare, including a comprehensive range of basic inpatient, outpatient, and community health services, has been universally accessible to the entire population of Sri Lanka and available almost wholly free of charge to all citizens and legal residents. Financed by the government using public funds and provided by the Ministry of Health and eight provincial Departments of Health, public services span the full range from preventative and basic primary care activities to hospital-provided tertiary care (Rannan-Eliya and Sikurajapathy 2009). Local authorities, including municipal councils, also provide services using public funds, but their contribution is small and focused on environmental health and sanitation matters.

All public services are financed by general revenue taxation. On the eve of Independence in 1948, the government established a commission to inquire into possible options for future financing of social services. This commission, headed by Sir Ivor Jennings, then Vice Chancellor University of Ceylon, and known as the Social Services Commission, carried out an exhaustive review of social services, and consulted widely, including with Lord William Beveridge, renowned British economist and social reformer. It provided several options for national health insurance, social

security, unemployment insurance, and other programmes, but in the case of health services, it noted that the government already provided an extensive program of healthcare services available to the whole country through tax funding. It concluded that the best option was to expand services by improving the existing system, instead of introducing an alternative system of health insurance, which would have major problems of implementation in the Sri Lankan context (Commission on Social Services 1947). This policy approach has been maintained ever since, and the evidence indicates that this has served the country well. Basic access to health services is similar to OECD economies, while spending less than 50 percent of the World Bank-stipulated “minimum cost-effective package”-and without resorting to user fees, community financing, or insurance”(Rannan-Eliya and Sikurajapathy 2009).

The public sector curative care network ranges from teaching hospitals with specialized services to small dispensaries that provide only outpatient services. Medical Officers of Health Units (MOOHs) provide most preventative health services through teams of doctors, community midwives, and others (Rannan-Eliya and Sikurajapathy 2009).

MoH facilities form a dense, integrated network with more than a thousand institutions. Most Sri Lankans live within three kilometres of a public health facility. Access to all services is reinforced by an implicit policy of permitting patients to visit any hospital in the country without restriction, and with no enforcement of a referral system. Studies indicate that the government is able to do this despite low levels of budgetary expenditure due to two main reasons: a high level of technical efficiency in its delivery system, which keeps costs low; and, an implicit strategy of encouraging richer patients not to burden the government health system by voluntarily opting to use private providers(Rannan-Eliya and Sikurajapathy 2009).All citizens of Sri Lanka, regardless of his or her circumstances are eligible to obtain free health care from state providers, as a result the overall coverage of target persons, which is the entire population in this case is 100 per cent.

There are also programmes financed by The Employees’ Trust Fund (ETF) and the President’s Fund that provide financial assistance to persons in times of serious illness that require hospitalization and surgery. The ETF provides financial assistance for surgery and hospitalization to all active members in the fund. Surgeries covered include heart surgery, intra-ocular lens transplants and kidney transplants. The President’s Fund is a universal programme that provides cash benefits to individuals in need during times of medical crises. The Fund provides financial assistance for surgical and hospitalization purposes to any person on a discretionary basis (the benefit is usually paid to lower income level individuals). Both the ETF and President’s Fund healthcare spending represent only a small share (less than 0.26%) of total public financing for healthcare.

Although public healthcare is of good quality and widely accessible, an implicit feature in the system is the tendency of the richer individuals in the population to seek private healthcare. This is not discouraged as it leaves more resources for the utilization of the poor. However doctors in both the private and public health care are usually the same individuals.

Public health expenditure in 1990 was Rs. 6.1 billion, constituting 1.9% of the GDP (Table 4). In 2000, this amount rose to over Rs. 22 billion, however, as a share of GDP it had fallen to 1.8%. Provisional estimates for 2011 show that the government spent over Rs. 94 billion on health, but this was just 1.4% of GDP. It is worrying to note that the share of healthcare to GDP has decreased consistently since about 2005. Private financing of healthcare has increased in nominal terms, and also accounts for an increasing share of GDP.However, it is important to note that the relative share of public to private spending has remained relatively consistent at about 45:55 over the past two decades.

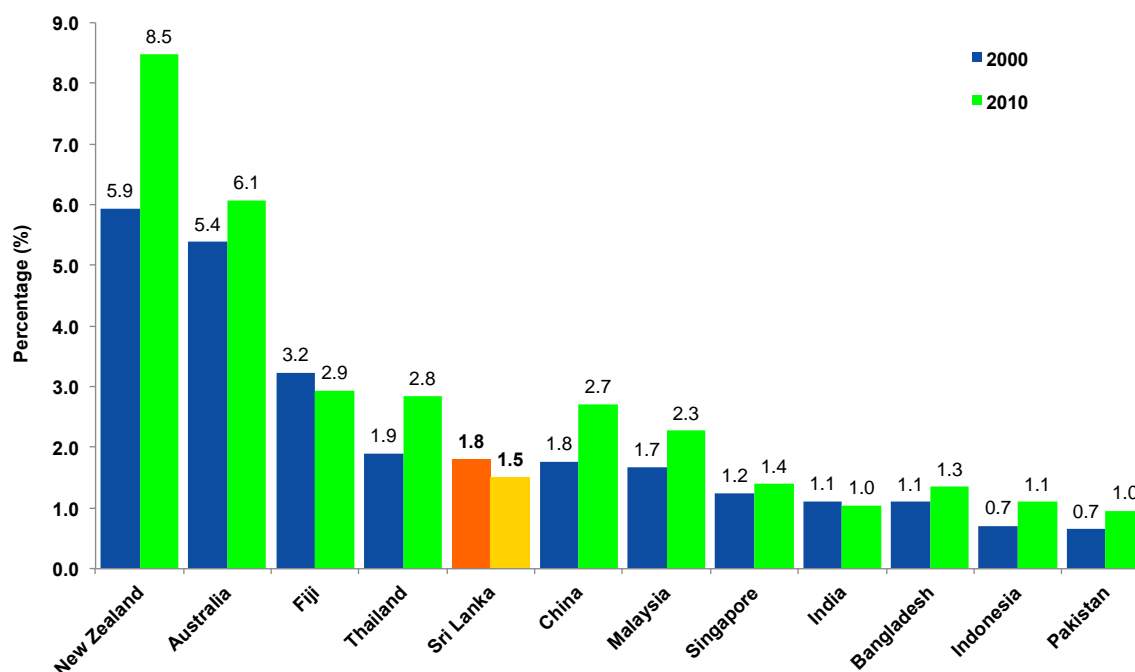
Table 4: Health expenditure in Sri Lanka by financing source, 1990–2011

Year	Public			Donors			Private		
	Rs million	% of THE	% of GDP	Rs million	% of THE	% of GDP	Rs million	% of THE	% of GDP
1990	6,099	50.3	1.9	281	2.3	0.1	5,734	47	1.8
1991	6,062	45.7	1.6	338	2.5	0.1	6,870	52	1.8
1992	7,686	48.2	1.8	512	3.2	0.1	7,753	49	1.8
1993	8,283	46.5	1.7	437	2.5	0.1	9,098	51	1.8
1994	8,926	45.5	1.5	31	0.2	0.0	10,647	54	1.8
1995	10,597	46.5	1.6	12	0.1	0.0	12,162	53	1.8
1996	12,182	46.2	1.6	21	0.1	0.0	14,162	54	1.8
1997	13,337	45.1	1.5	13	0.0	0.0	16,195	55	1.8
1998	18,790	50.1	1.8	111	0.3	0.0	18,635	50	1.8
1999	18,851	47.1	1.7	103	0.3	0.0	21,049	53	1.9
2000	22,562	48.0	1.8	247	0.5	0.0	24,181	51	1.9
2001	24,211	45.6	1.7	112	0.2	0.0	28,767	54	2.0
2002	26,933	42.7	1.7	140	0.2	0.0	35,985	57	2.3
2003	29,513	41.3	1.6	531	0.7	0.0	41,426	58	2.3
2004	40,342	45.6	1.9	596	0.7	0.0	47,561	54	2.3
2005	45,977	45.6	1.9	676	0.7	0.0	54,163	54	2.2
2006	57,636	48.0	2.0	623	0.5	0.0	61,841	51	2.1
2007	65,131	48.2	1.8	923	0.7	0.0	69,110	51	1.9
2008	73,410	46.1	1.7	1937	1.2	0.0	84,015	53	1.9
2009	79,437	46.1	1.6	1002	0.6	0.0	91,772	53	1.9
2010	86,162	44.3	1.5	477	0.2	0.0	107,938	55	1.9
2011 <sup>(a)</sup>	94,574	42.3	1.4	477	0.2	0.0	128,437	57	2.0

Note:(a) Provisional estimates

Source: IHP Sri Lanka Health Accounts Database

As a share of total health expenditure, public health expenditure accounted for 42% in 2011(Alwis, Fernando, and Rannan-Eliya 2011). The share of public spending to total expenditure has declined in recent years, but this shortfall has been bridged by rising private health expenditure which has allowed THE to remain at a consistent share of about 3.5–4.0% of GDP since the 1990s.



Note: 2010 is the most up to date health expenditure estimate available for Sri Lanka. 2011 is provisional.

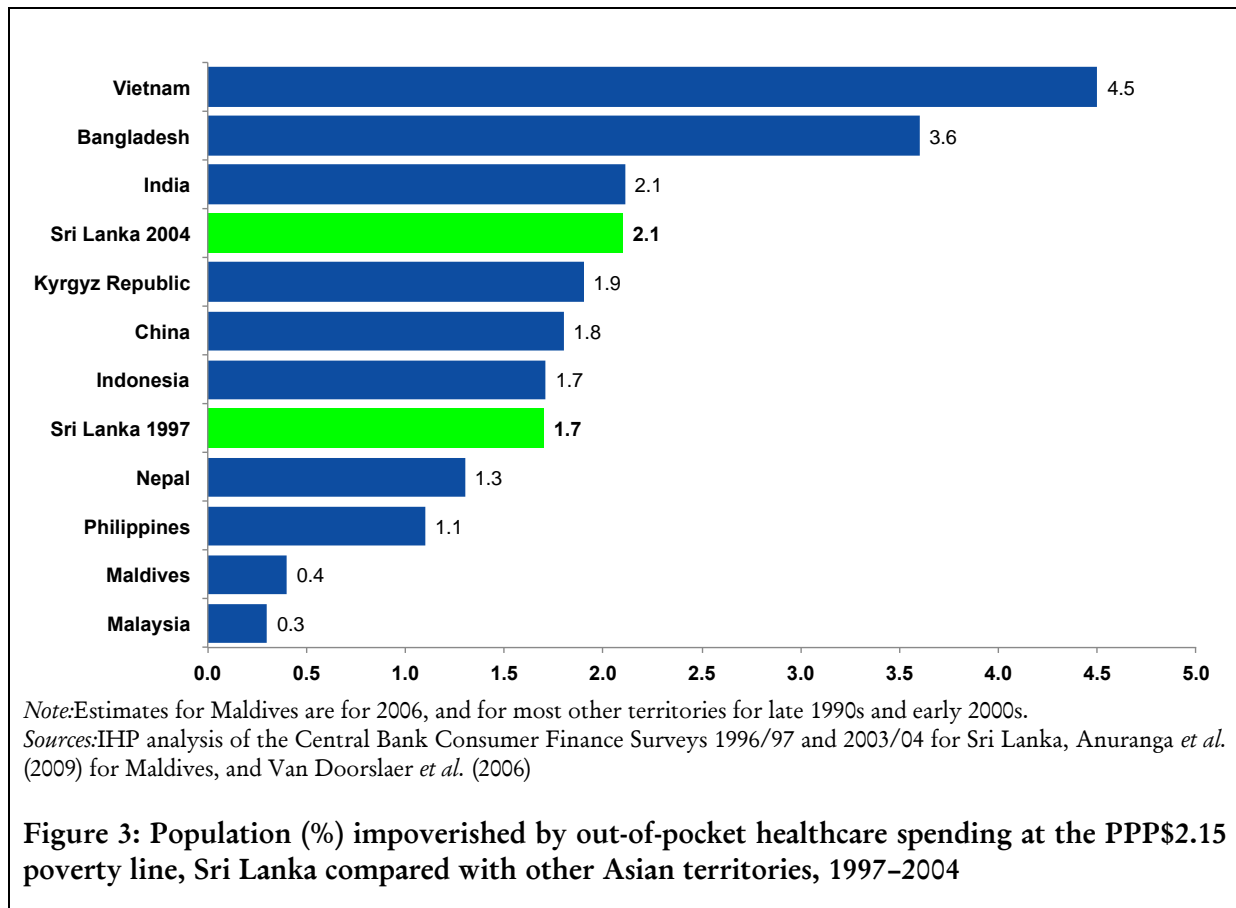
Sources: World Development Indicators 2013, World Bank and IHP Sri Lanka Health Accounts Database

**Figure 2: Comparison of change in public health expenditure as a percentage (%) of GDP for selected countries, 2000–2010**

Figure 2 shows that majority of countries had increased the share of public health expenditure to GDP. Sri Lanka is almost unique in the region in reducing public health expenditures as a share of GDP. Despite this, Sri Lanka's healthcare system performs well overall by international and regional standards, although the failure to increase investment is threatening that performance. One resulting issue that is of concern is the role of out-of-pocket expenditures on healthcare that has a substantial negative impact on the welfare of poorer households – an equity and also poverty issue.

Out-of-pocket expenditures (OOPE) on health have a direct impact on poverty because of its ability to have both catastrophic and impoverishing impacts on the net consumption levels of poor households. OOPE is said to have an impoverishing effect if it pushes individuals who were above the poverty line previously, below it upon incurring the health expense. The percentage of households falling below the international two-dollar poverty line in a given month as a result of OOPE has increased from 1.7% in 1997 to 2.1% in 2004 (Figure 3), which is a disturbing trend.

Over 80 per cent of total private spending on health is through OOPE, with employer and insurance spending accounting for only around one tenth. Access to private health insurance is biased towards higher income households, so it does not contribute greatly to mitigate the financial impact of healthcare expenditure on poorer households.



Out-of-pocket healthcare expenditure has had a relatively consistent impact on impoverishment in Sri Lanka over the years, more so when considering the international \$ 2.00 per day poverty line than the national poverty line. The poverty impact implies that in 2009, every month, out-of-pocket healthcare expenditure drove 1.6 out of every 100 people below the \$ 2.00 per day poverty line and 0.9 out of every 100 people below the national poverty line (Table 5).

**Table 5: Poverty impact of out-of-pocket healthcare expenditure in Sri Lanka applying national and international poverty lines, 1990–2009**

Indicator	1990	1995	2002	2005	2006	2009
<b><i>\$2.00 per day poverty line</i></b>						
Pre-payment headcount	45.3	43.6	45.2	31.8	30.3	25.0
Post-payment headcount	47.0	45.4	47.3	33.7	32.3	26.6
Poverty impact	1.7	1.9	2.2	2.0	1.9	1.6
<b><i>National poverty line</i></b>						
Pre-payment headcount	21.3	24.7	24.5	14.0	13.3	9.4
Post-payment headcount	22.4	26.2	25.9	15.4	14.4	10.3
Poverty impact	1.1	1.6	1.4	1.4	1.0	0.9

Note: Size of sample households varies in each year. \$2.00 per day international poverty line is in 2005 PPP \$. National poverty line is in local currency units per capita per day

Sources: IHP analysis of HIES data for various years

Impoverishment effects of OOP by income quintile show that, in the 2009/10 survey year, 90% of those in the poorest 1/5<sup>th</sup> of the population fell below the international \$2.00 poverty line, upon incurring OOP expenditures, this increased to 91.3%, this is a poverty impact of 1.3 per 100 persons. When considering the national poverty line, the poverty impact on the poorest quintile was 3.7 individuals (Table 6).

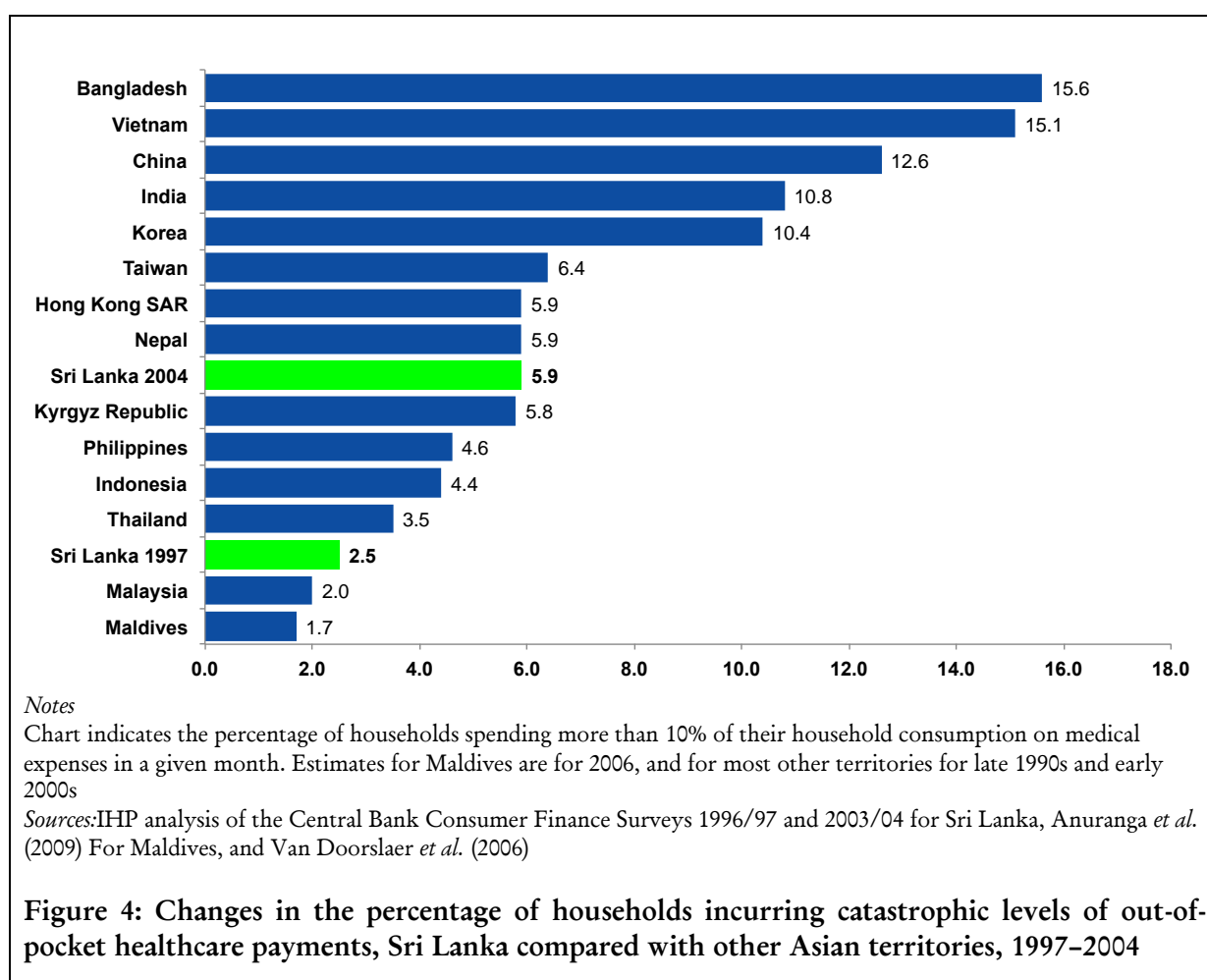
**Table 6: Poverty impact of out-of-pocket expenditure in Sri Lanka applying national and international poverty lines by income quintile, 2009/10**

Quintile	Poverty line \$1.25 (2005 PPP)		Poverty line \$2.00 (2005 PPP)		National Poverty line	
	Pre-payment headcount	Post-payment headcount	Pre-payment headcount	Post-payment headcount	Pre-payment headcount	Post-payment headcount
Poorest	22.6	24.6	90.0	91.3	46.0	49.7
2	0.0	0.1	33.5	38.8	1.1	1.7
3	0.0	0.0	1.3	2.6	0.0	0.0
4	0.0	0.0	0.0	0.1	0.0	0.0
Richest	0.0	0.0	0.0	0.0	0.0	0.0
All	4.5	4.9	25.0	26.6	9.4	10.3

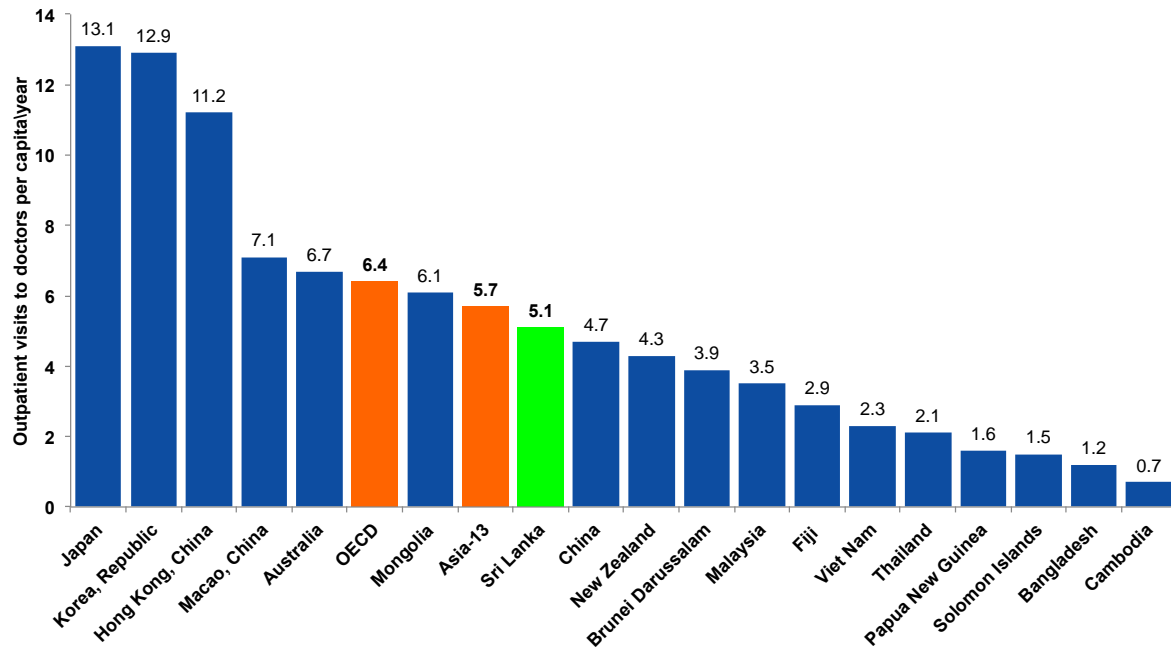
Note: Quintile ranking is based on adult-equivalent consumption and the poverty line is minimum expenditure per person per month in rupee terms. So those in the poorest 1/5<sup>th</sup> of the population may not necessarily be below the poverty line and so on.

Source: IHP analysis of HIES data for 2009/10

As Figure 4 indicates, the percentage of households experiencing catastrophic OOPE has increased from 2.5% in 1997 to 5.9% in 2004. Since a growing proportion of individuals do face catastrophic health expenditures, increasing the share of public expenditure in total health spending is needed to reverse the negative trend.



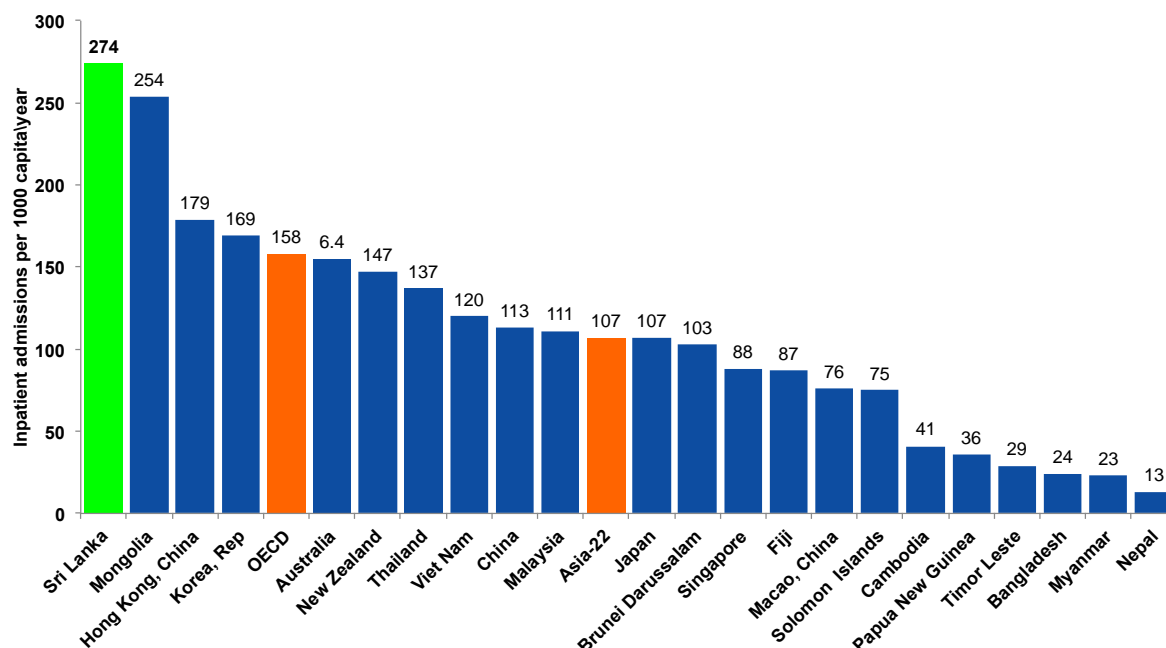
Sri Lanka performs well in terms of overall access to healthcare. As Figure 5 and Figure 6 indicate, levels of overall access, as proxied by utilization rates, are higher than comparable economies and similar to that in OECD nations, with Sri Lankans making on average 5.1 consultations with physicians (both generalists and specialists) per capita per annum, and being admitted 274 times per 1,000 capita per annum. In the case of coverage by preventive services, levels are close to 100 per cent for most maternal and child-health related interventions, such as skilled birth attendance or immunization against priority diseases.



Source: IHP estimates using data from IHP/OECD Asia-Pacific Health at a Glance database 2013

**Figure 5: Outpatient visits to physicians per capita per annum, Sri Lanka compared with other Asia-Pacific and OECD countries, 2011**



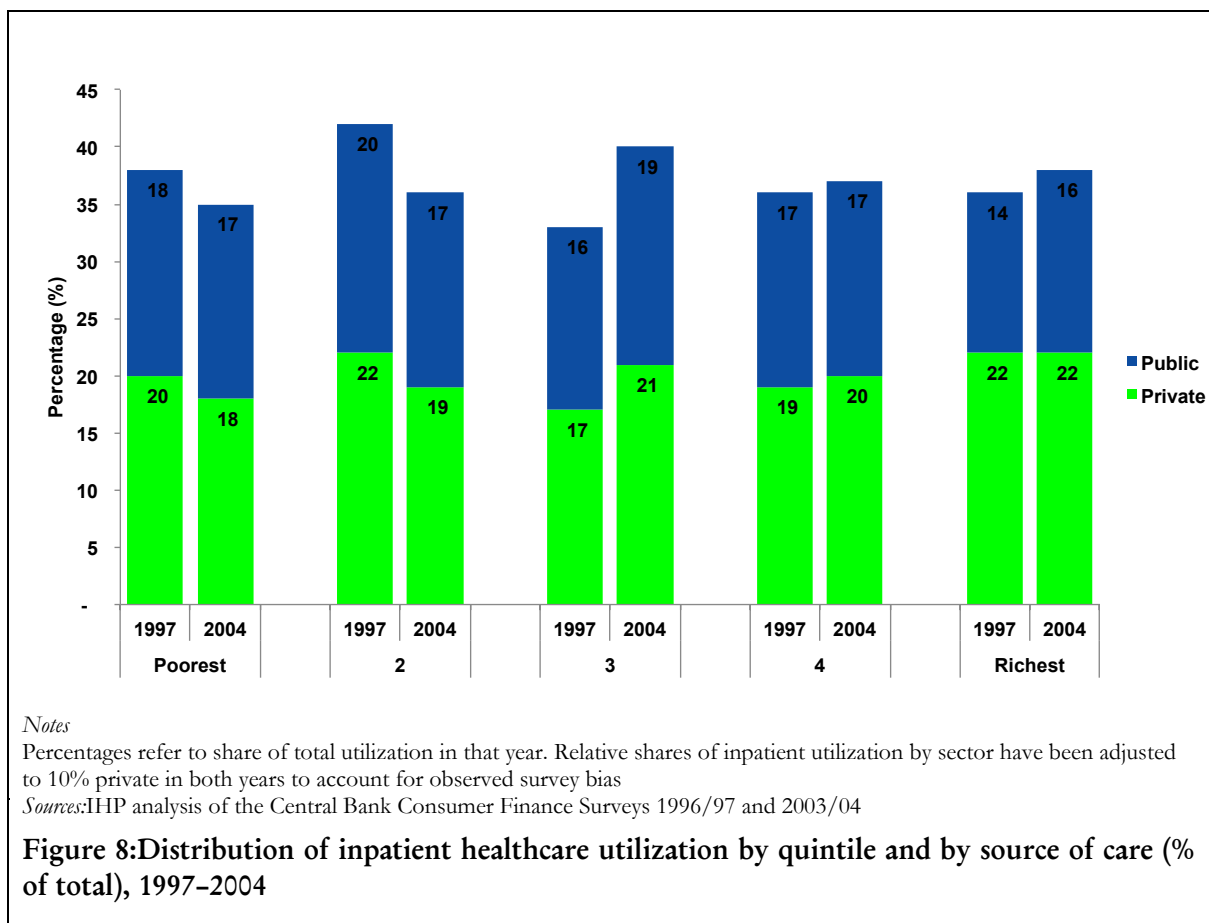
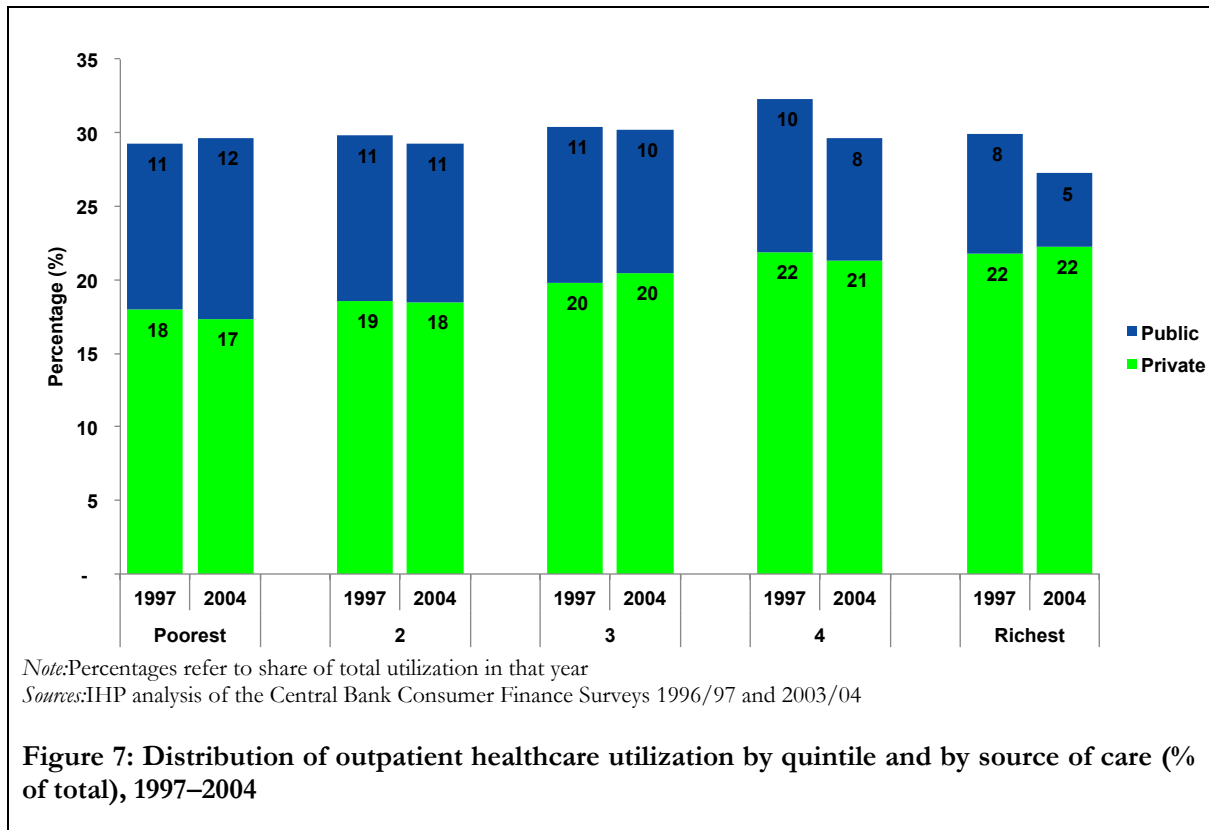


Source: IHP estimates using data from IHP/OECD Asia-Pacific Health at a Glance database 2013

**Figure 6: Inpatient discharges per 1,000 capita per annum, Sri Lanka compared with other Asia-Pacific and OECD countries, 2011**

The system achieves a high level of protection against the financial risks of medical treatment, with Sri Lankans being able to access most healthcare services, free of charge, from the government sector. The provision of financial risk protection has been a core implicit goal of government health policy since the 1940s. Compared to other developing countries, Sri Lanka generally does well in ensuring risk protection of households against large out-of-pocket expenses incurred in relation to medical care, largely because of easy access to government hospitals, which most Sri Lankans do use for serious illnesses.

Overall use of services is relatively equal, indicating the poor do not face substantial barriers to accessing needed services. Sri Lanka has done well in ensuring government healthcare services and expenditures reach the poor, and these compensate substantially for the greater ability of the non-poor to pay for private services. Such pro-poor coverage is important, since otherwise substantial inequalities in access to and use of services could arise for poor households (Figure 7). In most developing countries, public healthcare services and expenditures overwhelmingly benefit richer households; however, in Sri Lanka the distribution has generally been equal or pro-poor (Hsiao and Associates 2001, Alailama and Mohideen 1983, O'Donnell et al. 2007).



Even in terms of utilization, Table 7 shows that there is no significant variation in utilization of inpatient and out patient care by income. A skilled provider attended to 98.95 of all births in 2006/07; there is a very marginal difference within income quintiles suggesting that the wealthier populace seek skilled birth attendance more than the poorer, but not by a great degree. Similarly, measles immunization, a good indicator of child immunization, indicate similar patterns, where richer seek immunization more than the poorer, but only marginally so.

**Table 7: Utilisation of healthcare, childbirth and immunization by income quintile, HIES 2006/07**

Quintile	In-patient utilization	Out-patient utilization	Skilled birth attendance	Immunization (measles)
Poorest	0.10	3.02	97.4	94.2
2	0.11	3.36	98.4	99.0
3	0.11	3.67	98.9	98.7
4	0.11	3.96	99.2	97.1
Richest	0.10	4.16	99.4	97.3
<b>Total</b>	<b>0.10</b>	<b>3.63</b>	<b>98.6</b>	<b>97.2</b>

*Notes*

Those not responding to the health module of the survey are excluded from analysis. Immunization and child delivery reported as the mean of the total population in each quintile. Skilled provider includes a doctor, nurse and midwife.

*Sources:* IHP analysis of HIES 2006/07, and statistics published in Demography and Health Survey 2006-07 report.

Statutory health services in combination with the private provision of services ensures that Sri Lankans have good and relatively equal access to healthcare services, as well as substantial risk protection against the financial costs of medical treatment. The global and regional evidence conclusively demonstrates that the greater the reliance of a healthcare system on out-of-pocket financing, the greater the incidence of catastrophic and impoverishing expenditures (van Doorslaer et al. 2006, Xu et al. 2007). The global experience (Gottret and Schieber 2006, Rannan-Eliya 2008) also indicates that to reverse this negative trend and to improve overall financial risk protection in the Sri Lankan health system will require increasing the share of public expenditures in overall healthcare financing from its current level by 45-50%. This may require increasing public financing levels to at least 2.5–3.0% of GDP.

Despite the above successes, the sector does suffer from limited funding which could have an impact on access and quality of services provided in the future. These trends indicate that the effectiveness of public expenditures and the overall health system in ensuring financial risk protection of households could be deteriorating. Other reports also highlight irregular and inadequate supply of medical devices and drugs, forcing certain patients to purchase such items from the private sector (Gunatilleke 2010). A major funding gap also exists in the area of treatment of non-communicable diseases (NCDs), with relative mortality rates for these diseases now higher than in developed countries, despite the fact that risk factors for these diseases are often lower.

Further, public sector physicians earn low salaries and so most senior government physicians obtain majority of their income through private practice. Since most private health facilities, and thus opportunities for private practice, are concentrated in the Colombo district, there exists provincial inequity in the distribution of healthcare personnel. A shortage of medical consultants, medical officers and nursing officers exists in the Northern, North Western and Sabaragamuwa provinces (Table 8).

**Table 8: Distribution of healthcare personnel per 100,000 persons, 2011**

Province	Medical officers	Medical consultants	Nurses
Central Province	76	10	225
Eastern	77	7	159
North Central	41	5	145
North Western	43	4	124
Northern	46	7	100
Sabaragamuwa	41	4	113
Southern Province	58	9	183
Uva Province	58	8	157
Western Province	121	15	293

*Source:*Ministry of Health (2011)

## 3.2 Social protection for children

ILO Convention C102 defines a child as being a person either under school-leaving age or under 15 years of age. The United Nations Convention on the Rights of the Child (UNCRC) (1990), on the other hand, defines a child as any human being under the age of eighteen, unless the age of majority is attained earlier under a state's own domestic regulation. Sri Lanka is a signatory to this convention, and as per the Ordinance Act No. 17 of 1989, also defines the age of majority as eighteen years.

In particular, Articles 27 and 28 recognize the rights of the child to education and other necessary goods and services in line with the ILO Convention C102. Article 28 of the UNCRC identifies the rights of the child to education, which include among other things, making primary education compulsory and available freely to all, making available and accessible to every child different forms of secondary education, including general and vocational, and taking appropriate measures such as the introduction of free education and offering financial assistance in case of need. Article 27 states that appropriate measures should be taken to assist parents and others responsible for a child in need with material assistance and support programmes, particularly with regard to nutrition, clothing and housing to ensure that the right of the child to education is upheld.

### 3.2.1 Education

The ILO convention C102 has no specification in its articles that relate to the provision of education for children, however, access to education is a basic guarantee under the Social Protection Floor. The Constitution of Democratic Socialist Republic of Sri Lanka states that the government is obliged to establish a society whose objectives are to eradicate illiteracy completely and to assure to all persons the right to universal and equal access to education.

The Education Ordinance of 1939 was enacted for the purpose of making provisions for education in the country. It is commonly known as the Free Education Act. The Ordinance established the Department of Education (DOE), which is responsible for implementing the provisions of the ordinance. The DOE is headed by the Director General of Education and is assisted by Deputy Directors General of Education, Directors of specific aspects of education and Regional Directors of Education. The DOE falls under the purview of the Ministry of Education<sup>2</sup>.

<sup>2</sup> This section details only the provision of education for children by the State and does not include a description of or the expenditure on tertiary and vocational education by the State

The Minister of Education is vested with the following powers to make regulations with regard to:

1. The establishment, taking over, transfer, continuance, discontinuance, grading, staff and equipment in all schools, including nurseries, schools for the deaf, blind, defective and epileptic children.
2. Making conditions subject to which state provided funds will be given and utilized and the conditions that would cause the discontinuation of such.
3. Admissions to schools, the syllabus and schedules and the books and equipment to be used.
4. The medium of instruction to be given in a class and the classification of students for assignments, classes and schools according to their proficiency and aptitude along with the discipline to be enforced in the school.
5. The inspection of schools and classification of schools and allocating necessary fund to each school.
6. Looking into the general well being of school children including providing medical examinations and treatments and the provision of free meals, clothes and books to poor children.
7. The duties of managers and officers with regard to enforcing the provisions of the Ordinance
8. The qualifications, training periods, salaries, appointment, registration, grading, suspension, transfers and removal of teachers.
9. The provision and aiding of special schools.

The Education Ordinance makes it mandatory that a child between the ages of five and fourteen attend school. It is the duty of the parents to ensure this and those who do not abide by this will be guilty of an offence and be liable to the conviction of a fine.

Since the enactment of the Education Ordinance, the provision of free state education at primary, secondary and tertiary levels and the provision of free school uniforms, textbooks and meals, allocation of scholarships for secondary and higher education have helped to eliminate socioeconomic inequalities basic access to education.

In 2012, official statistics report the existence of 753 1 AB schools<sup>3</sup>, 2,013 1 C schools<sup>4</sup>, 3,829 Type 2 schools<sup>5</sup> and 3,270 Type 3 schools<sup>6</sup>, with a total of 9,905 schools in the country. There were over 4 million students in all these types of schools in 2012. More than 66% of students attended 1 AB and 1 C type schools. The student-teacher ratios in the lower tier and less well-provided schools, that is Type 2 and Type 3 were lower than in the other two types of schools. Overall there were 223,000 teachers and over 339,000 grade one admissions in 2012. Admissions were relatively similar in all types of schools. The highest concentration of 1 AB schools was in the Western Province (22%), which is the richest province in the country. The highest concentration of the 1 C type schools was in the Central province (17%). There are also private and private special education schools in Sri Lanka that, in 2012, provided education to over 125,000 students. These schools are both fee and non-fee levying (Ministry of Education 2012).

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<sup>3</sup> A school with advanced level science stream classes

<sup>4</sup> A school having advanced level arts and /or commerce stream classes

<sup>5</sup> A school having classes only up to grade eleven (these are ordinary level classes)

<sup>6</sup> A school having classes only up to grade eight (that is not capacity to teach for the ordinary level examination)

Students are taught in either one or two out of three mediums. In 2008, 1.4% of all students studied in English as the first language, while 72.8% studied in Sinhala and 25.9% studied in Tamil. One third of the students studying in English were from the richest Western Province. More than 80 per cent of all teachers in state schools are either graduates, post graduates with degrees or diplomas, graduate trainees or teachers passed out from Training colleges, National Colleges of Education and those having a 2–3 years diploma in Science or Mathematics (Ministry of Education 2012).

The state education system is funded through general taxation revenue. The Ministry of Finance and Planning allocates funds every year to meet the recurrent and capital expenditures of schools. The Ministry of Finance makes financial allocations to the Ministry of Education for national programmes and schools, and through the Finance Commission to provincial governments, who, in turn, allocate monies to provincial schools through zonal offices (UNICEF 2013). Recurrent expenditure allocations are mainly based on the size of student populations, with special treatment given to less advantaged schools in underprivileged regions. Capital expenditure allocations are made depending on the perceived need for it.

The governance framework for the education sector in Sri Lanka is quite complex. The central government is responsible for the national education policy and administers around 342 national schools (2012). It is also responsible for establishing the school curriculum, setting the curricula of teacher education institutions, accrediting textbooks published by private firms, publishing and distributing textbooks, and providing school uniforms and transport subsidies. It also administers the professional development programmes and courses for principals, section heads and teachers, conducts examinations and executes a range of education development measures and initiatives. The provincial councils administer the school system by developing plans and budgets, and deploying education administrators, principals and teachers within the province.

Studies such as those conducted by the World Bank argue that further devolution of education management to the level of individual educational institutions and involving local communities is needed to empower frontline service providers such as principals, section heads and teachers (Radwan, Kuruppu, and Wijesinha 2008).

In 2012, the government spent over Rs. 92 billion on education. A large proportion was spent on secondary education (62%) and on primary education (32%). Special education refers to schools that specifically cater to the education of disabled children and it accounted for a mere 3% of expenditure. The Ministry's welfare expenditure on bursaries, scholarships, free textbooks, free meals and uniforms accounted for another 3%.

The share of total education expenditure allocated to secondary education has risen rapidly; it was 48% back in 2006 and 62% in 2012. Expenditure on special education has remained at 2–3% in the period. Welfare expenditure (on bursaries, scholarships, free textbooks, free meals and uniforms) fell rapidly, it accounted for 25% of total expenditure in 2006 and only a mere 3% in 2012 (Table 9).

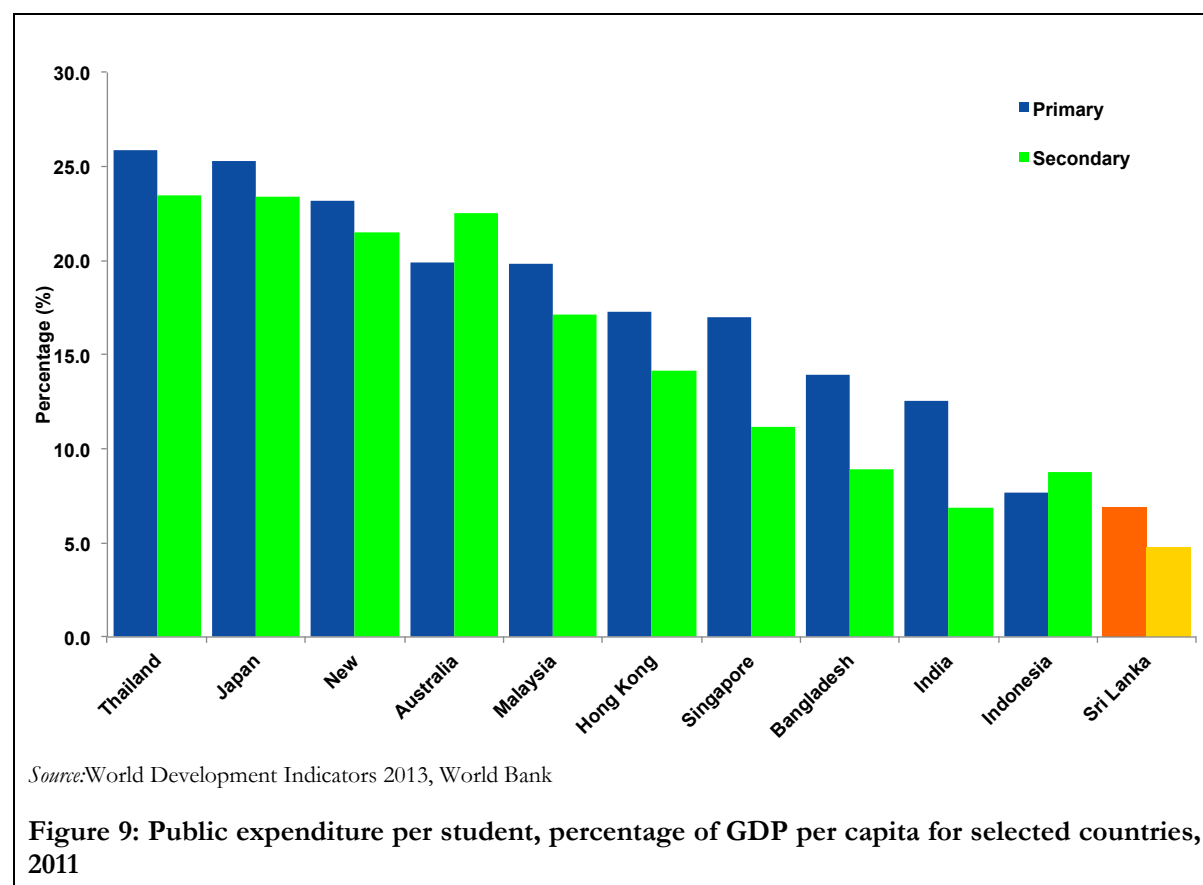
**Table 9: Public expenditure on education in Sri Lanka, 2006–2012**

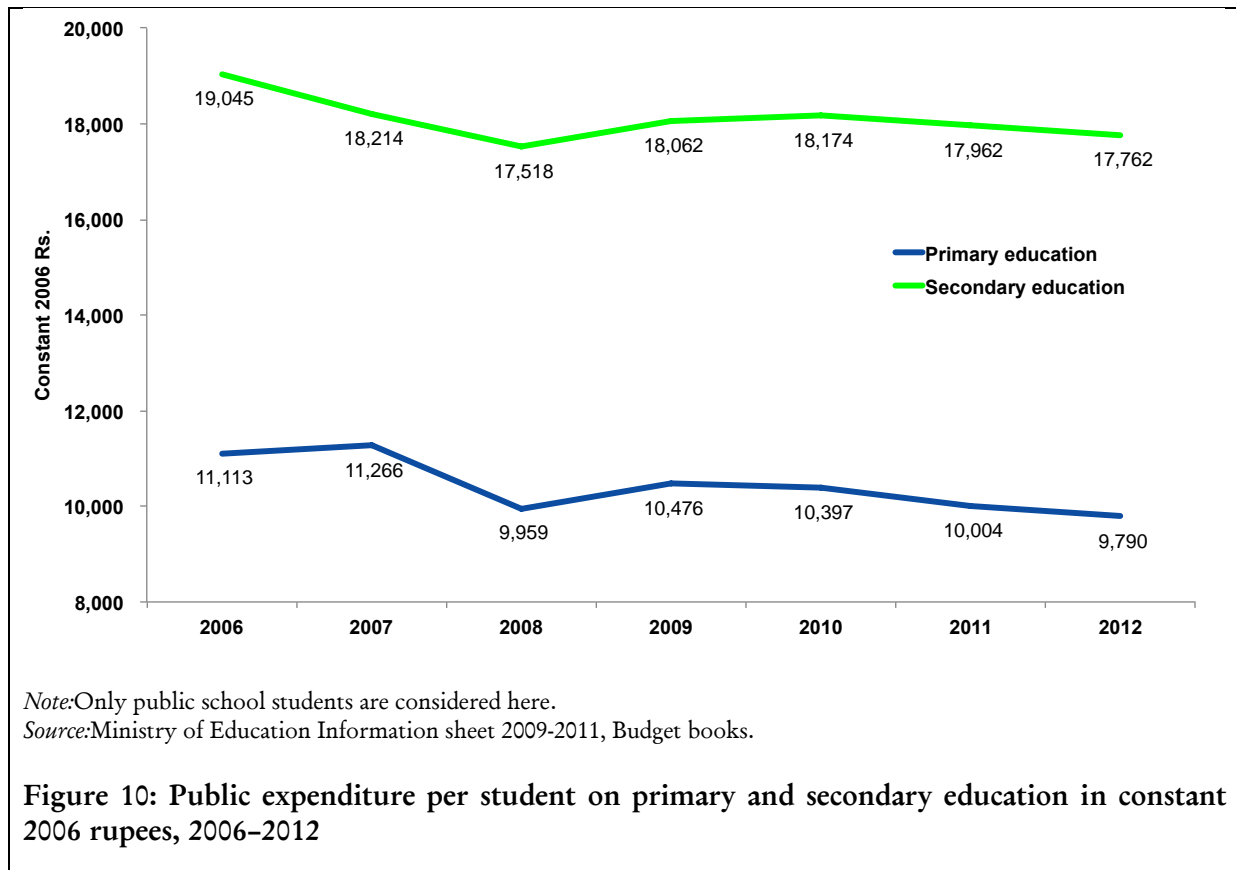
Expenditure item	2006	2007	2008	2009	2010	2011	2012 <sup>(a)</sup>
<b>Primary education</b>							
Expenditure inRs. millions	18,589	21,485	22,098	24,608	26,208	27,377	29,427
% of total expenditure	26	31	27	29	30	29	32
<b>Secondary education</b>							
Expenditure inRs. millions	34,863	38,013	42,534	46,428	50,134	53,393	57,732
% of total expenditure	48	55	53	55	57	57	62
<b>Special education</b>							
Expenditure inRs. millions	1,456	1,776	2,260	2,383	2,574	2,969	2,929
% of total expenditure	2	3	3	3	3	3	3
<b>Welfare</b>							
Expenditure inRs. millions	17,903	8,022	13,957	11,181	9,376	9,779	2,895
% of total expenditure	25	12	17	13	11	10	3
<b>Total</b>							
Expenditure inRs. millions	72,811	69,295	80,849	84,601	88,292	93,518	92,983
% of GDP	2.5	1.9	1.8	1.7	1.6	1.4	1.2

Note:(a) Provisional estimate

Source: Budget estimates for 2008-2013

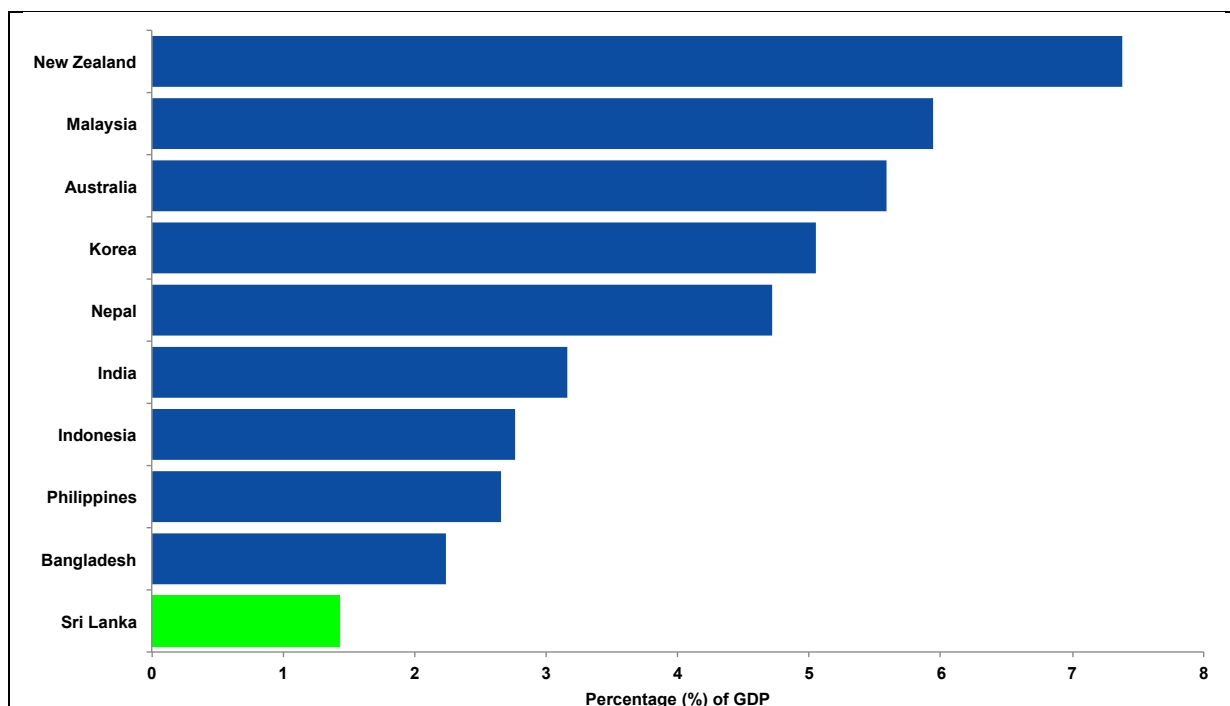
Public expenditure per student is low in Sri Lanka. Sri Lankans spend a very small share of GDP per capita on public education, for both primary and secondary education, as shown in Figure 9. Expenditure on education has grown nominally. However, as a share of GDP, expenditure on education accounted for only 1.2% in 2012 and it displays a downward trend. Real expenditure per student has declined quite significantly over the years, both for primary and secondary education (Figure 10).





Throughout the years public expenditure on education has accounted for less than 3% of GDP, and public spending is one of the lowest in the region. Countries such as Korea and Malaysia spent roughly 4–6% of GDP on education (Figure 11) while the United Kingdom and the USA spent over 5% of GDP on education. As a share of total government expenditure, education accounted for 6.9%. It displays a declining trend. Australia, UK and USA spend an average of about 15% of government expenditure on education. Malaysia spends an increasing share of government expenditure on education (World Bank 2013).





Sources: World Development Indicators 2013, World Bank. Estimate for Sri Lanka is from calculations in Table 09

**Figure 11: Public expenditure on education as a percentage of GDP for Sri Lanka and selected countries, 2011 or latest available year**

In terms of coverage, Sri Lanka has successfully achieved the Millennium Development Goal of universal primary education by 2015. School enrolment rates of children in aged 6-9, the primary school going age, was 99% in 2011. There was no gender variation in national school enrolment rates (Table 10) and more significantly either by income quintile (Table 13). Even by province there is very little variation by gender (Table 11). Compared to 2006, school enrolment rates have improved in the Southern, North Western and the Sabaragamuwa provinces (Table 12). School retention rates to the last primary grade are 98% while for secondary grade it is 86% for males and 88% for females.

**Table 10: Net school enrolment rates (%) by age group and gender in Sri Lanka, 2006–2011**

Year	6–9 years		10–14 years	
	Male	Female	Male	Female
2006	98	98	98	98
2007	98	99	98	99
2008	99	99	98	99
2009	99	99	98	99
2010	98	99	98	99
2011	99	99	99	99

Source: IHP analysis of Labour force surveys 2006–2011

**Table 11: Provincial school enrolment rates (%) by age group and gender in Sri Lanka, 2006**

District <sup>(a)</sup>	6–9 years			10–14 years		
	Male	Female	All	Male	Female	All
Western	99	98	98	97	98	98
Central	99	98	98	98	98	98
Southern	97	99	98	98	98	98
North Western	97	98	98	98	98	98
North Central	98	99	98	96	99	98
Uva	98	99	98	97	98	98
Sabaragamuwa	96	98	97	97	97	97

Note: (a) Excludes Northern and Eastern provinces

Source: IHP analysis of Labour Force Survey 2007

**Table 12: Provincial school enrolment rates (%) by age group and gender in Sri Lanka, 2006**

District	6–9 years			10–14 years		
	Male	Female	All	Male	Female	All
Western	99	99	99	99	99	99
Central	98	99	99	99	99	99
Southern	100	99	99	98	99	98
Northern	99	100	99	99	99	99
Eastern	99	99	99	99	98	99
North Western	99	98	99	99	98	98
North Central	99	99	99	100	99	99
Uva	100	100	100	98	99	98
Sabaragamuwa	99	100	100	99	98	99

Source: IHP analysis of Labour Force Survey 2007

**Table 13: Net school enrolment rates (%) for children aged 6–14 by income quintile and gender in Sri Lanka, 2009/10**

Quintile	Male	Female	All
Poorest	98	98	98
2	99	98	99
3	99	99	99
4	99	99	99
Richest	100	100	100
All	99	99	99

Source: IHP analysis of HIES 2009/10

Despite Sri Lanka's relative success in achieving goals, studies show that Sri Lanka's network of schools is highly segregated by language and ethnicity, as a result children of certain ethnicities and linguistic backgrounds are not afforded the same access to schools (GIZ 2010).

In 2002 Sri Lanka's National Education Research and Evaluation Centre (NEREC) conducted a national assessment of achievements of students completing grade 4, a tool developed by the World Bank. A random sample of students were selected to be tested in Mathematics, English the students "first language", which is Tamil for Tamil students and Sinhala for all others. Results show that on average girls performed better than boys in all three areas tested on. In general, students from the Western province generally outperformed students from other provinces. Students from the North Western and Southern provinces performed second best while those from the conflict-ridden Northern and Eastern provinces scored the lowest. Test scores showed great variance by ethnicity; children of the Burgher community performed the best, however, it must be noted that the sample included only a handful of such children, Tamil students performed very poorly in all three areas. The assessment also clearly shows a very strong and positive correlation of a student's performance to the education attainment level of the child's mother, i.e. more educated the mother, the better the academic performance of the child. Not surprisingly, children from 1 AB Type schools performed the best (Aturupane, Glewwe, and Wisniewski 2010).

Results were also tabulated by household income and student health status. Unsurprisingly, children from wealthier families scored better. Health status is calculated using height-for-age Z score (HAZ) and weight-for-height Z score (WHZ). A low HAZ indicated slow physical growth due to poor nutrition, diarrhoea or other illnesses while WHZ indicates recent malnutrition, diarrhoea or other illness. Stunted children scored lower than a third below average, marginally stunted children scored slightly below average and children with no stunting scored higher than average. The findings suggest that early childhood nutrition is an important influencer of academic prowess. However conclusions cannot be drawn about the relationship of current nutrition levels to academic performance using the WHZ scores (Aturupane, Glewwe, and Wisniewski 2010). The results indicate that, in terms of education, nutrition in early days of a child's life play an important part in academic welfare and so must be considered in long term education policy formulation.

It is clear that in order to generate quality education outputs Sri Lanka should invest more financial resources on education. Over 75 per cent of expenditure on education through central government was on recurrent costs. Provincial expenditure on education constituted of over 95 per cent for recurrent expenses.

Salaries and incentives for teachers in state run schools are very low, it is historically so for all public servants. Low salaries result in poor motivation among teachers and, in the longer term, poor education outcomes; teacher status, motivation and work attitudes have declined over the years and it is important to prioritize the motivation and improvement of such factors. Relatively higher salaries in cities and towns make jobs in such schools more desirable for teachers than disadvantaged rural schools. Such trends will only continue to ensure that children from less fortunate backgrounds do not receive equitable opportunities that they desperately require to improve their standards of living.

It seems that although Sri Lanka looks to be doing well on the surface of things in terms of education, the system is lacking qualitatively. Policy formulation must take into consideration the recommendations of various studies that have assessed the quantitative and qualitative factors to fully reach the potential the system is capable of. If Sri Lanka wishes to achieve the goal of becoming a "knowledge hub" in the region, as envisaged by *Mahinda Chinthana*, it will be necessary for the government to substantially increase investment in education and for it to improve allocations to equipment and technology like IT centres, science laboratories, libraries and activity rooms (Radwan, Kuruppu, and Wijesinha 2008).

### 3.2.2 Child nutrition

Nutrition is a critical area of income security for children in Sri Lanka, with recent research pointing to food insecurity of households being the primary driver of child under-nutrition (Anuranga et al. 2012, Rannan-Eliya, Hossain, et al. 2013). Other factors which are important in other developing countries, such as high rates of childhood infectious disease, poor medical care and sanitation, and poor childcare practices are less important in the case of Sri Lanka. Food insecurity in Sri Lanka is linked to poverty. At least 14% (2006/07) of the population have incomes so low that they are inadequate to purchase sufficient food to meet their basic metabolic needs, and in families that are short of adequate nutrients, it is inevitable that the children will also receive inadequate nutrition. Given the continued persistence of poverty, including poverty levels so extreme that households cannot afford to buy a minimum level of food intake, the only remedial solution is to provide affected children with food supplements.

The Triposha programme was initiated as a joint effort by the Ministry of Health and a US private volunteer organization in 1973; its core function areas being nutrition and health. The programme consists of providing antenatal and lactating mothers, as well as underweight infants and pre-school children take-home dry food supplements consisting of cereals, pulses and micronutrients (Silva 2008). All pregnant women visiting a government health facility are provided with Triposha food packets, however those suffering from anaemia are the most in-need beneficiaries. Upon the birth of a child, lactating mothers who display clinical signs of anaemia or difficulty breast-feeding are eligible to continue to receive Triposha packets. Mothers are encouraged to visit a health facility monthly with their pre-school child. Pre-school children identified as malnourished and meeting MOH criteria through regular weighing are eligible to receive Triposha till the age of 5 years. Triposha is distributed through a network of health centres and clinics. It has wide coverage of eligible mothers and children, although irregularity in provision of supplies is often a problem. Exact estimates of what percentage of mothers and children who meet the program criteria and are enrolled in it actually receive Triposha in any given month are not available, but it is certainly less than 90%, although overall nominal coverage rates are high, reaching more than 90% of all eligible mothers and children.

Despite the existence of this food supplementation program, high levels of observable child under-nutrition have persisted, and rates of under-five stunting and underweight have stagnated in recent years, with the most recent estimates indicating that 16.7% of this age group are stunted, and 20.9% are underweight (Table 15). 24.9% of children from the poorest households were considered as stunted (2009) (Table 14), however, of those children that received Triposha supplements, only 23.3% of them were stunted. This indicates ineffective targeting of malnourished children. Richer quintiles exhibit similar patterns.

**Table 14: Stunting and Triposha distribution among children aged 0-59 months by income quintile, NFSA 2009**

Quintile	% of households who received Triposha	% of children stunted	% stunted among those receiving Triposha
Poorest	10.1	24.9	23.3
2	7.1	20.7	17.3
3	7.7	15.9	30.6
4	7.4	16.7	16.7
Richest	5.2	11.0	14.4
All	7.5	18.3	21.3

Source: IHP analysis of Nutrition and Food Security Survey Sri Lanka, 2009 conducted by the Medical Research Institute in collaboration with the UNICEF and World Food Programme.

Child under-nutrition is concentrated in the poor, and household income is the major determinant of under-nutrition in a family (Rannan-Eliya, Hossain, et al. 2013). In addition, the nutrition status of pregnant and lactating women remains inadequate, in 2006/07 20.7% of pregnant women aged between 15–49 suffered from mild anaemia and 13.3% suffered from moderate to severe anaemia. Furthermore, there are no robust impact evaluation studies that show that Triposha programme has substantial impact on rates of child under-nutrition, and recent work has shown that there is not observable correlation between receiving Triposha and child under-nutrition (Anuranga et al. 2012).

**Table 15: Child under-nutrition rates by age group according to WHO growth standard, DHS survey 1987–2007**

Age in months	1987	1993	2000	2006/07
<b><i>Stunting</i></b>				
3-11	19.1	14.2	7.2	11.5
12-23	34.3	29.0	19.8	19.2
24-35	36.4	33.6	24.3	20.5
36-59	*	31.3	19.7	16.1
<b>Total 3-35</b>	<b>31.1</b>	<b>26.4</b>	<b>17.6</b>	<b>17.5</b>
<b>Total 3-59</b>	<b>*</b>	<b>28.5</b>	<b>18.5</b>	<b>17.0</b>
<b>Total 0-59</b>	<b>*</b>	<b>*</b>	<b>*</b>	<b>16.7</b>
<b><i>Underweight</i></b>				
3-11	19.0	15.0	13.0	13.8
12-23	28.6	22.8	19.0	20.1
24-35	37.0	32.2	27.1	22.6
36-59	*	38.1	27.8	24.1
<b>Total 3-35</b>	<b>29.1</b>	<b>23.7</b>	<b>20.1</b>	<b>19.2</b>
<b>Total 3-59</b>	<b>*</b>	<b>29.7</b>	<b>23.4</b>	<b>21.2</b>
<b>Total 0-59</b>	<b>*</b>	<b>*</b>	<b>*</b>	<b>20.9</b>

Note: \* Age groups not sampled in the survey

Source: IHP analysis of Demography and Health Surveys 1987–2006/07

**Table 16: Child under-nutrition rates (aged 3-36 months) by income quintile according to WHO growth standard, DHS survey 1987–2007**

Quintile	1987	1993	2000	2006/07
<b><i>Stunting</i></b>				
Poorest	39.9	38.6	31.3	26.0
2	38.8	33.2	20.8	21.0
3	37.2	22.9	14.9	26.4
4	23.1	23.1	9.6	13.7
Richest	15.2	11.2	4.8	9.0
<b>Total</b>	<b>31.0</b>	<b>26.1</b>	<b>16.4</b>	<b>16.9</b>
<b><i>Underweight</i></b>				
Poorest	41.8	32.6	32.1	29.1
2	36.4	31.8	24.5	24.0
3	27.4	23.4	22.1	19.5
4	24.0	18.2	11.2	17.5
Richest	15.8	10.7	10.3	11.1
<b>Total</b>	<b>29.2</b>	<b>23.6</b>	<b>20.1</b>	<b>19.9</b>

Source: IHP analysis of Demography and Health Surveys 1987–2006/07

Not surprisingly, the largest presence of child undernourishment is in poorer households. In 2006–07, more than a quarter of children (26%) from households with the lowest income quintile were stunted, and an even larger percentage (29.1%) was underweight (Table 16). Since 1987, rates of child undernourishment has fallen across all income quintiles, however, there is still a high prevalence of malnutrition in the lower income quintiles.

The explanation for persisting and increasingly-poverty linked under-nutrition despite the existence of the Triposha programme is straightforward. In poor families the deficit in food intakes reaches 1,000–3,000 calories per family per day, whilst the Triposha food supplement only provides each beneficiary family with the equivalent of 150–200 calories per day, which is grossly inadequate to have any significant impact on overall food security or the nutrition of the child, since any rational family will simply readjust their interfamily food distribution to take account of the provided food supplements. The global evidence indicates that only large levels of food supplementation, reaching 1,000–3,000 calories/day per family are effective in having substantial impact on child under-nutrition.

In 2012, the Sri Lankan government spent a mere 0.1% of its budget on the Triposha programme, and as a share of GDP it was insignificant (Table 17). Expenditure per beneficiary shows considerable fluctuation, implying that the Triposha benefit is based on available funds rather than a fixed expenditure pattern per head. The number of beneficiaries increased over the years: there were almost one million such beneficiaries in 2012.

**Table 17: Government expenditure on the Triposha programme in Sri Lanka, 2000–2011**

Year	Expenditure			Per beneficiary expenditure (Rs.)	Number of beneficiaries
	Amount in Rs. millions	% of GDP	% of government expenditure		
2000	246	-	0.1	616	399,137
2001	-	-	-	-	749,853
2002	617	-	0.2	860	717,383
2003	498	-	0.1	684	727,547
2004	304	-	0.1	430	708,037
2005	504	-	0.1	705	715,576
2006	537	-	0.1	713	753,284
2007	488	-	0.1	623	783,560
2008	649	-	0.1	819	792,553
2009	1,155	-	0.1	1,475	783,337
2010	865	-	0.1	931	928,841
2011	-	-	-	-	965,194

*Notes*

- is equivalent to zero

- datum is not available for the year

*Source:* Dalpatadu et al. (2012)

The global and local evidence indicates that if the Triposha program is to have any real impact on child nutrition and thus child income security, it would need to be substantially bigger. It would need to provide food-insecure families with children with a minimum 1,000 and ideally 2,000 calories a day. This should ideally also be done using a more modern food supplement formula. However, to achieve this would require substantially increasing expenditure on Triposha to at least Rs. 4 billion per year.

### 3.3 Social protection for those in active age

A number of legislative acts and policies provide for the income security and welfare of people of active age. However, the breadth and depth of coverage are often not in line with ILO Conventions. One such example are domestic workers who are not covered by labour regulations and, so do not receive benefits such as maternity leave, workmen's compensation or old-age benefits. This goes against the ILO Convention Concerning Decent Work for Domestic Workers No. 189 adopted in June 2011 which provides for, among other things, working hours, minimum wages, overtime payments, leave, maternity protection and workplace safety.

In the following chapters, the report examines the various statutory and non-statutory schemes currently in place to provide some form of security to those in active age.

#### 3.3.1 Sickness

Convention C102, states that each ratifying member shall "secure to the persons protected the provision of a sickness benefit" to cover the contingency that he/she is unable to work due to ill health which causes a suspension of earning. The national laws in this case should cover at least fifty per cent of the labour force. The sickness benefit should be a periodical payment of 45% of his previous earnings for up to a period of at least 13 weeks, according to the convention.

All employees whose employment is governed by the Shop and Office Employees (SOE) (Regulation of Employment and Remuneration) Act No. 19 of 1954 and the Public Sector Establishments Code, are eligible to receive seven days of fully paid leave from work due to sickness. The SOE Act usually applies to the private sector workers in formal employment.

The SOE Act governs the employment of individuals in “all shops and offices in Sri Lanka”, so technically, regardless of whether the employee is in the formal or informal sector of the economy he is legally entitled to receive sick leave. However it must be noted that most informal sector workers in Sri Lanka are daily wage earners, not on a fixed income, therefore it is highly unlikely that such employees receive a wage for the days they are unable to attend work. Informal workers constituted sixty one per cent of the labour force in 2012 (Department of Census and Statistics 2012a). It is not known what percentage of these workers receive fixed wages. An age-sex breakdown of the formal and informal workforce in the country cannot be produced by the authors with available data.

The public sector, governed by the Establishments Code, provides sick leave of full or half day or no pay to employees for a period not exceeding fourteen days. The public sector constitutes of all government offices and departments. In 2011, 0.8 million number of individuals were employed in the public sector (IHP analysis of Labour force survey 2011).

The labour laws of Sri Lanka provide statutorily obliged paid sick leave to employees in either sector. However there are no additional social security programmes that provide an individual with replacement wages or an allowance during a period of ill health that a person is unable to attend work. As such, self employed persons and family workers are also excluded from receiving paid sick leave or any other benefit.

Private sector expenditure on sick leave salaries is not known since such data are not collected in Sri Lanka. The amount spent by the government on sick leave salaries for public sector employees is also not known. There is no additional expenditure on sickness benefits on people of active age.

However, paid sick leave does not fully embody the definition of sickness benefits put forth by the convention C102. The convention prescribes the benefit, as mentioned earlier, to be a payment in lieu of a contingency that causes him to be out of work and a suspension of earnings. This benefit should be a minimum of 45% of his prior income according to Article 67 of the convention. If an employee who is covered by either the SOE or the Establishments Code were to fall ill and be out of work for a period exceeding the seven or 14 days, he will not receive any income, although his job may still be secure. A periodic payment of 45% of the earnings for period of 26 weeks, as prescribed in the convention is not provided for in Sri Lanka, either by the employer or the through a social scheme under the current structure.

### 3.3.2 Disability and invalidity

According to the prescriptions of C102, if a covered person is unable to find gainful employment due to a disability he is encumbered with, he must be eligible to receive at least 50% of his previous earnings (or the same percentage of the average wage of a skilled male employee if he does not have a previously earned amount) on a periodic basis throughout his lifetime or until he becomes eligible to receive an old-age benefit. The convention allows the scheme to be a contributory one.

A disabled person in Sri Lanka is defined as an individual who, as a result of any deficiency in his physical or mental capabilities, whether congenital or acquired, is unable to ensure for himself, by himself, wholly or partly, the necessities of life. This definition encompasses both medical and socio-economic necessities of disability. As such the report examines two areas of disability, firstly, those disabled persons in the active age who are unable to work due to congenital and acquired disabilities that are not due to work related injuries and secondly, disabilities acquired by work related injury. There is no data available in Sri Lanka to produce age-sex distributions of disabled and invalid persons.



For the former type of disabled active age person, those congenital and acquired via non-work related injury disabilities, there are welfare programmes in place, administered by the Ministry of Social Services that they can benefit from. The Ministry of Social Services is a line ministry of the central government whose mandate is to provide welfare to disadvantaged persons, including the elderly and other vulnerable groups such as single-parent families. They do so by formulating policies and implementing activities to beneficiaries. It is funded by the central government via its budget.

The Ministry provides financial assistance to disabled persons for constructing and improving houses and for construction of toilets and ramps. They provide financial support to self employed disabled persons who are earning a steady income of at least Rs. 6,000. Financial assistance for surgeries and the purchase of pharmaceuticals is provided as well. The Ministry provides assistive devices to those considered needy; these include wheelchairs, crutches, hearing aids *etc.*

The Ministry pays a monthly allowance of Rs. 3,000 to disabled persons who are considered to be poor; this is defined as being a family earning less than Rs. 3,000 a month. There is an application process for all the above stated benefits, however, it is not known as to how lengthy or time consuming the process of receiving benefits is. The Ministry, when contacted by the authors, reported that there was a deficiency of financial resources that can be utilized for the disability benefits it provides. Since there is no other form of social security for disabled persons in the active age who are “unable to earn a sufficient income”, the state of the existing benefits should be of concern to policy makers.

In 2005, the ministry spent Rs. 9 million on providing the above benefits for disabled persons. In 2012, this amount grew to Rs. 583 million (Table 18). Despite this large nominal growth in expenditures, as a share of GDP it still represents a miniscule amount. Average per beneficiary expenditure has increased from Rs. 473 in 2005 to Rs. 4,700 in 2012. The disaggregation of expenditure on the type of benefit to the disabled person is not available, so the amount spent on living allowances, which is the main concern under the SPF guarantee, is not known.

Table 18: Expenditure on services provided by the Ministry of Social Services in Sri Lanka, 2004–2012

Item	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Expenditure</b>									
<b><i>Benefits for elders</i></b>									
Expenditure in Rs. millions	11	14	18	21	18	19	17	23	12
% of total expenditure	100	60	100	18	14	10	12	4	2
<b><i>Benefits for disabled persons</i></b>									
Expenditure in Rs. millions	—	9	—	90	112	156	122	483	583
% of total expenditure	—	40	—	78	84	88	86	95	97
<b><i>Benefits for single parent families</i></b>									
Expenditure in Rs. millions	—	—	—	5	3	3	3	3	3
% of total expenditure	—	—	—	4	2	1	2	1	1
<b>Total expenditure</b>	<b>11</b>	<b>23</b>	<b>18</b>	<b>116</b>	<b>133</b>	<b>177</b>	<b>142</b>	<b>509</b>	<b>598</b>
% of GDP	—	—	—	—	—	—	—	—	—
% of government expenditure	—	—	—	—	—	—	—	—	—
<b>Number of beneficiaries</b>									
Elderly	—	52,452	128,738	116,590	100,083	110,208	44,323	43,777	33,978
Disabled	—	18,834	—	35,112	38,086	19,865	20,261	79,575	124,261
Single parent families	—	386	—	434	345	329	162	464	387

**Notes**

- is equivalent to zero

- datum is not available for the year

— not applicable

Source: Ministry of Social Services as communicated to IHP

The Ministry of Social Services reports on its website, based on the 2012 Census of Population and Housing (provisional data based on 5% sample), that 8.6% of the population above the age of 5 were living with disabilities. The authors were not able to obtain first hand data from the Department of Census and Statistics on this, however it implies that nearly 1.6 million people in the country live with disabilities. The earning capacities of the disabled person or their guardians are not known. The number of such disabled persons who fall into the economically active age group is also not known.

The adequacy of the programmes, especially the living allowance, cannot be assessed due to lack of data on recipients and their income levels. The issue with regard to maintaining a database of disabled persons was raised by the ministry to the authors. This would be a useful tool for agencies such as the ministry as well as policy makers to ensure that the benefits are targeted properly in the future.

The second type of disabled active age person is one who has suffered a crippling disability due to a work related accident and is no longer in a position to earn a sufficient income. The main legislation that governs a work related contingency is the Workmen's Compensation Ordinance (WCO) of 1934. It states that employers are liable to compensate an employee for injuries caused due to work-related accidents. As such, this is an employer liability system and does not have a social security component in it. All employees who are employed for "the purposes of the trade or business of the employer" should be entitled to receive the benefit. This coverage is only extended to the formal sector, representing about 39% of the labour force in 2012 (Department of Census and Statistics 2012b). A more specific ILO convention that deals with employment injury C121 Employment Injury Benefits Convention and the present system is not compliant with the tenets of this convention.

According to the WCO, in the event of death or permanent disability due to work-related injuries, compensation up to a maximum of Rs. 550,000 has to be paid to the victim or his beneficiaries. In case of a temporary disability suffered by an employee in similar circumstances, he or she is entitled to receive a maximum of Rs. 5,500 every half-month. The benefit is not a periodical payment, excepting the temporary disablement benefit (which can also be paid off in lump sum if that is the mutual agreement), and so cannot be considered as income security for a person who is "unable to earn a sufficient income". The WCO provides the compensation in order that some amount of the wages may be replaced; it is not a form of income security in the sense of the SPF.

The WCO excludes members of the armed and police force, the self-employed, casual workers, and those workers who are not employed for the benefit of the employers business, such as domestic workers. So this implies that all formal sector workers, numbering 3.2 million individuals in 2012, are covered by the WCO.

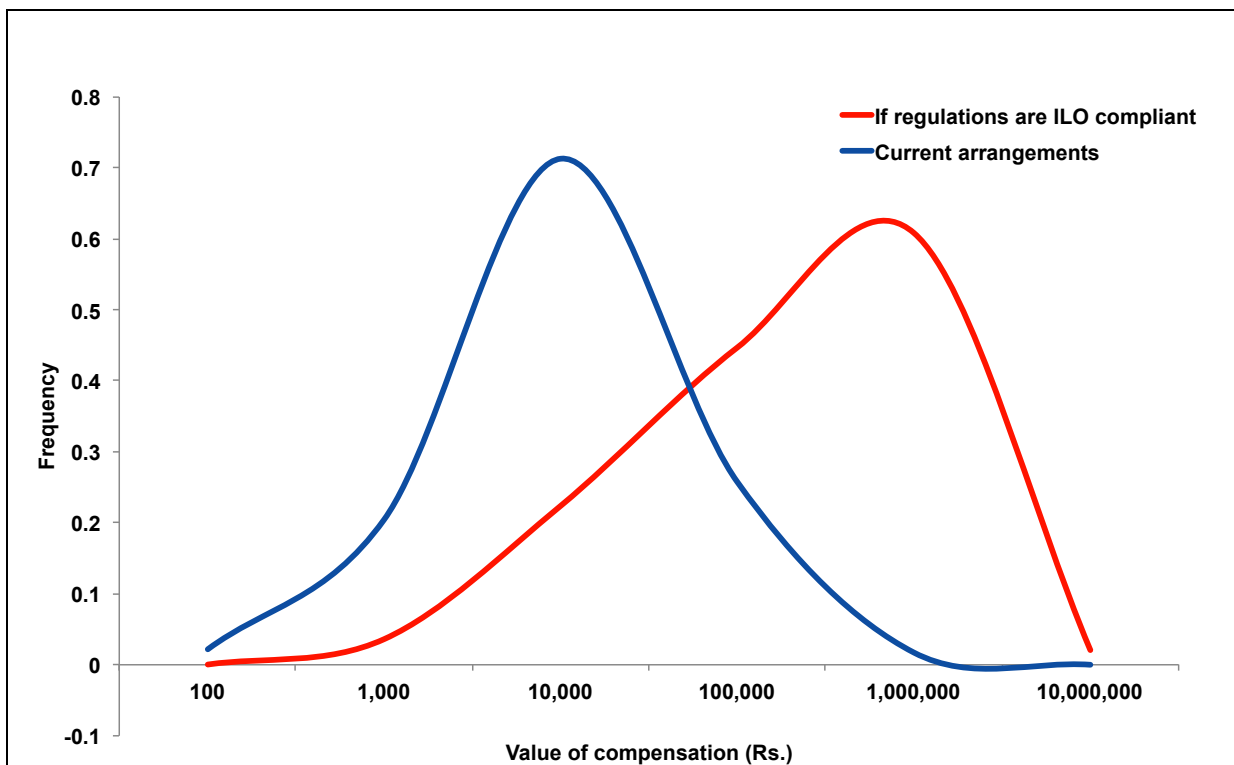
The percentage of the population or the labour force that the WCO covers falls short of what is prescribed by either of the conventions, this is due to the majority of the labour force being involved in the informal sector. Though technically thirty nine per cent of the labour force may be covered by the WCO, the enforcement of the act is very lax, so the percentage of the labour force that would actually receive compensatory benefits in the case of employment injury maybe lower. The government authority responsible for carrying out the directions of the WCO is the Office of the Commissioner of Workmen's Compensation. It is an arm of the Ministry of Labour in Sri Lanka.

A recent study conducted by IHP assessed the adequacy of the WCO against both the C121 and employment injury protection schemes in foreign countries. As part of the study, claims for compensation filed with the Commissioners office in 2012 were analysed. The findings revealed in the report are generally quite disheartening. It was found that the average financial compensation

provided by the present system in Sri Lanka is only 10% of the minimum compensation an employee should receive according to ILO C121 requirements. This is grossly inadequate as an injury protection scheme for persons in active age.

The same study reports that, in 2012, employers spend 0.35% of payroll on paying workmen's compensation benefits and injury related insurance policies, a rate which is lower than in most other countries. This percentage is subject to some sampling error, which is outlined in the report, and so an exact rupee cost on direct workmen's compensation cannot be obtained. However, it reports an accurate estimate of the national cost of injury insurance premium, which was Rs. 1.2 billion. Analysis on this insurance data has revealed that for every Rs. 100 spent by an employer on injury insurance, only Rs. 37 is eventually paid out for claims.

Further, the report also found that this is the lowest level of protection provided by any scheme in the Asian region (Rannan-Eliya, Thowfeek, et al. 2013). Many recommendations as to how better benefits can be provided, including the source of finance are discussed extensively in the report. An overhaul of the existing legislation is recommended so that workmen's compensation benefits will no longer be employer liability, but a social insurance scheme funded by mandatory pay-roll contributions. If the levels of compensation are to become compliant with ILO recommendations spending will need to increase greatly. As shown in Figure 12 the average compensation would rise to a level that would make the present employer liability system unsustainable, implying also the need for an insurance mechanism to protect small firms.



Source: Analysis of workmen's compensation claims data by IHP, 2013

**Figure 12: Comparison of the shift in the distribution of the value of workmen's compensation claims under the current arrangement and if ILO regulations are implemented**

It is recommended that benefits be bought in line with the prescriptions of the convention C121, that is, in case of permanent disability or death due to work related accidents, the employee or his beneficiaries should be entitled to receive 80% of the employees previous wage as income replacements. The duration of payment shall be till the presumed age of retirement of the employee, at 65. The death benefit paid to the spouse of the employee will cease upon death or remarriage, and upon reaching the age of 25 for the dependent children. In case of temporary disablement, the employee should receive 80% of his previous wages on a periodic basis for as long as the disablement lasts or is declared a permanent disablement.

Many options for financing a revamped employment injury protection scheme are provided in the report. The most feasible option being introducing a dedicated social insurance scheme through the country's existing provident scheme the Employees' Trust Fund (ETF), which will be discussed later on in the report. This fund will collect money from employers at a prescribed rate and the monies will be used to make compensatory payments to employees for workmen's compensation benefits recommended.

### 3.3.3 Maternity

Sri Lanka has ratified the ILO Maternity Protection Convention (Revised) No. 103 of 1952, one of only three countries in the region to have done so – the others being Mongolia and Papua New Guinea. The convention states that all employed women be entitled to receive a period of maternity leave of at least twelve weeks. During this maternity leave the woman shall also be entitled to receive cash and medical benefits. The period of leave post confinement should be compulsory. The maternity leave benefits must be distributed through a compulsory social insurance scheme or by public funds. The rate at which cash benefits are dispensed may be decided by national laws, however, the convention further states that under a compulsory social insurance scheme the rate cannot be less than two thirds of the woman's previous earnings. Contributions made to the social insurance scheme or any tax on payroll that would fund the allotment of maternity benefits, whether paid by both employer and employee or only employer, should be paid on the salaries of all workers, regardless of sex. The convention specifically states that in no case shall the employer be solely responsible for bearing the costs of providing these benefits. Though the convention is ratified in Sri Lanka the subsequent analysis of existing maternity leave benefits will show that Sri Lanka has not lived up to the prescriptions made by the convention.

C103 further states that national laws should be designed to ensure that women on maternity leave cannot be dismissed from employment during this period of time. Further, the convention prescribes the allocation of time for nursing breaks for which are to be considered as working hours and remunerated accordingly.

Sri Lanka has three labour laws that govern maternity leave and benefits for women in the labour force: the Shop and Office Employees (SOE) (Regulation of Employment Remuneration) Act No. 19 of 1954, the Maternity Benefits Ordinance No. 32 of 1939 and the Public Sector Establishments Code.

The Maternity Benefits Ordinance No. 32 of 1939 sets out benefits to women employed in any trade in conformity with the convention. According to this Ordinance, fully paid leave of 84 calendar days is mandatorily granted to all female workers earning a wage in any trade, industry or business except those covered by the SOE Act. However, provisions do not cover female employees working from home or in private households; which Convention C103 requires. The numbers of females in the informal sector actually receiving such benefits is unknown; however, this figure is likely to be marginal. As formal sector female employees, numbering 0.9 million individuals in 2012 (Department of Census and Statistics 2012a) are covered for maternity leave

benefits by legislation, this was 33% of the entire female labour force in the country and 36% of employed women.

Under the SOE Act, non-public sector employees are mandatorily provided with 84 working days of fully paid maternity leave for the first two children, thereafter, mandatory maternity leave is reduced to 42 days for all subsequent births. Female workers employed in the public sector (including statutory boards) are covered under the Establishments Code; they receive 84 working days of fully paid maternity leave, and upon request, an additional 84 calendar days at half-pay, and another 84 calendar days at no pay (Ranaraja 2012). Unlike private sector employees, public sector employees are allowed the same length of maternity leave for all her maternities.

Disregarding the discrepancy of calendar and working days, the minimum period of maternity leave allowed is twelve weeks. This is in line with the prescriptions of the convention C103. The existing legislation also provides periodical benefits at one hundred per cent of the woman's earnings, which is higher than prescribed by the convention. The ordinances both provide rules against dismissal of a female employee during times of maternity, childbirth or illness. Public sector workers, however, do not enjoy this job security. Nursing periods are also specifically provided for in both public and private sector employees, in line with C103.

According to ILO Convention C103, which Sri Lanka has ratified, maternity leave benefits should only be paid through a statutory social insurance system or by public funds. There is no such system currently in operation in Sri Lanka, although the government has commissioned studies on the feasibility of introducing such a system. However, it is likely that both options – social insurance and public funding – will be difficult to implement in Sri Lanka, but if Sri Lanka were to ratify the more recent C183, which replaced C103, the requirement to eliminate employer-based liability would no longer exist.

The entire cost of providing maternity leave benefits is currently borne completely by the employer, a violation of the convention. Data on the costs of providing maternity leave benefits is not widely available; however, a recent study conducted by IHP (Abeykoon, Rannan-Eliya, and Wickremasinghe 2013), estimates that private sector employers spend roughly 0.5% of annual payroll costs on maternity leave salaries.

**Table 19: Female labour force of Sri Lanka and coverage by maternity leave legislation, 2006–2012**

Year	Formal sector	Informal sector	Unemployed	% afforded maternity leave benefits	
				Of labour force	Of employed females
2006 <sup>(a)</sup>	878	1,617	267	32	35
2007 <sup>(a)</sup>	843	1,545	237	32	35
2008 <sup>(b)</sup>	884	1,630	239	32	35
2009 <sup>(b)</sup>	924	1,715	248	32	35
2010 <sup>(b)</sup>	891	1,684	215	32	35
2011	940	1,785	205	32	35
2012	944	1,708	176	33	36

*Notes*

(a) Excludes the Northern and Eastern provinces

(b) Excludes the Northern province

Sources: Sri Lanka Labour force survey reports 2006–2012

Given that the informal sector constitutes a majority of the labour force (a common feature of any developing country), of 1.7 million females (Table 19), which was 60% of the female labour force in 2012, measures should be put in place, by way of legislation or a social security scheme, to provide guaranteed maternity benefits to female employees in the informal sector as well. The age distribution of formal and informal sector female employees cannot be produced using available data.

### 3.3.4 Unemployment

According to the convention C102, a covered person who is willing and able to work but is unable to obtain suitable employment should be eligible to receive a periodic allowance of forty five per cent of his previous earnings for as long as it is deemed necessary and non-abusive. At least fifty per cent of the labour force or all residents whose means are below a prescribed limit or where classes of employees are covered, all those employed in a work place with twenty persons or more, should be eligible to receive this benefit.

In 2012, Sri Lanka had more than 300,000 unemployed individuals – an unemployment rate of 4% (Department of Census and Statistics 2012a). The unemployment rate has been falling consistently year on year since 2002 (Table 20).

The official unemployment rate is one of the lowest in the world and the declining trend is a remarkable achievement in the short period of time, but this appraisal must be tempered by the reality that 17% of the labour force is employed overseas, implying that the domestic economy is only able to create jobs for 83% of the labour force. The World Bank also reports a total long-term unemployment rate, defined as the percentage of unemployed persons who are unemployed for a period exceeding a year, of 38.8% in 2012 (World Bank 2013).

**Table 20: Number of unemployed persons in the labour force of Sri Lanka and the rate of unemployment, 2000–2012**

Year	Number of unemployed persons (000's)			Unemployment rate (%)		
	Male	Female	Total	Male	Female	Total
2000	26	257	517	5.8	11.1	7.
2001	28	286	572	6.2	12.0	8.
2002	31	316	626	6.6	12.9	8.
2003	31	330	641	6.0	13.2	8.
2004	32	344	667	6.0	12.8	8.
2005	27	305	580	5.3	10.7	7.
2006	22	267	493	4.7	9.7	6.
2007	21	237	446	4.3	9.0	6.
2008	19	239	433	3.7	8.4	5.
2009	22	248	471	4.3	8.6	5.
2010	18	215	400	3.5	7.5	4.
2011	15	205	357	2.7	7.0	4.
2012	16	176	336	2.8	6.2	4.

*Notes*

(a) 2000-2004 does not include Mullaitivu and Killinochchi

(b) 2005-2012 does not include the Northern Province

Sources: Labour Force Survey Reports, various years

Presently, there are no formal benefit programmes that pay any compensation to unemployed persons either on a short or long-term basis, therefore, costs and coverage of the labour force is naught. An unemployment benefit is useful to those persons who are frictionally unemployed because it will help them bear living expenses while they transition from one work place to another. Since the long-term unemployment rate is quite high in Sri Lanka, it is important to be mindful about the possible abuse of it, the benefit should be monitored strictly to ensure that it is only used as a temporary solution and not as a permanent source of income.

The Payment of Gratuity Act No 12 of 1983 mandates the current severance pay procedure existing in Sri Lanka. Employers should make gratuity payments equivalent to one month's pay for every year of service to all employees leaving service and whose service period exceeds five years. The lump sum received from this system is not beneficial to an employee from a social protection point of view since it affords very little long-term protection and is restrictive since only certain employees would receive it if they were to become unemployed.



Following the mass redundancy and loss of jobs experienced in the Sri Lankan export industry in 2009 due to the global recession, the Ministry of Labour proposed that a permanent unemployment insurance scheme be set up to provide unemployment benefits to those in the labour force who were earning less than Rs. 20,000 a month if the need arose. The scheme would pay 50% of the person's previous monthly salary for up to a period of two years. It has been proposed that the scheme utilize funds of the employer-funded ETF scheme, at least to fund the initial costs. In the long run however, it is proposed that the funding mechanism be made into an employer-employee contribution scheme (Samaraweera 2009). This proposal does not appear to have made any progress.

There exist schemes, operated under the Ministry of Economic Development, which serve to assist poor individuals in engaging in income-generating activities. This does not embody the concept of an unemployment benefit however, as those individuals enrolled in these programs are not "unemployed". The Samurdhi programme carries out development and promotional activities in small-scale industrial and agricultural sectors. It also provides a monthly allowance to enrolled families that fall below a specified income level. Other schemes include the DiviNeguma, ApiWawamu Rata Nagamu, Gama Diriya, MagaNeguma and Gama Neguma schemes which all aim to provide households with a self-sufficient income stream by encouraging households to engage in home-gardening, cottage industries, handicrafts, fishing and poultry farming. These programmes are implemented through village level communities and are financed by the government.

### 3.3.5 Poverty alleviation

The largest government-sponsored welfare programme in the country is the Samurdhi (meaning prosperity) scheme. Introduced in 1995, it replaced the Janasaviya poverty alleviation scheme, a similar programme that was in operation before. The scheme is targeted at the poorer population of Sri Lanka and aims to reduce poverty levels. The government, through general taxation revenue, funds the scheme. Community participation is an integral part of the Samurdhi scheme, with decision-making and beneficiary identification roles carried out at community level.

As Table 21 shows, 9.4% of Sri Lanka's population was below the nationally defined poverty line in the survey period 2009/10. The official poverty line (OPL) indicates the amount needed to meet minimum expenditure for basic needs, for both food and non-food items, per person per month. In the last survey period of 2006/07, the poverty headcount was 13.3% of the population<sup>7</sup>. A significant decline in poverty, as measured by the OPL is noted. The average poverty shortfall, that is by how much an average poor person falls short of reaching the OPL, has increased from Rs. 448 in 2006/07 to Rs. 587 in 2009/10 (Department of Census and Statistics 2010). However, it is important to note that the OPL was defined in 2001 and changed consumption patterns have not been accounted for, so the OPL and resulting headcount ratio is not a perfect measure of poverty in present terms.

Comparatively, poverty headcount ratios are more significant when using the international \$2.00 poverty line; it has reduced since 2002 but is still almost 25% in the 2009/10 period. When using the \$1.25 poverty line, four out of every 100 people would be considered "poor" in 2009/10.

The authors are not able to produce an age-sex disaggregation of persons who are considered poor due to inadequate data.



**Table 21: Poverty head count ratio (%) and population below poverty line, 1990–2010**

Poverty headcount indicator	1990/91	1995/96	2002	2005	2006	2009/10
National	21.26	24.66	24.47	13.99	13.33	9.42
\$2.00 per day	45.27	43.56	45.17	31.75	30.34	24.96
\$1.25 per day <sup>(a)</sup>	11.88	12.13	14.36	7.17	7	4.52

Note: (a) In 2005 PPP

Source: IHP analysis of HIES for various years

Consumption grants (in the form of food stamps) constitute the bulk of the programme, claiming approximately 80% of the total Samurdhi budget (Thibbotuwawa et al. 2012). Eligibility for such grants is determined, at least in theory, by means testing. Other components of the programme include a savings and credit programme operated through Samurdhi banks together with loans for entrepreneurial and business development and a set of workfare and social development programmes with the objective of rehabilitation and development of community infrastructure.

The welfare grant consists of the distribution of monthly coupons to families with incomes lower than Rs. 1,500 per month, which can 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 only one member, and only for the purchase for food) and Rs. 1,000 (families with more than 5 members and earning less than Rs. 500).

As Table 22 indicates, although government expenditure per beneficiary household has been increasing over the last decade, expenditure as a share of GDP has declined from 0.79% in 2000 to 0.13% in 2012. On average in 2000, a Samurdhi household received a cash benefit of approximately Rs. 160 a month from the scheme whereas in 2012 it had increased to roughly Rs. 340. In 2012 the official nominal per-person poverty line was Rs. 3,541. Inadequacy of benefits has long been a criticism faced by the Samurdhi scheme. It is a weakness of the scheme that the cash benefit provided cannot even meet the minimum expenditure required for subsistence.

<sup>7</sup>There is a variation in the head count ratio published by the Department of Census and Statistics, the figures presented here are from the authors own analysis on the Household Income and Expenditure Surveys .

Table 22: Expenditure on the Samurdhi Programme and number of beneficiaries, 2000–2011

Year	Expenditure on benefits in-kind		Expenditure on cash benefits		Total expenditure			Expenditure per beneficiary household (Rs.)	Number of beneficiary households
	Amount inRs. millions	% of GDP	Amount inRs. millions	% of GDP	Amount inRs. millions	% of GDP	% of government expenditure		
2000	5,967	0.5	3,934	0.3	9,901	0.8	3.1	4,956	1,997,807
2001	7,466	0.5	4,552	0.3	12,018	0.9	3.2	6,101	1,969,709
2002	6,278	0.4	3,547	0.2	9,825	0.6	2.5	5,390	1,822,776
2003	5,724	0.3	2,927	0.2	8,651	0.5	2.1	4,570	1,892,842
2004	5,702	0.3	2,889	0.1	8,591	0.4	1.8	4,608	1,864,223
2005	5,867	0.2	3,048	0.1	8,915	0.4	1.5	4,670	1,909,082
2006	6,782	0.2	3,807	0.1	10,589	0.4	1.5	5,512	1,920,961
2007	6,626	0.2	3,727	0.1	10,353	0.3	1.2	5,533	1,871,077
2008	6,000	0.1	3,359	0.1	9,359	0.2	1.0	5,669	1,650,883
2009	6,013	0.1	3,346	0.1	9,359	0.2	0.8	5,845	1,601,121
2010	6,048	0.1	3,378	0.1	9,426	0.2	0.8	5,996	1,572,129
2011	5,949	0.1	3,329	0.1	9,278	0.1	0.7	6,025	1,540,019
2012	4,063	0.1	6,119	0.1	10,182	0.1	0.7	6,714	1,516,543

Source: Department of the Commissioner general of Samurdhis communicated to IHP

Many studies have also criticized the Samurdhi scheme for inefficient targeting of beneficiaries. As Table 23 and Table 24 indicate 6% of households belonging to the richest income quintile in 2006/07 and 4% households in 2009/10 were receiving Samurdhi benefits. 12% of those in the second richest quintile also received Samurdhi benefits in 2009/10. It is a clear indication that there needs to be more stringent procedures in selecting beneficiaries. If this pattern continued to hold, very little can be said about the redistribution of wealth.

**Table 23: Samurdhi Programme beneficiaries by income quintile, 2006/07**

Quintile	% of total households receiving benefits	Number of beneficiaries
Poorest	55.7	2,080,603
2	39.7	1,464,850
3	27.4	1,005,844
4	16.0	586,589
Richest	6.0	217,733
<b>Total</b>	<b>29.1</b>	<b>5,355,619</b>

Source: IHP analysis of HIES 2006/07

While 42% of total Samurdhi cash benefits were received by the poorest 1/5<sup>th</sup> of the population, the largest per person shortfall in spending is also within this quintile. This means that that government would have to spend an additional Rs. 2,365 per year for every person in the poorest quintile to bring him or her out of poverty (Table 24). This is roughly Rs. 10 billion assuming that all those people who suffer a shortfall in consumption will receive Samurdhi cash benefits.

**Table 24: The distribution of Samurdhi cash benefits by income quintile, 2009/10**

Quintile	Population in 000's	% below national poverty line	% receiving Samurdhi cash benefits	Shortfall in consumption per year per person (Rs.)	Total Samurdhi cash benefits (Rs. million)	Shortfall in Samurdhi spending per year per person (Rs.)
Poorest	4,296	46	44	3,215	1,608	2,365
2	4,297	1	31	15	997	(732)
3	4,297	-	21	-	718	-
4	4,296	-	12	-	351	-
Richest	4,295	-	4	-	133	-
<b>Total</b>	<b>21,481</b>	<b>9</b>	<b>23</b>	<b>646</b>	<b>3,807</b>	<b>(140)</b>

*Notes*

Quintile ranking is based on adult-equivalent consumption and the poverty line is minimum expenditure per person per month in rupee terms. So those in the poorest 1/5<sup>th</sup> of the population may not necessarily be below the poverty line while those in richer quintiles maybe.

- is equivalent to zero

Source: IHP analysis of HIES data for 2009/10

The Samurdhi scheme is plagued with political interference and stagnation in terms of developing the scheme to become sustainable and efficient (Ismail and Immink 2003). There was reportedly undue interference in the selection of beneficiaries, which could explain why 4% of households in the richest 20 per cent of the population receive Samurdhi, a benefit meant to alleviate poverty.

It is recommended that a more transparent selection process be implemented and enforced, benefits be interspersed with development programs so that beneficiaries may move away from poverty and stop relying on the Samurdhi long-term. Beneficiaries' income and employment levels must be monitored strictly to ensure that there is in fact, income redistribution.

Nevertheless, it is important to note that better targeting is not the main deficiency of the Samurdhi program, which is its overall low and declining level of funding. Even if Samurdhi benefits were targeted perfectly to those below the poverty line (8.9% of the population), the program budget of 0.13% of GDP would be woefully inadequate to shift many out of poverty.

### 3.4 Social protection for older persons

According to the ILO convention C102, covered persons should be entitled to receive 40% of his previous earnings upon reaching the age of retirement, which may be defined according to country laws but which cannot exceed the age of 65. This benefit may be delayed if the person continues to be gainfully employed after the prescribed age. Coverage is extended to those in one of the three groups stated in the convention C121 (Section 1). The old age benefit should be payable at a rate of 40% till death.

There are many formal schemes that provide for old-age income security in Sri Lanka. They consist of pension schemes and provident funds or savings schemes. The former provide periodic benefits to eligible individuals, whilst the latter provide only a fixed lump-sum benefit on reaching an eligible age. The schemes examined below are all meant to benefit those people of the labour force upon reaching old age. None of the schemes are universal; they target specific classes of employees and thus if a person never worked in their lifetime, he or she is not entitled to receive any old age benefit.

The largest and oldest pension scheme in place in the country is the Civil Pension Scheme (CPS). As the name suggests, the scheme only covers public servants, and is practically the only government-mandated programme in the country providing a category of formal sector workers with rights to a pension. In addition, a number of government-administered, contributory schemes cover other workers, including the Farmers' and Fishermen's Pension schemes and the Self-employed Persons' Pensions Scheme. Private and non-pensionable public sector employees in the formal sector are compulsorily enrolled in provident funds. Both employers and employees contribute to such schemes. The major provident funds in the country are the Employees' Trust Fund (ETF), the Employees' Provident Fund (EPF), Approved Pension and Provident Funds (APPFs) and the Public Servants' Provident Fund (PSPF).

It is important to keep in mind that, other than for the public sector there is no official retirement age for employees in Sri Lanka. This is the first in a line of features that are inconsistent with the ILO conventions.

#### 3.4.1 Pensions for public servants and their dependants

There are varying classes of public servants in Sri Lanka who are eligible for pensions; those serving in public office in pensionable positions, those serving in non-pensionable positions and armed force personnel. In addition to public servants, there are also pension schemes for the benefit of their families. A detailed description of each of these schemes is provided below. Age–sex disaggregated data are not available to the authors.

##### **Pensions for public servants**

The Civil Pension Scheme (CPS), also known as the Public Servants Pension Scheme (PSPS) was established through the legalization of the Minutes on Pensions in 1947 with the enactment of the Ordinance No 02 of the same year. The purpose of the CPS is to provide a monthly pension to retired public servants as a guaranteed fixed income for their expenses. The CPS is administered by the Department of Pensions. It is a department of the Ministry of Public Administration and Home Affairs. The Department of Pensions was formed in 1970 after the consolidation of the pensions and widows and orphans sub departments of the Treasury. In addition to the CPS, the Department of Pension also handles all other pensions affairs related to public servants.

The Director General of Pensions (DG), a public servant appointed by the Cabinet of Ministers to serve in this position, overlooks the Department of Pensions. He has two directors of pensions, one finance director and an internal auditor reporting directly to him. One of the directors of pensions is responsible for handling the affairs of non-contributory pensions such as the CPS, Armed forces and foreign pensions while the other handles the contributory Widows and Orphans pension scheme and the public servants provident fund, both explained in more detail later on in the report.

The official compulsory retirement age for public servants is 60 at present (Ministry of Finance and Planning 2013). Upon reaching this age, an individual has served for over 10 years of unbroken service in a permanent

and pensionable position becomes eligible to receive a monthly pension for the rest of his life. A permanent and pensionable position is determined according to a Schedule A of the Government Gazette. Public sector employees covered by the CPS include employees of government departments, ministries, armed forces, provincial and local government bodies and employees of the judiciary system.

Once a public servant becomes eligible to receive a monthly pension he must make an application to the Department of Pensions upon which he will receive a pension award paper. The CPS will then provide a pension equivalent to 85-90% of the final salary drawn before retirement. If a public servant, having served in a permanent and pensionable position for more than 5 years, dies before reaching the age of retirement, his dependents are eligible to receive a gratuity payment equivalent to 24 months of his salary.

Public servants who are not serving in permanent and pensionable posts are covered by the Public Servants Provident fund (PSPF). The PSPF was established in 1942 by the Public Servants Provident Fund Ordinance No 18 of the same year. The ordinance states that all non-pensionable public servants must make a compulsory contribution of six per cent of the salary towards this fund. If an employee wishes to, he can voluntarily contribute up to no more than another six per cent of his salary. In addition to employee contributions, at the end of each year the government, as the employer, credits into the contributors account a sum equivalent to one and a half times the years' compulsory contributions; this is called a bonus. There is an annual compounded interest of two and half per cent paid on the contributors account balance. The interest is payable on compulsory and voluntary contributions and bonuses.

If a contributor either dies or leaves government service during this employment due to anyone of the following reasons; ill health, end of contract, closing down of the office or retirement (due to age or in the case of females due to marriage), all balances in the PSPF under the contributors name will be refunded to him. When a contributing employee moves from a non-pensionable position to a pensionable one all contributions lying in his name in the fund is refunded to him and all bonus and interest accruals are transferred to the government.

The control and management of the PSPF fund is vested in the hands of a board of directors, chaired by the Director of Pensions and other members including the solicitor-general, two persons who are the heads/deputy head/principal assistant to a head of a government department and one contributing member. The Minister of Public Administration and Home Affairs makes the appointments of the indeterminable members.

The fund account is maintained at the Central Bank of Sri Lanka and the Director of Pensions with the approval of the board makes investment of the monies in the fund. Losses made on these investments are apportioned into the contributors' accounts for the year; any profits are utilized for administrative expenses and to pay interests to the members.

### **Pensions for armed force personnel**

Armed Force service personnel, serving in the Army and the Air Force are also entitled to receive a pension. The Army Pensions and Gratuities Code of 1981 govern the payment of pensions to those serving in the Army and the governing legislation for the payment of pensions to Air Force personnel is the Air Force Pensions and Gratuities Code of 1981. Both of these codes are similar in context so the following description applies to both.

An officer, who has served for twenty years and retires in line with the provisions of regulation 3 of the Code, will be entitled to receive a pension equal to a sum calculated according to a formula specified in section 4 of the Code; this sum cannot exceed the value of two-thirds of the final monthly salary.

The provisions of regulation 3 of the Code specify time periods that an officer serving in that rank can stay on before he must retire from it, given that he is not promoted to a higher rank. However overall the compulsory age of retirement is fifty-five years of age. An officer who is disabled due to causes outside his control is entitled to receive the pension from that day onwards until his death. The rate at which his monthly pension is calculated will change according to the years of service he has. An officer, who is discharged from service for reasons of unsuitability or inefficiency, following twenty years of service, retains his right to receive a pension. If he is discharged due to misconduct, he forfeits this right to receive a

pension. Retiring officers of the Army and the Air Force are also provided a gratuity at a rate equal to one months pay for every year of service.

### **Pensions for beneficiaries of public servants**

The Department of Pensions also administers the Widows', Widowers' and Orphans' (WWO) Pension Fund. The fund is set up to benefit the widow, widowers and orphans of public servants who die while in service or while drawing a pension after retirement. The WWO pension scheme was set up according to the regulations of the Widows' and Orphans' Pension Fund Ordinance (Chapter 431) and the Widowers' and Orphans' Pension Fund Act No 24 of 1983.

The WWO is a contributory pension scheme and covers the payment of pensions to the widows/widowers and orphans of public servants upon their death. Within three months of a public officer assuming a permanent and pensionable position in public service he must submit a form to the Department of Pensions so that he/she may become an official contributor. The Minister of Public Administration and Home Affairs decides the rate at which monthly contributions are made and is usually about six to seven per cent.

If a contributing officer dies while in service, provided that he was eligible to receive a pension (completion of ten years of service), his beneficiaries, that is the spouse and children below twenty-one years of age are entitled to receive a monthly pension from that day onwards. The pension payable is equal to the amount the public officer is entitled to according to the provisions of the Minutes on Pensions. The pension is paid throughout the lifetime of the spouse unless he/she is to remarry. The children will receive an equal portion of the pension until, for male children the age of twenty-one is reached or for female children on the occurrence of marriage or the twenty-first birthday, whichever comes first. A permanently handicapped child is entitled to receive the benefit throughout his/her lifetime. If the spouse is to remarry, the pension that he/she was receiving is reallocated to any eligible children.

If a public officer retires or leaves employment in public office still unmarried, the amount contributed towards that the WWO pension fund is refunded to them with interest accumulations. If he/she dies while in service, the amount is refunded to any legal beneficiaries.

A retired public officer who is drawing a pension dies; his spouse and children (same criteria as stated above) are eligible to receive his pensions subject to the same conditions as described above.

Spouses and children of the all officers in the Armed Forces are also eligible to receive a pension in similar style to other public servants. The governing legislation is the Widows' and Orphans' Pension Scheme (Armed Forces) Act No 18 of 1970 (for male officers) and the Widowers' and Orphans' Pension Scheme (Armed Forces) Act No 60 of 1998. Pension benefits are dispensed by the Department of Pensions.

In summary, the Department of Pensions manages the affairs of the Civil Pension scheme, Armed Forces Pensions scheme, Widows/Widowers and Orphans' Pension scheme and the Public Servants Provident Fund.

In 2012, there were a total of over five hundred thousand pensioners in Sri Lanka drawing pensions from the CPS and other pension funds operated by the Department of Pensions. The pensioner statistics reported to the authors were not disaggregated by the pension scheme. The total number of pensioners has grown consistently at a rate of about three per cent per annum. Enumeration on public servants, both in pensionable and non-pensionable positions are limited.

The Department reported Rs. 90.5 billion as expenditure on gratuities and pensions for public officers and Rs. 20 billion as expenditure on pensions to widows, widowers and orphans of public officers. Expenditure on refunds for non-permanent and non-pensionable public servants was Rs. 1 billion. Though total expenditures on pension benefits for public servants has increased nominally by one and a half times, the share of such expenditure as a percentage of GDP has declined over time. Pension expenditures have consistently accounted for a very small share of GDP, less than two per cent per annum (Table 25).



**Table 25: Expenditure on pension benefits for public sector employees and the total number of pensioners, 2007–2012**

Expenditure item	2007	2008	2009	2010	2011	2012
<b>Public Servants Pensions</b>						
Expenditure inRs. million	57,044	62,853	70,103	73,300	80,298	90,500
% of GDP	1.6	1.4	1.4	1.3	1.2	1.2
<b>Pensions to widows, widowers and orphans (WWO)</b>						
Expenditure inRs. million	11,119	12,040	15,038	17,630	18,628	20,117
% of GDP	0.3	0.3	0.3	0.3	0.3	0.3
<b>Retirement benefits to non pensionable public servants (PSPF)</b>						
Expenditure inRs. million	410	990	932	1,000	1,000	1,000
% of GDP	-	-	-	-	-	-
<b>Total pension benefits</b>						
Expenditure inRs. million	68,573	75,883	86,073	91,930	99,926	111,617
% of GDP	1.9	1.7	1.8	1.6	1.5	1.5
<b>Total number of pensioners in 000's</b>	<b>438</b>	<b>445</b>	<b>456</b>	<b>474</b>	<b>497</b>	<b>515</b>

*Notes*

Expenditure on WWO includes pensions paid to beneficiaries of public officers who died while in service as well, not only those of retired officers

- is equivalent to zero

Source: Department of Pensions as communicated to IHP

Pensions for public servants, excepting the benefits of the PSPF, provides the periodic payment at a replacement rate far exceeding the stipulations of the C102. There is no clause in any of the legislations that deal with adjusting for effects of inflation systematically, as a result pension payments loses their purchasing power over time. Benefits are revised on an irregular discretionary manner. Despite the apparent generosity of the public pension schemes, with its relatively high replacement rate, it is of marginal value due to the relatively low wage levels of public servants and the lack of indexation. The pensions for public servants can legitimately be regarded as a form of back-ended compensation for government employees, which in effect shifts the cost of compensation into the future. In this context, reducing pension spending would require a comparable increase in base wages for civil servants, so would be unlikely to save the government money. Gaminirathne provides evidence that indexing pensions to wages is in fact sustainable and would not result in a significant increase in long-term fiscal costs, despite the apparently common misbelief that it is not (Gaminirathne 2004).

The public pension schemes have and will continue to provide a pension to public servants throughout time, the sustainability of the scheme itself is not questionable as it is government funded and is a politically correct scheme to maintain. The examination of schemes available to the rest of the working class upon retirement is of deeper interest.

### 3.4.2 Pensions for formal private sector employees

There are no formal pension schemes for private sector employees in Sri Lanka, however in the mid 1900's, in the interest of establishing a universal retirement scheme for all employees, a British-expert designed provident fund was implemented. It was foreseen that a universal pension scheme would not be sustainable in Sri Lanka due to the large informal work force in the country, which would make the operation of a formal contributory pension scheme impractical.

Currently there are three types of provident fund operating in the country, the Employees' Provident Fund (EPF), the Employees' Trust Fund (ETF) and the Approved Private Provident Funds (APPF).

#### Employees' Provident Fund

The Employees' Provident Fund (EPF) was founded in 1958 following the passing of the Employees' Provident Fund Act No 15 of the 1958. Up to date it is the largest such fund in the country, with a fund balance amounting to over one trillion rupees. Technically, the Act considers covered employment to be "any employment, including any employment in the service of a corporation whose capital or a part of the

capital is provided by the government<sup>8</sup> and further provides provisions for the exclusion of spousal workers and those employed in a business with less than a prescribed minimum. In practicality however, the purpose of the EPF is to provide superannuation benefits to employees in the corporate and mercantile sector, it excludes public sector workers and those employed in informal enterprises. Further, all employers of covered employees are duty bound to contribute to the fund, no matter the number of employees in his employment.

The Commissioner of Labour is in charge of the general administration of the Act while financial responsibility is in the hands of the Monetary Board of the Central Bank of Sri Lanka. The Department of Labour EPF division is responsible for the registration of covered employees and the collection and dispensing of EPF funds. The Commissioner of Labour in charge of EPF has the legal power to inspect any place of work, any time to examine the compliance with the EPF regulations. The Monetary Board is responsible for the maintenance of an account for the EPF fund, the maintenance of individual contributor accounts, investing of funds, preparation of financial accounts of the EPF, payment of benefits in liaison with the Department of Labour and issuing balance statements to members.

All employees, whether permanent, temporary, apprentices, casual or shift workers are considered to be covered employees in accordance with the above-mentioned definition and so it is mandatory that they enrol in the EPF. Employees who work on piece rate, contract basis or work-performed basis and earning in monthly, weekly or daily basis are eligible for such membership as well.

EPF is an employer and employee contributory scheme; the employer is obliged to contribute a minimum of 12% of the employees' earnings for the period while the employee contributes 8% of the earnings for the period. Contributions must be made on a monthly basis. If it is the mutual wish of the employer and the employee, a percentage higher than prescribed may be contributed. Earnings for the period include salaries and wages, cost of living allowances, cash value of meals provided and food allowances. It is illegal for employers to compensate themselves for this contribution through reduced wages. If the occurrence of this is brought to the notice of the Commissioner, he can order the employer to pay to the Fund the presumed difference in contributions. It is also illegal for the employer to reduce the contribution amount from the employee's earnings.

The main benefit of the EPF is to provide contributing members with income security, in the form of a lump sum refund of account balances, upon reaching a particular age. The current such age is 55 for males and 50 for females. The refunded amount consists of all accumulated contributions and all accumulated interest. There is also a housing loan benefit available to active members (defined as those who contribute actively and regularly); they can pledge up to 75% of their current account balances as collateral against housing loans drawn from certain financial intermediaries. Inactive members can pledge up to 50% of the existing account balance for this purpose.

The EPF allows members to refund their account balances before reaching the above-mentioned ages under the following circumstances; a female employee leaving the workforce upon marriage, an employee leaving the workforce due to a permanent disability or due to migration or when an employee leaves the current "covered" employment for employment in the government sector. Members can appoint legal heirs to their accounts who will be the beneficiaries of the balances if the member is to die before reaching the prescribed age.

In 2012, the EPF had 2.25 million contributing members; in 1992 there were 1.4 million. The average growth membership base in past few years has been around one per cent. It is not possible to assess the coverage of the target population since data on all types of covered employees is not available. However based on reported numbers the coverage of target persons in 2003 was roughly 65%.

The EPF reported Rs. 1,125 billion in fund balances with an average yearly growth in balances of 18%. Contributions for the year were Rs. 70 billion while refunds were Rs. 48 billion (Table 26). The average surplus of contributions over refunds has been approximately Rs. 10 billion on average in the last two

<sup>8</sup> Employment in a corporation whose capital or part of the capital is provided by the government refers to state-sponsored institutions, statutory boards and people's organizations.



decades of 2012. The EPF is the largest financier of the government deficits and so plays a major role in the formulation of public policies. The EPF is also the largest investor in the local share market.

The EPF has been subject to allegations of many perceived shortcomings, however, the frequent allegations are misplaced. The EPF has many structural deficiencies that are actually worrying from a social protection standpoint which are often overlooked by the public but are examined here.

From the sense of providing income security to retired private sector employees, the EPF is lacking in three main areas: the adequacy (or rather inadequacy) of the retirement income, the lack of a redistributive mechanism within the scheme and the fact that benefits are paid in lump sum form.

**Table 26: Finances and membership of the Employees' Provident Fund of Sri Lanka, 1992–2012**

Year	Fund balances (Rs millions)	Contributions (Rs millions)	Refunds (Rs millions)	Average claim value (Rs)	Number of active members (000's)	Number of individual claims
1992	45,791	5,295	2,265	—	1,406	—
1993	62,425	6,568	2,377	—	1,490	—
1994	75,731	7,406	2,630	—	1,538	—
1995	81,500	8,154	2,700	—	1,553	—
1996	108,553	9,301	3,512	—	1,549	—
1997	144,092	10,851	4,775	—	1,699	—
1998	167,470	12,039	6,402	—	1,790	—
1999	193,846	13,679	7,691	—	1,784	—
2000	222,933	16,853	10,802	113,518	1,913	95,157
2001	255,066	17,738	11,194	120,355	1,932	93,008
2002	294,634	18,927	12,553	137,202	1,980	91,493
2003	333,582	20,188	17,032	190,653	1,870	89,335
2004	372,833	23,330	16,617	168,417	1,970	98,666
2005	418,084	27,315	17,024	181,413	2,000	93,841
2006	477,625	34,933	17,308	191,145	2,070	90,549
2007	549,402	40,574	21,830	222,901	2,150	97,936
2008	644,955	45,951	25,931	257,492	2,150	100,706
2009	752,219	48,712	31,901	295,199	2,050	108,066
2010	869,199	54,796	34,896	333,844	2,160	104,528
2011	986,046	61,879	47,311	393,272	2,210	120,301
2012 <sup>(a)</sup>	1,124,508	70,171	48,712	421,187	2,250	115,654

*Notes*

— datum is not available for the year

(a) Provisional

Source: Employees' Provident Fund as communicated to IHP

The EPF scheme does not offer a periodic pension payment to members upon retirement; it is a one-off lump sum payment. The effective utilization of funds is therefore completely in the hands of the individual. Given that financial literacy is diverse and not high, it is unlikely that, in general, funds are invested properly to guarantee a good return. Even if the unrealistic assumption that all retiring members are in a position to make an investment that is actuarially beneficial, the replacement rate will only be 20-45% of the average wage and will decline as the person ages (Rannan-Eliya and Eriyagama 2003a). It must also be noted that even if members were willing to invest in annuities with a periodical return, there are no such financial instruments currently available in Sri Lanka. The experience of developed economies is also that annuity markets experience significant market failures too, and will usually over-price annuities.

In conjunction with this there is also no redistribution of income within the system; all individuals can only claim the amount that was contributed in, so, an employee who has earned consistently low wages right through out their working life will not receive an amount that is substantial enough to ensure that they can meet the requirements for basic sustenance for the rest of their life. Since there is no redistributive or risk pooling element in the EPF scheme it is disheartening to realize that despite contributing consistently, some individuals have still very little income security in their old age.

The lump sum form of refunding is not in line with the conventions of C102, which specifies a replacement rate of 40%. The average refund amount in 2012 was Rs. 420,000. Assuming that it was possible to convert this amount to a zero-cost 25-year annuity<sup>9</sup> at the prevailing risk-free interest rate<sup>10</sup> of 12% per annum, this would provide a monthly return of Rs. 4,200, which is only 14% of the GDP per capita level in 2012. This is higher than the nominal poverty line of 2012, which was Rs. 3,200, but it must be noted that this nominal poverty line is calculated on the basket of goods determined in 2001 and so is not reflective of consumption patterns prevailing in 2012. If the return from such an investment was the sole source of income for a retired individual, they might only be able to afford the bare minimum. Therefore, EPF members cannot rely on their EPF monies as a major source of income after retirement, which matches similar findings about the value of CPF benefits in Singapore, a country that levies much higher contribution rates.

The main reason for the implicitly low replacement rate is the relatively short contribution period opposed to the retirement period. A male person who starts making contributions to the fund at the age of 18 will only do so for a period of 37 years. In comparison the life expectancy at the age of 55 currently is approximately over 22 years. This problem is aggravated in the case of a woman who will contribute for a period of 32 years, assuming that she does not relieve herself from the workforce for a period of time for reasons such as child rearing, will at the age of 50 have a life expectancy of over 32 years. It is simply not possible for a contributory saving scheme of this type can guarantee a replacement income of 40% of her average earnings as prescribed by the ILO convention on minimum standards. Improving investment returns will also not solve this problem, since economic fundamentals mean that long-term investment returns can only hope to match the long-term growth rate of the economy. Further in practice, if investments are managed by the private sector, administrative and fund management costs will substantially reduce investment returns below even the theoretical maximum investment return.

### **Approved Provident and Pension Funds**

Until 1996, the EPF Act of 1958 allowed for the establishment of private provident funds or contributory pension schemes. Upon approval, such employers could opt out of the EPF scheme and contribute towards the Approved Provident and Pension Fund (APPF) instead. The same regulations that apply to EPF contributors apply to APPF's as well. In 1996, legislation was introduced preventing the establishment of new APPF funds, although existing APPF funds were allowed to continue.

Requirements regarding contributions and benefits of the APPF are the same as those stipulated in the EPF. The same division in the Department of Labour that overlooks other EPF contributors administers the APPF. The Monetary Board in the Central Bank of Sri Lanka maintains the APPF accounts in similar style as the EPF accounts. There are about 170 private provident and pension funds at present, with about 167,000 members and assets amounting to nearly Rs. 110 billion (Central Bank of Sri Lanka 2013).

### **Employees' Trust Fund**

The Employees' Trust Fund (ETF) was established in 1980 following the enactment of the Employees' Trust Fund Act No 46 of 1980. The Act applies to all state and private sector establishments. The ETF is the second largest provident fund in Sri Lanka. The Act also established the Employees' Trust Fund Board (ETFB) in the same year for the purpose of implementing the provisions of the Act. The ETFB was initially under the purview of the Ministry of Labour and Labour Relations, however in 1997 it was bought under the Ministry of Finance and Planning.

The ETFB is responsible for managing and administering the fund and consists of nine members; five members nominated by the minister in charge of the ETF (that is the Ministry of Finance and Planning), one member nominated by the Minister of Trade, one member nominated by the Employers' Federation of Ceylon (EFC) and two members of the "most representative trade unions" nominated with the consultation of the Minister. The main duties of the Board are the collection of contributions, investment of funds, the maintenance of individual accounts and issue of member balance statements, enforcement of

<sup>9</sup> 25 years is a conservative estimate of the life expectancy of an individual at the age of 55

<sup>10</sup> The risk free interest rate is the rate of return on a government security

the Act by tracking non-compliant employers, declaration of dividends to members and the enrolment of self employed persons, following the 1988 amendment of the ETF Act.

The main objective of the ETF, similar to the EPF, is to provide its members with superannuation benefits. The members of ETF include employees in the private sector and those employed in the government in non-pensionable positions.

Unlike the EPF, contributions to the ETF are made only by the employer at a minimum rate of three per cent of the employee's monthly earnings. Monthly earnings are calculated in the same way as that on which EPF contributions are made. If an employer contributes to an APPF rather than the EPF at a rate more than the prescribed amount (12%), the employer may divert these contributions to the ETF. If the rate is not three percentage points higher than 12 per cent, the amount may still be diverted to the ETF with the additional funds to make up the shortfall. Similar to the EPF, it is illegal to recover the costs of the ETF contribution from the employee.

The main statutory benefit of the ETF is refunding the balances lying in the account along with any accumulated interests and dividends. The normal age at which such a claim to balances can be made is upon reaching the age of 55 for men and 50 for women. The only exceptions to this rule are complete cessation of employment due to migration, joining public service, permanent incapacitation or death.

In addition to this the ETF also provides many non-statutory benefits to active members. These benefits are free life insurance up to a maximum of Rs. 100,000, permanent disability insurance up to a maximum of Rs. 200,000, financial assistance for heart surgeries and kidney transplant surgeries, reimbursement of the costs of intra-ocular lenses, hospitalization insurance, housing loan schemes and educational scholarships and grants to children of active members. Expenditure on such benefits is given in Table 28.

**Table 27: Financial and membership of the Employees' Trust Fund of Sri Lanka, 2000–2012**

Year	Fund balances (Rs millions)	Contributions (Rs millions)	Refunds (Rs millions)	Number of active members (000's)
2000	29,620	2,976	1,487	1,910
2001	34,553	3,200	1,649	1,846
2002	39,998	3,544	2,501	1,831
2003	45,148	3,731	3,096	1,813
2004	50,463	4,340	3,235	1,896
2005	57,003	5,035	2,995	1,921
2006	65,699	6,100	3,422	2,012
2007	75,926	7,316	4,199	2,059
2008	88,876	8,297	4,949	2,058
2009	103,053	8,733	6,489	1,967
2010	119,852	9,832	6,442	2,046
2011	135,852	11,092	7,882	2,120
2012	153,631	12,745	8,684	2,200

*Source:* Employees' Trust Fund Board as communicated to IHP

In 2012, the ETF had 2.2 million active member accounts with total fund balances exceeding Rs. 153 million. Fund balances grew at an average rate of about 14% in the recent years. Contributions in the same year were Rs. 12 million while refunds were Rs. 8.6 million (Table 27). Average growth in contributions was roughly 13%.

The ETF, just as the EPF is, is subject to allegations of fund misuse and underperforming investments. However, from a social point of view much the same issues discussed under EPF apply here as well.

A possible solution to the problems discussed would be to raise the age at which account balances can be claimed so that the period of contributions is increased relative to the time spent in retirement. It is projected that in the future the EPF and the ETF would struggle to meet refund obligations as refund rates increase faster than contributions. Even though there is no official retirement age in Sri Lanka for the private sector, it is likely that such a move would be met with considerable opposition, especially those who are closer to the age at which they can make the claim.

It has been reported recently that the government plans to convert the EPF and the ETF in to pension funds. The Ministry of Finance is currently drafting legislation that allows a retiring member to either take the money as a lump sum or to retain the balance to receive a monthly pension. The proposals are yet to be discussed with tripartite representatives, however some employee unions have already expressed their support for such a pension scheme. Previous attempts to make such changes were met with strong public opposition upon which the proposals were shelved. The fruits of such labour are yet to be seen.

**Table 28: Expenditure and claim information of statutory and non-statutory benefits provided by the Employees' Trust Fund Sri Lanka, 2005–2012**

Item	2006	2007	2008	2009	2010	2011	2012
<b>Statutory benefits</b>							
<i><b>Member refunds on reaching retirement age</b></i>							
Expenditure inRs. millions	3,423	4,089	4,830	6,355	6,306	7,701	8,488
Number of claims	119,727	126,801	130,074	157,580	138,498	143,499	144,634
Average claim value in Rs	28,590	32,250	37,131	40,332	45,532	53,668	58,689
<i><b>Member refunds due to death</b></i>							
Expenditure inRs. millions	—	110	120	134	136	181	196
Number of claims	—	2,180	2,046	2,145	1,963	2,289	2,242
Average claim value in Rs	—	50,491	58,496	62,552	69,256	79,198	87,302
<b>Non-statutory benefits</b>							
<i><b>Intra-ocular lens transplant</b></i>							
Expenditure inRs. millions	1	1	1	1	3	4	4
Number of claims	321	263	293	324	390	471	453
Average claim value in Rs	2,897	2,977	2,990	3,015	7,556	8,505	8,669
<i><b>Heart surgery</b></i>							
Expenditure inRs. millions	29	26	37	50	56	60	53
Number of claims	300	267	324	379	425	442	398
Average claim value in Rs	96,500	96,176	113,716	132,602	132,727	134,701	133,342
<i><b>Life insurance</b></i>							
Expenditure inRs. millions	48	50	49	46	44	46	49
Number of claims	1,086	1,084	1,025	951	906	934	1,000
Average claim value in Rs	44,438	46,279	47,791	48,359	48,164	48,960	49,247
<i><b>Permanent disability benefit</b></i>							
Expenditure inRs. millions	2	3	3	4	7	5	6
Number of claims	26	37	35	33	64	40	40
Average claim value in Rs	94,615	93,676	98,829	106,212	114,047	136,850	142,000
<i><b>Hospitalization insurance</b></i>							
Expenditure inRs. millions	-	19	23	23	22	22	21
Number of claims	50	1,915	2,461	2,471	2,385	2,252	2,062
Average claim value in Rs	9,800	9,726	9,469	9,424	9,410	9,668	10,068
<i><b>Kidney transplant surgery</b></i>							
Expenditure inRs. millions	-	1	1	1	2	2	1
Number of claims	1	7	13	10	16	14	10
Average claim value in Rs	100,000	100,000	100,000	134,000	139,375	112,143	111,000
<i><b>Year five scholarship programme</b></i>							
Expenditure inRs. millions	—	—	—	45	75	75	75
Number of claims	—	—	—	3,000	5,000	5,000	5,000
Average claim value in Rs	—	—	—	15,000	15,000	15,000	15,000

*Notes*

- is equivalent to zero

— datum is not available for the year

— not applicable

*Source:* Employees' Trust Fund Board as communicated to IHP

### 3.4.3 Pensions for informal sector workers and self employed persons

The salient features of the informal economy in Sri Lanka are the lack of official business registration, lack of the upkeep of proper financial accounting and the number of regular employees in the business. In developing countries, it is common to find the informal sector accounting for about 60% of the labour force. Informal sectors exist in developed countries as well, in smaller scale however.

The informal sector of the Sri Lanka accounted for over 61% of the labour force in 2012: roughly 4.9 million individuals. Forty-three per cent of the informal sector workers were engaged in the agricultural sector while the rest engaged in industries such as construction, mining, electricity, gas and water supply, hotel and restaurants *etc.* Eighty-five per cent of all agricultural employees in the country in 2012 were not employed formally. Half the employees engaged in non-agricultural industries were employed in informal enterprises as well. The education industry was the least informal of all the major industry categories, with only 16% of those engaged in it falling into the informal sector. Other major industries had significantly larger portions of employees in informal sector; manufacturing 46.8%, hotels and restaurants 50.1%, construction, mining, quarrying, electricity, gas and water supply 78.6%.

There are only three major pension schemes for those employed informally; these are the Farmers' Pension and Social Security Benefit Scheme, the Fishermen's Pension and Social Security Benefit Scheme and the Pension and Social Security Benefit Scheme for Self-Employed Persons. As the names suggest the first two schemes are targeted at farmers and fishermen while the third is broader in scope. An age-sex distribution of the members or the target group of individuals under any of the schemes cannot be produced due to inadequate data.

#### Pensions for farmers

The Farmers' Pension and Social Security Benefit Scheme Act No 12 of 1987 established a scheme by the same name for the purpose providing social security benefits for farmers whose main source of income is agriculture including livestock farming. The Farmers Pension and Social Security Benefit Scheme (referred to as the farmers' scheme) is intended to capture those engaged in such activities who are not entitled to be enrolled in other pensions or provident schemes. The Scheme is administered and managed by the Agriculture and Agrarian Insurance Board (AAIB), which was formerly under the Ministry of Agriculture and was recently brought under the purview of the Ministry of Finance and Planning.

The AAIB, established under the Agriculture Insurance Law No 27 of 1973 is vested with the following powers under the Farmers' Pension and Social Security Benefit Scheme Act; make rules about the administration of the farmers' scheme, make consultations with the Advisory Committee with matters pertaining to the scheme, to monitor, evaluate, review and amend operational rules if the necessity arises, the contributions schedule and investing in human and technological capital to manage the scheme efficiently.

The target groups of the farmers' scheme are Sri Lankan citizens, both male and female, whose main source of income is from agriculture. Enrolees are further required to fulfil other criteria to be able to become beneficiaries of the scheme. These are; the types of crop cultivated, the land area owned and cultivated, age and non-entitlement to other pension and provident schemes. Only those aged between 18 and 59 years of age may enrol in the scheme. It is compulsory that the extent of the land owned and cultivated by the enrolee and his family be less than 10 acres. The extent of land varies according to the type of crop cultivated. Persons eligible for other an old age benefit from another scheme cannot enrol in the farmers' scheme and those eligible for such a benefit through their spouse are also not able to enrol. Income tax payers are also excluded from coverage, by virtue of formal employment. Table 29 shows the membership status of the scheme.

**Table 29: Membership information of the Farmers' Pension and Social Security Benefit Scheme, 1987–2012**

Year	Number of members	New enrollments	Number of pensioners
1987	–	13,459	–
1988	–	21,810	–
1989	–	9,455	–
1990	–	38,712	–
1991	–	86,094	–
1992	–	45,004	–
1993	–	17,762	–
1994	–	10,973	–
1995	–	15,952	–
1996	305,000	45,404	–
1997	334,000	28,915	–
1998	427,000	94,243	–
1999	508,000	80,120	–
2000	576,000	68,334	–
2001	648,000	72,208	–
2002	679,000	30,953	–
2003	729,400	–	–
2004	779,800	–	–
2005	830,200	–	–
2006	880,600	–	–
2007	931,912	3,456	55,447
2008	945,140	13,228	64,388
2009	954,352	9,212	75,046
2010	959,254	4,902	80,814
2011	959,254	–	90,573
2012	959,254	–	–

*Notes*

– is equivalent to zero

–datum is not available for the year

*Source:* Agriculture and Agrarian Insurance Board Sri Lanka as communicated to IHP

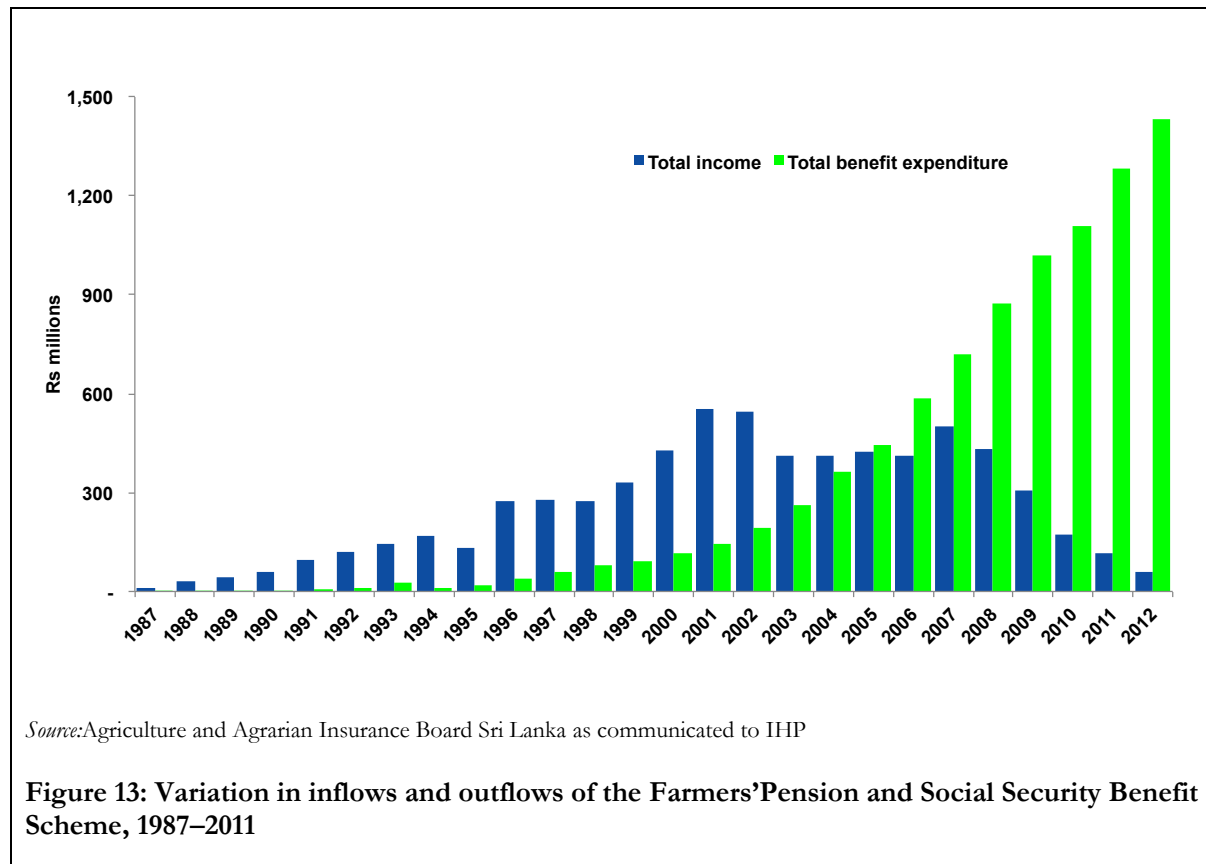
The farmers'scheme provides a lifetime periodical pension for contributors after retirement, a lump sum gratuity or a pension in case of a permanent disablement (total or partial) and a death gratuity for all members. The basis on which the pension or gratuity is paid on depends on the duration in which a member has been a contributor and the amount contributed. The member becomes entitled to receive the pension upon reaching the age of 60. If a contributor joined that farmers' scheme after the age of 55 he must contribute for a minimum of five years to be eligible for a pension. The spouse of the contributor is entitled to receive the pension of a deceased contributor, if he is to die before he becomes eligible to receive the pension. If he dies while receiving the pension then the spouse will receive a refund of the remaining balances, if any, along with a death gratuity.

Contributions for the pension benefit are made in fixed amounts either on a regular and periodic manner (regular basis) or as a yearly one-off payment (discount basis). Regular payments are made biannually. The rate of contributions is stipulated by order of government gazette and may be amended in the same manner. It provides a schedule that specifies the contribution amount for the year taking into account the age of the enrolee, the frequency of payments, and whether payments are one-off or periodic. There is no specification for those who wish to contribute in greater amounts. Contributions range from Rs. 130 half yearly for an 18 year old contributor to Rs. 690 half yearly for contributor older than 55 years of age. The other benefits, namely the disability gratuity and pension and the death gratuity are funded by the separate social security benefit fund; Rs. 60 from each members' contributions are diverted to this fund. There is no additional cost involved to be eligible to receive these benefits.

It is interesting to note that the schedule of contributions has not been amended since the inception of the scheme in 1987. A member would lose the entitlement to the benefits under this scheme if he fails to make



five consecutive contributory payments. In stark contrast to this is the revision of pension benefits rates. Figure 13 shows the growing gap between outflows and inflows of the scheme.



The pension entitlement ranges from Rs. 1,000 to Rs. 4,166 per month, depending on the age of the contributor, the time of enrolment and the total contributions. The floor on pension entitlements was Rs. 200 at the inception while the maximum pension is unchanged. The floor on the entitlement was raised via two successive gazettes; the first one, in 1992, raised the minimum to Rs. 500 while the second, in 1995, raised it further to Rs. 1,000. In case of permanent disablement, the member can claim a gratuity payment of between Rs. 6,000 and Rs. 50,000 depending on the age of the individual and the degree of disability. If he chooses not to take the gratuity, he can remain in the scheme without making further contributions and be eligible to still receive a pension at the age of 60. The death gratuity ranges from Rs. 6,000 to Rs. 25,000 according to the age of the contributor.

It is important to note that the minimum level of pensions entitlements while having increased by five-fold since the inception, has not been accompanied by any change whatsoever in contribution rates. This matters because the Scheme from its inception was not adequately funded to sustain promised benefits (Rannan-Eliya and Eriyagama 2003b). First, the original scheme design underestimated future life expectancy and thus the number of years beneficiaries would draw a benefit, and second the original design assumed a large capital infusion by Treasury, which was never made. The scheme has thus been unsustainable from the beginning, requiring a continuing government subsidy if it was to remain viable. The resultant Cabinet-approved increases in benefits without concomitant increases in contributions have further undermined its financial viability.

This scenario led eventually in 2012 to the Treasury asking the scheme to stop payments as cash flows mounted and fund balances fell to zero. At the end of the third quarter of 2013, contributing farmers lodged complaints with the Sri Lanka Human Rights Commission against the failure of the government to make due pension payments. Many leading newspapers have reported that pensions payments had not been made for over a year prior to this. Despite this, data reported to the authors by the AAIB show that farmers have continued to contribute to the scheme in hopes of keeping the benefit alive. There are allegations levelled



against AAIB officials pertaining to misappropriation of funds, however the crucial focus should be the structural unsustainability the scheme is burdened with. There is also a perceived high default risk with respect to contributions, however there is insufficient data to prove this. There is also no formal mechanism to recover outstanding amounts.

Fund balances fell drastically in 2009, to Rs. 663 million from a balance of Rs. 1.4 billion in 2008. In subsequent fund balances have been negative and increasing. In 2013, the fund balances were Rs. 2.3 billion (Table 30). The government makes contributions on an ad-hoc basis to cover pension and administration expenses, such contributions are still inadequate to change the fate of the scheme. By the start of 2014, it was reported that the President had pledged, as part of the 2014 budget to implement a new pension scheme to benefit farmers(Range 2014). There was a ceremonial handing over of the months pension to some 1,500 pensioners, as reported by the Ministry of Economic Development(Ministry of Economic Development), which reported that all eligible pensioners will receive their pensions from that month onwards. It is stated that the government would incur a cost of Rs. 1 billion to meet these pension payments.

In the long-term Rs. 1 billion in government funds will not be sufficient to restore viability to the scheme. Ultimately, the only solution to providing adequate old-age income security to this group of beneficiaries will require a permanent and increased subsidy from government funds.

The adequacy of the farmers' scheme is similar to that of the Fishermen's Pensions and Social Security Benefit Scheme, this is assessed following the section that provides an outline of the Fishermen's Pensions and Social Security Benefit Scheme.

Table 30: Financial position of the Farmers' Pension and Social Security Benefit Scheme in Sri Lanka (Rs millions), 1987-2012

Year	Fund balances	Net surplus/deficit	Member contributions	Interest income	Government contributions for		Benefit expenditure				
					Operational expenses	Administration expenses	Pension emoluments	Death and disability	Refunds to members	Incentives	Total
1987	76	76	5	5	67	6	-	-	1	-	1
1988	183	107	11	22	75	7	-	-	2	-	2
1989	249	66	15	29	25	4	-	-	3	-	3
1990	307	57	23	37	7	2	-	-	4	1	4
1991	390	83	50	46	-	3	-	-	5	2	7
1992	488	97	49	72	-	3	-	-	8	1	12
1993	598	110	52	94	-	4	5	1	18	1	25
1994	740	142	55	112	-	-	8	1	1	2	12
1995	839	99	57	74	-	-	13	5	1	2	21
1996	1,053	213	123	150	-	-	31	5	2	2	39
1997	1,246	193	94	183	-	-	46	6	3	3	58
1998	1,398	153	130	142	-	-	67	7	3	4	81
1999	1,597	198	160	172	-	-	75	9	4	5	94
2000	1,865	268	226	202	-	-	94	12	6	5	118
2001	2,218	353	237	315	-	-	117	14	7	6	143
2002	2,533	315	244	301	-	-	166	14	7	6	194
2003	2,604	71	172	238	-	-	229	19	9	4	260
2004	2,594	(Rannan-Eliya et al.)	192	221	-	17	334	15	11	5	365
2005	2,511	(83)	183	242	-	18	417	14	10	4	445
2006	2,229	(282)	240	173	-	26	553	14	12	8	587
2007	1,891	(338)	251	251	-	26	689	14	11	5	719
2008	1,405	(235)	187	244	227	58	813	39	16	4	872
2009	664	(741)	168	139	-	56	960	39	18	3	1,020
2010	(319)	(983)	156	15	-	40	1,049	39	18	3	1,109
2011	(879)	(559)	114	2	665	63	1,231	38	13	3	1,284
2012	(2,334)	(1,455)	58	3	8	63	1,387	36	10	1	1,435

Note:- is equivalent to zero

Source: Agriculture and Agrarian Insurance Board Sri Lanka as communicated to IHP

## Pensions for fisher folk

Following the enactment of the Fishermen's Pensions and Social Security Benefit Scheme Act No 23 of 1990, the Fishermen's Pensions and Social Security Benefit Scheme (referred to as the fishermen's scheme) was set up to benefit those employed in the fishing industry. The specific objectives of the scheme is to provide a social security to fishermen and their dependents during old age and disability, encourage fishermen to continue in their occupation, to attract young persons to the fishing industry and to inculcate the habit of saving and promote thrift among the fishermen. The AAIB is responsible in similar capacity to the farmers' scheme in operating and managing the fishermen's scheme as well.

Any fisherman, defined in this Act as a person who makes his living by fishing or fish farming in the sea, lagoon or an inland body of water, between the ages of 18 and 59 is eligible to join the scheme. The following conditions must also be met to be for a fisherman to be eligible for enrolment; the enrollee cannot own more than three mechanized boats whose combined weight does not exceed six tons, he cannot own more than five acres of fish farms, he cannot be entitled to benefit from any other pension or provident fund, he cannot be an person liable to pay income tax or receive a pension or receive a pension upon the death of his spouse.

A contributing member is entitled to receive a periodical pension upon retirement, a lump sum gratuity or a pension incise of a permanent disability (partial or total) and a death gratuity. The basis on which pensions and gratuities are paid depends on the period of contribution, the age of the contributor and the total contributions made. Table 31 shows the annual membership, enrolments and the number of pensioners in the scheme.

**Table 31: Membership information of the Fishermen's' Pension and Social Security Benefit Scheme in Sri Lanka, 1996 –2012**

Year	Number of members	New enrollments	Number of pensioners
1996	–	–	96
1997	–	–	137
1998	–	–	163
1999	–	–	219
2000	–	–	284
2001	–	–	362
2002	48,375	–	420
2003	–	–	–
2004	–	–	–
2005	–	–	–
2006	–	–	–
2007	60,968	1,316	1,031
2008	62,471	1,413	1,243
2009	63,884	1,413	1,407
2010	66,990	3,106	1,705
2011	67,553	563	1,913
2012	68,054	501	2,185

*Note:*–datum is not available for the year

*Source:* Agriculture and Agrarian Insurance Board Sri Lanka as communicated to IHP

Contributions payable are fixed and are specified according to the age of the contributor. Unlike the Farmers' Pensions and Social Security Benefit Scheme, where regular payments are made biannually, regular payments under the fishermen's scheme should be made quarterly, with strict deadlines falling on the last day of each quarter. Members can also opt to pay the contributions as a one-off payment yearly. Contributions range from Rs. 65 quarterly for a contributor aged 18 to Rs. 345 quarterly to a contributor age more than 55. Similar to the farmers' scheme, Rs. 60 is

diverted from contributions to the social security benefit fund to cover the costs of the additional benefits; these benefits are the same as those granted under the farmers' scheme, with marginal to zero difference.

This scheme has better default risk protection than the farmers' scheme; in 2003 nearly 50 per cent of enrollees were defaulters (Rannan-Eliya and Eriyagama 2003b). If an enrollee fails to pay ten consecutive contributory payments, he forgoes his entitlements to the benefits. Similar to the farmers' scheme, the fishermen's scheme does not have a formal mechanism to deal with the problem of recovering outstanding amounts.

Upon reaching the age of 60, regular contributors become eligible to receive a monthly pension, the pension varies between Rs. 1,000 and Rs. 4,166, similar to the farmers' scheme. As a result on the amendment in 1995 that raised the floor on pension entitlements under the farmers' scheme, the floor on pensions entitlements under the fishermen's scheme was also raised from an initial value to Rs. 200 to Rs. 1,000. Disability and death gratuities are dispensed at amounts similar to the benefits granted by the farmers' scheme.

In 2012, the fishermen's scheme also reported a negative fund balance amounting to Rs. 1.5 billion (Table 32). Contributions by fishermen have declined in value while pension payments have continued to rise. The treasury provided funds to the fishermen's scheme in 2011 and 2012 to meet operational and administration expenses. Benefit expenditure has nearly tripled to Rs. 32 million in 2012 from Rs. 12 million in 2005 (Table 33).

**Table 32: Financial information of the Fishermen's Pension and Social Security Benefit Scheme in Sri Lanka (Rs million s), 2005 –2012**

Year	Fund balances	Net surplus/ deficit	Member contributions	Interest income
2005	362	35	22	27
2006	391	27	7	36
2007	432	40	8	50
2008	451	19	10	41
2009	466	16	10	42
2010	476	9	11	44
2011	(1,356)	12	3	41
2012	(1,510)	28	3	60

Source: Agriculture and Agrarian Insurance Board Sri Lanka as communicated to IHP

**Table 33: Expenditure on benefits by the Fishermen's Pension and Social Security Benefit Scheme in Sri Lanka (Rs million s), 2005 –2012**

Year	Pension emoluments	Death and disability	Refunds to members	Incentives	Total
2005	9	1	1	1	12
2006	11	-	1	-	12
2007	13	1	1	-	14
2008	24	1	1	1	26
2009	29	1	1	1	32
2010	37	1	1	1	40
2011	25	1	1	-	27
2012	30	1	1	-	32

Note:- is equivalent to zero

Source: Agriculture and Agrarian Insurance Board Sri Lanka as communicated to IHP

Both the farmers and fishermen's schemes face similar administrative and financial issues. These are discussed below:

1. Lack of staff – the lack of staff is a common problem faced by both schemes, however the effects of it are felt to a greater degree by the farmers' scheme than in the fishermen's scheme due to the relatively larger size of it. The fishermen's scheme is relatively more organized in terms of maintaining member accounts and details and so face less technical problems.
2. Promotional and enrolment activities – The identification and enrolment of new members is one of the main operational challenges faced by both schemes. Both carry out very little promotional activities and membership drives, probably due to inadequate funds available for such activities. Awareness of the scheme is usually based on word-of-mouth communication of current members to potential members, which is unlikely to be far reaching.

There is a tendency of fisher folk to move out of the fishing industry due to the hazardous and uncertain nature of their occupation, since one of the stated purposes of the scheme is to retain and attract fishermen in the industry.

3. Commitment of staff employed by the scheme – a previous assessment study on the fishermen's scheme suggests that there is very little commitment from officers of the scheme in carrying out the duties given to them and implementing the stated goals of the scheme. It is reported that they take very little interest in their jobs (Rannan-Eliya and Eriyagama 2003b). In 2012, there was a mere 500 new enrollees to the fishermen's scheme; the farmers' scheme had no new enrolments in 2011.
4. Default rate – as mentioned previously, there is a very high default rate experienced by both schemes. While the farmers' scheme has not done much to curtail or improve the situation the fishermen's scheme introduced and extended grace periods within which contributions can be met without a surcharge. Since non-defaulters are not immediately removed from the scheme, the default rate remains high. A 2003 estimate of the default rate for the fishermen's scheme was 50%.

There are several reasons why the default rate is so high; the main one is the financial constraint faced by the contributors, they do not take to heart the fact that the scheme is a contributory one, not a state funded welfare programme. Once new enrollees realize that benefits are tied to the contributions paid they tend to drop out of it. This may be due to a lack of knowledge of the benefits and regulations prior to joining. The habit of saving is also a relatively uncommon given that most of the contributors live on daily earnings.

Further, the scheme officers do not implement the procedure of enrolling new members properly. There is an investigation that must be carried out into the potential members financial situation, which are not done sufficiently, due to lack of awareness or for immoral personal gains. The fishermen's scheme is less affected by staff incompetency because only Fisheries Inspectors are authorized collection agents. The Fisheries Inspectors have regular meetings with members, which ensures that efficient and mutually beneficial relations are maintained.

5. Accounting procedures – Detailed accounts on contributors are maintained by both schemes centrally and at district level. The records are mostly manual except in some places where computers are available. The AAIB started the computerization of the personal records back in 1991. The AAIB were in a position to furnish condensed accounts of both scheme to the authors at the time.
6. Financial constraints – Both schemes are financed through member contributions and government allocations. The treasury allocates a certain amount to each of the schemes. However, this is inadequate to meet the pension obligations for the years, as discussed previously. Given the high default rate and mismatch between contribution rates and benefits,

expenses must be met with continuing government support. The failure to accept and ensure the provision of government funds will make the fishermen's scheme financially unviable, just as it has been the case with the farmers' scheme.

Also, as empirical evidence shows, raising the minimum pension entitlement without subsequent increase in contribution rates will only ensure the financial collapse of the scheme, eventually not providing any pension or social security benefits to anyone.

These operational challenges faced by the scheme, serious though it may be, dim in comparison to the adequacy of the schemes in providing proper social security and pensions. The following assessment on the adequacy of benefit is provided considering both schemes as one, since the contributions and pension entitlements are the same. The fact that each scheme has its own funds does not diminish the conclusions drawn, other than noting that the merging of the two schemes could reduce, to a certain extent, the risks faced by both schemes.

The schemes are designed to provide a fixed lifetime pension to retiring members on a monthly basis. One glaring defect is the non-indexation of benefits to account for inflationary effects. Sri Lanka experienced inflation at a rate of 4–6% in the past few years, however in the post liberalization era after 1977, the rates were as high as 10–12%. If benefits are not inflation adjusted this represents a substantial erosion of the real value of the pension benefit.

Supposing that inflation rates remain at the level it is currently, a person who enrolled at the age of 18 will receive a pension benefit of Rs. 4,166 per month. At a low inflation rate of 5%, in 42 years this is only worth Rs. 537. At a higher inflation rate, of say 10%, the value depreciates to Rs. 76. The impact of inflation will be felt even after retirement. An essential structural component of both schemes are that they assume a life expectancy of 20 years at the retirement age of 60. Average life expectancy for both men and women, reported in 2002 that is the latest available, was 22 years at the age of 60. Historically, life expectancy has risen gradually over time, and so by the time younger contributors reach the age of 60 their life expectancy will be much greater than 22. The life expectancy of the farming and fishing community may differ from the national average, for the better or the worse, however data is not available to provide conclusive evidence on this.

A person who enrolls after 55 years of age is promised a pension of Rs. 1,107. By the age of 60, at an inflation rate of 5%, this is a real value of Rs. 796. At a higher inflation rate of 10%, the real value diminishes to Rs. 630.

It is highly unlikely and incredible to think that scheme pensions will not be adjusted to take into account the effect of inflation. In fact, we can interpret the decisions by successive cabinets to increase the minimum pension paid from Rs. 200/= to currently Rs. 1,000/= as a political response to the problem of inflation eroding the value of the pensions paid. The extent to which most members will see their final pensions eroded is so great, that for all members the final pension currently offered will not be sufficient to keep them above the poverty line, which was Rs. 3,541 in 2012. Under these circumstances, the government will inevitably have to provide additional transfers either through alternative relief programmes, or will have to revise the pension schedule in line with inflation. Since both schemes are ultimately accountable to political authorities, it is likely that electoral pressures will provide the mechanism to adjust the pensions upwards, in the absence of any formal inflation adjustment mechanism.

### **Pensions for self employed persons**

The Pension and Social Security Benefit Scheme for Self-Employed Persons was established by the Social Security Board Act No 17 of 1996. The Social Security Board Act established the body known as the Sri Lanka Social Security Board, which functions as the primary administrative body vested with the duties of managing the scheme. The Sri Lanka Security Board consists of seven

directors appointed by the ministry. The Board is vested with the power to carry out the following functions with regard to the scheme; administer and manage the scheme, maintain actuarial, financial and operational reports in respect of the scheme, determine the benefits to be paid to any contributor under the scheme, liaising and collaborating with other government and non-government agencies to discharge the functions of the Board and to carry out any other duties that are deemed necessary for the administration and implementation of the scheme.

The objectives of the scheme are to provide social security to self-employed persons during old age and disability, to provide relief to dependents of self-employed persons upon death of the individual, encourage individuals to remain in their occupations, encourage youth to be self-employed, to encourage the habit of saving among self-employed persons and to improve the living standards of self-employed persons.

Individuals must be between the ages of 18 and 59 to be eligible to join the scheme. According to Section 6 of the Social Security Board Act any self-employed person falling in to the category of self-employed persons specified by order of gazette are eligible to join. So by Order of Gazette No 948/10 in 1996, it was declared that self-employed persons in the following sectors are entitled to join the scheme; production excluding primary produce of agriculture, fisheries and livestock, forestry and hunting, mining and quarrying, manufacturing, storage and packing, building and construction, electricity, gas and water, transport, repair and maintenance, trade and commerce, insurance and banking, real estate and business services, communications, community, social and personal services and occupation in any other sector excluding those covered by the farmers' and fishermen's pension and social security benefit scheme Acts.

The scheme is mainly targeted at low-income self-employed persons, both male and female. By default these persons fall into the informal sector. Other than the age criteria, enrolees cannot already be eligible for membership in any other pension or provident scheme. Further, those enrolled in this scheme cannot take part in other pension and provident schemes either.

In 2006, by order of the Acting Minister of Social Services and Social Welfare, the Pensions and Social Security Scheme Regulations were gazetted. Six different schemes were set by these regulations. They are the Sahana, Thilina, Isuru, Sarana, Surakuma and Dhanalakshmi schemes. The original scheme is called "Sahana", while the next major scheme is "Thilina", started in 1999. A person wanting to join the "Sahana" scheme must show the ability to earn an annual income Rs. 36,000, those showing an ability to earn an annual income of more than Rs. 72,000 can join the "Thilina" scheme. The Sri Lanka Social Security Board also administers eight other special pension and social security benefit schemes that are targeted at self-employed persons such as migrant workers, artists, craftsmen and self-employed persons in industries such as indigenous medicine, small tea sector, small industries sector, beauty culture and handlooms.

Contributions are made either on a regular (instalments basis) or lump sum basis. In significant contrast to farmers' and fishermen's schemes, the self-employed scheme has six different contribution schedules, A, C, D, E, F and G from which individuals can choose to contribute according to. At the inception of the Scheme in 1996, there was only one payment schedule, which is the Schedule A. This was designed to be similar to that applying to the farmers and fishermen's Schemes. According to this schedule, there is a flat-rate fixed contribution that must be made each year, with the rate set according to the age at which the person joins. The contribution itself must be paid in four instalments during the year under normal circumstances. The amount to be paid as quarterly contributions varies from Rs. 50 up to Rs. 235 depending on the age of the contributor. The pension entitlement also varies in accordance with the age at enrolment and corresponding contribution level. The monthly pension benefit ranges from Rs. 2,500 when the member has enrolled at the age of 18, to Rs. 500 if enrolled at the age of 55-59. Members are also given the option of making a single lump sum contribution instead of regular annual payments, under a



discount system. This lump sum can itself be paid in 4 instalments within the period of one year of enrolment.

The Sri Lanka Social Security Board Act was amended in 1999 and new provisions were introduced. Under these provisions, two new schedules of pensions are incorporated, namely, Schedule C and Schedule D. These give prospective new members additional options as to the level and frequency of contributions, and ultimately the final pension benefit. Under the two new schemes, the pensions payable range from Rs. 1,500 to Rs. 5,000 and from Rs. 3,000 up to Rs. 8,000 respectively. The contributions payable also differ from one schedule to the other. Under the Schedule C, an 18-year-old contributor has to make a monthly contribution of Rs. 100 under the regular system, while the monthly contribution for this age category under the Schedule D would be Rs. 155, under the regular payment system. Unlike in the Schedule A where the contributions are paid on a quarterly basis under the regular payment system, in the case of both Schedule C and Schedule D, such contributions have to be made on a monthly basis. At the same time, while the option of paying the premia as a lump sum payment is available similar to that provided in the Schedule A, the members of these two Schedules are also given the opportunity of paying the lump sum benefit in 4 instalments within a period of one year.

There is no documentation available on the Schedules E, F and G for a detailed description to be provided. If a member fails to make ten consecutive contributory payments within the allocated period he or she forfeits the right to receive any of the schemes' benefits.

A member of the scheme (referring to any sub-scheme as well) is entitled to receive a periodical pension upon of 60, a lump sum gratuity or a lump sum gratuity and pension incise of permanent disablement and a death gratuity.

The primary benefit of the scheme is to provide pensions to enrolled members upon retirement. The basis on which pensions are paid will depend on the age of the contributor, the duration of contributions and the total amount contributed. If a person joins the scheme after the age of 55, he will only qualify to receive the pension after the completion of 5 years as member of the scheme and on paying the total necessary contributions. The minimum pension differs according to the schedule to which the contributor contributed. According to schedule A the minimum monthly pension is Rs. 500 while the maximum is Rs. 2,500. Under schedule C the minimum monthly pension is Rs. 1,500 and the maximum is Rs. 5,000 while under schedule D, it varies between Rs. 3,000 and Rs. 8,000.

The scheme also pays out disablement and death benefits to contributors. Any contributor who becomes partially or totally disabled before becoming eligible to receive a pension is entitled to receive a lump sum gratuity calculated according to age of the individual; this amount is between Rs. 6,000 and Rs. 25,000. The contributor, having suffered a partial disablement may either leave the scheme at this point or continue to be a member by making the necessary contributions. If the claimant suffered a total disablement, he can forgo the lump sum gratuity and remain in the scheme while receiving a periodical allowance without making any further contributions. In the event of death of a contributor before he become eligible to receive a pensions, a death gratuity calculated according to the age of the individual will be paid to the surviving spouse and legitimate children or in the absence of such beneficiaries, to other blood relatives as stated in the Second Schedule of the Social Security Board Act.

Similar to the farmers and fishermen's schemes, the adequacy of the pension entitlement is again raised. A member who enrolls at age 18, to retire and draw a pension of Rs. 2,500 at a 60, this is only a real value of Rs. 322 at an inflation rate of 5%. This is a mere tenth of the nominal poverty line of 2012. If the inflation rate is at, sat 10%, the real value shrinks to Rs. 45, which is shockingly low. The consequences of non-indexation are the same as discussed under the farmers and



fishermen's schemes. The financial sustainability of the self-employed scheme is also of serious concern as the number of new enrolments decline and the pension obligations continue to rise.

Table 34 shows the past and present financial and membership details of the Self-Employed persons pensions scheme, contributions have declined in recent years.

**Table 34: Financial and membership information of the Self-Employed Persons Pension and Social Security Benefit Scheme in Sri Lanka, 1997–2012**

Year	Contributions (Rs millions)	Pension emoluments (Rs millions)	Number of members <sup>(a)</sup>	Number of pensioners
1997	5	-	5,620	-
1998	7	-	16,275	-
1999	16	-	47,066	-
2000	10	-	51,006	-
2001	9	-	57,644	4
2002	15	1	68,768	336
2003	18	3	85,609	842
2004	24	8	98,594	2,012
2005	40	13	131,663	2,430
2006	75	17	185,617	3,076
2007	101	24	241,420	3,958
2008	171	32	291,394	5,097
2009	206	41	357,111	6,369
2010	226	61	400,059	8,343
2011	247	86	437,879	10,901
2012	136	107	443,393	13,323

Notes

- is equivalent to zero

(a) All members ever enrolled in the scheme

Source: Social Security Board of Sri Lanka (SSBSL) as communicated to IHP

In 2010 OECD countries reported average pension expenditures, as a percentage of GDP, at over nine per cent. The OECD average for old-age (over 65) poverty rate is 12.8%. Korea and Australia has relatively low expenditures on pensions as a percentage of GDP, 3.6 and 0.9% respectively (OECD 2013). Subsequently these two countries also report relatively higher old-age poverty rates, 35.5% and 45.6% respectively. Countries like Finland and Netherlands, which reported relatively low old-age poverty rates also reported substantially higher pension expenditures. In 2004, a case study on Sri Lanka revealed that the headcount poverty rate for population in the age cohort 60-70 was 16%, compared to the national headcount poverty rate of 22%; it is further reported that the poverty rate for those above 75 was higher, at 20%. The “younger” elderly may not be that poor after all, but as age catches on the effects of this lower income is felt more harshly (Gaminirathne 2004).

## Summary of coverage and expenditures

The following tables, Table 35 and Table 36, do not take into account whether or not members of the target group avail themselves of the benefits of the programmes or not, if an individual is able to access the benefit without any encumbrance, the individual is considered to be covered.

Healthcare and education are universally provided to all citizens, so invariable coverage has and will continue to be 100 per cent of the target population. Public expenditure on healthcare as a share of both GDP and government expenditure has been declining in the past few years, and is well below international norms. Education expenditure shows similar trends of decline as a share of GDP and government expenditure. Government expenditure on two of the most important aspects of an economy, health and education, account for less than five per cent of GDP collectively and a fifth of a share of government expenditure.

Other expenditure on children, such as on the provision of necessary goods and services and nutrition, account for a very small share of government expenditure. Nutrition expenditure is very low, the expense is insignificant in comparison to GDP and total government expenditure. Malnutrition levels, although lower than they once were, are still a relatively high which implies that nutritional expenditure should not be curtailed. Expenditure by the Ministry of Education on providing children with other necessary goods and services has reduced over time and accounts for a miniscule share of total government expenditure and GDP. The benefits are provided based on the child's income status, as such figures for the target group of children who would receive such benefits is not known.

The government spends on disability benefits and poverty alleviation for those in active age. Since there are no sickness, unemployment or maternity benefits schemes in the country expenditure is implicitly zero. However, despite the lack of any social schemes, employed members of the active age are eligible to receive paid sick and maternity leave. Table 31 provides the percentage of those in active age employed formally, and thus able to receive paid sick leave from their employers, since the formal sector accounts for roughly 40% of the work force, this is the covered population under sickness benefits. There is no state expenditure on sickness benefits (paid sick leave to government employees is not accounted for here) and expenditure on paid sick leave by private companies is not known, this kind of data is not collected by any sources in Sri Lanka. Similarly women employed formally are able to receive paid maternity leave from their place of employment, some women in the informal sector also probably receive these benefits, but it is uncertain as to how many do. Of the female workforce, roughly 40% are employed formally, thus this is the percentage covered without question, the percentage is probably higher depending on the informal sector but it is impossible to make assumptions about the coverage rate. Using the Labour Force Survey, authors estimate that yearly 0.5% of the total non-government wage bill is spent on paid maternity leave.

**Table 35: Summary of coverage of social security programmes in Sri Lanka, 2006–2012**

Programme	2006	2007	2008	2009	2010	2011	2012
<b>Health care</b>							
Target population (in 000's)	17,630	17,899	19,565	19,821	20,057	21,149	20,264
% covered	100	100	100	100	100	100	100
<b>Children</b>							
<b>Nutrition</b>							
Target population (in 000's)	–	–	–	–	2,269	–	–
% covered	–	–	–	24	–	–	–
<b>Education</b>							
Target population (in 000's)	2,969	3,014	3,299	3,327	3,293	3,447	–
% covered	100	100	100	100	100	100	100
<b>Other necessary goods and services <sup>(a)</sup></b>							
Target population (in 000's)	2,969	3,014	3,299	3,327	3,293	3,447	–
% covered	–	–	–	–	–	–	–
<b>Active age</b>							
<b>Sickness <sup>(b)</sup></b>							
Target population (in 000's)	7,578	7,472	8,062	8,051	8,096	8,504	8,454
% covered	41	42	42	42	42	42	39
<b>Unemployment</b>							
Target population (in 000's)	493	447	394	433	400	357	336
% covered	–	–	–	–	–	–	–
<b>Maternity <sup>(c)</sup></b>							
Target population (in 000's)	2,755	2,619	2,849	2,878	2,786	2,926	2,825
% covered	42	43	42	43	42	43	46
<b>Disability</b>							
Target population (in 000's)	–	–	–	–	–	–	–
% covered	–	–	–	–	–	–	–
<b>Poverty alleviation <sup>(d)</sup></b>							
Target population (in 000's)	2,680	2,721	–	1,764	1,785	–	–
% covered	–	–	–	107	106	–	–
<b>Older persons <sup>(e)</sup></b>							
Target population (in 000's)	1,952	2,100	2,303	2,465	2,601	2,823	2,468
% covered	24	24	22	22	22	21	21

**Notes**

% of population covered refers to population of the target group to whom the programme is accessible to, if the target beneficiaries do not avail themselves of the benefit, this is not represented in this table.

– is equivalent to zero

–datum is not available for the years

(a) This is an expenditure item of the Ministry of Education where they provide nutritional items, text books, educational bursaries and uniforms to school children. The number of children who receive such items is not known.

(b) This refers to those employed who are eligible to receive paid sick/medical leave from their place of work.

(c) This refers to those female employees eligible to receive maternity leave and salaries.

(d) The target population for Samurdhi benefits is thought to be the poor persons living in the country, calculated using the poverty head count produced by the Census Department. The coverage is estimated using data for the poorest 20% of the population who are receiving Samurdhi benefits.

(e) The target population is the number of persons above the age of 60

Sources: IHP analysis of Labour force surveys for varying years

Government expenditure on disability, which includes benefits that are not only income transfers, is negligible in comparison to government expenditure. There is no data available on the population of all disabled persons for the given years, as such coverage of the target population cannot be estimated. The target population for the country's poverty alleviation programme is thought to be those individuals living under the poverty line, although this is not strictly stated as a qualifying condition. It is not possible to cross-reference those receiving Samurdhi benefits against whether or not they fall below the poverty line; as such authors have estimated coverage based on the poorest quintile of persons in Sri Lanka and the number of Samurdhi beneficiaries. Due to the inherent discrepancy in these figures the coverage rate is over 100%. However this does not mean that all those who fall to the poorest quintile necessarily receive Samurdhi benefits, as discussed in previous sections, it is known that Samurdhi benefits are sometimes received even by those in the richest quintile. The government poverty alleviation programme accounted for a declining share of government expenditure, and has consistently been less than 0.5% of GDP. Although poverty alleviation is one of the stated goals of the Sri Lankan government, expenditure on the programmes does not reflect the enormity of it.

Pensions in Sri Lanka are provided only to farmers, fishermen and public servants; other types of workers are either provided lump sum benefits or none at all. Those aged above 60 years are considered to be pensioners by definition, however only roughly 20% of those in pensionable age receive periodical pensions. This implies that a very large proportion of older persons must rely on other sources of income to sustain themselves. The government only spends directly to pay pensions to retired public servants through the Department of Pensions and on other benefits for elderly via the Ministry of Social Services. Other benefits account for a very minute amount of public expenditure on older persons; almost 99% of such expenditure was on pensions to retired public servants. Expenditure remained consistent as a share of GDP, but declined marginally as a share of total government expenditure.

There are expenditures on certain types of social benefits that are not funded by the government; they are contributory schemes or employer liability based benefits. The only three contributory pensions funds are the farmers', fishermen's and self-employed persons' pensions and social security benefits schemes. Combined, the three schemes spent very little in comparison to the GDP of the country throughout time. In 2012, the nominal decline is remarkable; this is due to the farmers' scheme failing to meet pensions emoluments for the year.

The EPF and the ETF refunded member account balances equivalent to roughly 0.8% of GDP. The amount is nearly half of the government's expenditure on pensions. These refunds are met with income from contributions made by employers and employees on behalf of the employee. Employers, other than the government, also spent on average about 0.35% of the total wage bill on paying mandatory workmen's compensation benefits and on non-mandatory insurance policies to bear this cost. The cost of this is negligible in comparison to GDP.

There are no family or survivor benefits schemes exogenous to those discussed in the above sections.

**Table 36: Summary of expenditures on social security programmes in Sri Lanka, 2006-2012**

Item	2006	2007	2008	2009	2010	2011	2012
<b>Government expenditure on SPF related benefits</b>							
<b>Health care</b>							
Amount inRs. million	7,636	65,131	73,410	79,437	86,162	94,574	-
% of GDP	2.0	1.8	1.7	1.6	1.5	1.4	-
% of government expenditure	8.1	7.9	7.5	6.9	7.0	6.7	-
<b>Children</b>							
<b>Nutrition</b>							
Amount inRs. million	537	488	649	1,155	865	-	-
% of GDP	-	-	-	-	-	-	-
% of government expenditure	0.1	0.1	0.1	0.1	0.1	-	-
<b>Education</b>							
Amount inRs. million	2,811	69,295	80,849	84,601	88,292	93,518	92,983
% of GDP	2.5	1.9	1.8	1.7	1.6	1.4	1.2
% of government expenditure	10.3	8.4	8.3	7.3	7.1	6.7	6.1
<b>Other necessary goods and services <sup>(a)</sup></b>							
Amount inRs. million	7,903	8,022	13,957	11,181	9,376	9,779	2,895
% of GDP	0.6	0.2	0.3	0.2	0.2	0.1	0.0
% of government expenditure	2.5	1.0	1.4	1.0	0.8	0.7	0.2
<b>Active age</b>							
<b>Sickness <sup>(b)</sup></b>							
Amount inRs. million	-	-	-	-	-	-	-
% of GDP	-	-	-	-	-	-	-
% of government expenditure	-	-	-	-	-	-	-
<b>Unemployment</b>							
Amount inRs. million	-	-	-	-	-	-	-
% of GDP	-	-	-	-	-	-	-
% of government expenditure	-	-	-	-	-	-	-
<b>Maternity <sup>(c)</sup></b>							
Amount inRs. million	-	-	-	-	-	-	-
% of GDP	-	-	-	-	-	-	-
% of government expenditure	-	-	-	-	-	-	-
<b>Disability</b>							
Amount inRs. million	50	90	112	156	122	483	583
% of GDP	-	-	-	-	-	-	-
% of government expenditure	-	-	-	-	-	-	-
<b>Poverty alleviation</b>							
Amount inRs. million	0,589	10,353	9,359	9,359	9,426	9,278	10,182
% of GDP	0.4	0.3	0.2	0.2	0.2	0.1	0.1
% of government expenditure	1.5	1.2	1.0	0.8	0.8	0.7	0.7
<b>Older persons</b>							
Amount inRs. million	-	68,594	75,901	86,092	91,947	99,949	111,629
% of GDP	-	1.9	1.7	1.8	1.6	1.5	1.5
% of government expenditure	-	8.3	7.8	7.4	7.4	7.1	7.3

**Table 36 (Continued): Summary of expenditures on social security programmes in Sri Lanka, 2006–2012**

Item	2006	2007	2008	2009	2010	2011	2012
<b>Other expenditure on SPF related statutory obligations</b>							
<b>Contributory pension schemes</b>							
Amount inRs. million	612	736	893	1,045	1,161	1,343	138
% of GDP	-	-	-	-	-	-	-
<b>Provident funds <sup>(d)</sup></b>							
Amount inRs. million	20,730	26,029	30,880	38,390	41,338	55,193	57,396
% of GDP	0.7	0.7	0.7	0.8	0.7	0.8	0.8
<b>Maternity benefits <sup>(e)</sup></b>							
Amount inRs. million (estimates)	795	887	1,098	1,164	1,247	1,518	-
% of GDP	-	-	-	-	-	-	-
<b>Employment injury <sup>(f)</sup></b>							
Amount inRs. million (estimates)	515	575	712	754	808	984	-
% of GDP	-	-	-	-	-	-	-
<b>Sickness</b>							
Amount inRs. million	-	-	-	-	-	-	-
% of GDP	-	-	-	-	-	-	-

*Notes*

- is equivalent to zero

-datum is not available for the years

(a) This is an expenditure item of the Ministry of Education where they provide nutritional items, text books, educational bursaries and uniforms to school children. The number of children who receive such items is not known.

(b) Sickness benefits do not include the payment of salaries for government employees during sick leave.

(c) Salaries paid to female employees on statutory maternity leave are not accounted for here.

(d) Provident fund expenditure refers to the refunds made to contributing members during the period.

(e) Maternity benefits are estimated using a technique developed by IHP for the analysis of Labour Force Survey data.

(f) Employment injury costs were estimated in 2012 to be 0.35% of total payroll by a study conducted by IHP, this share is applied to LFS data to obtain an estimate. Employment injury costs include payments for insurance premiums as well.

Sources: IHP Sri Lanka Health Account Database, Budget books published by the Ministry of Finance, Department of the Commissioner General of Samurdhi, Department of Pensions, Ministry of Social Services, Agriculture and Agrarian Insurance Board, Employees' Trust Fund, Employees' Provident Fund, IHP Survey of Employee benefits 2013, IHP analysis on Labour force survey 2011



## Section II

### Estimating the Cost of a Social Protection Floor in Sri Lanka





## ILO's social protection floor cost projection model

This methodological report is a follow up to the findings of the Rapid Assessment Phase 1 Report above. Phase 1 of the project undertook a stock taking of all current social protection programmes in Sri Lanka and presented a profile of the current coverage and expenditures of these programmes.

This section of the report presents the findings of an exercise to cost the identified social protection gaps, and provides comprehensive information on the methodologies used in the construction of the costing model. The authors recommend that the accompanying model be reviewed in succession to the above report.

The attempt of the exercise is to develop a model of costs and finances to cover the gaps in Sri Lankan social protection programmes from the perspective of the minimum prescribed standards of the ILO Social Security (Minimum Standards) Convention C102 of 1952. It should be noted that whilst Sri Lanka has not ratified this convention, as a member of the UN it still has some obligation to attain the minimum standards prescribed by the body.

Convention C102 provides only some guidance as to how benefits are to be paid and how much. However, for the purposes of conducting a quantitative analysis of providing prescribed benefits, these guidelines were combined with the authors' own assessments as to reasonable targets or standards that the Sri Lanka social protection schemes might aim to achieve. These standards for which the cost assessment is made for each programme are described further in this report. The standards also draw on other complementary ILO conventions such as those on employment injury and maternity benefits where relevant.

Upon examination of the ILO's Social Protection Floor cost projection model as provided to us by the ILO, we find that it is unsuitable for modelling the specific issues involved in this exercise, or using approaches that did not seem appropriate. So we adapted it, building a new model in Microsoft Excel (SLRAP MODEL V2.0.xlsx). By type, the model is essentially an actuarial cost projection model, estimating costs as a function of population changes, the proportion of the population requiring protection expenditures, and assumptions about the levels of benefits.

The model incorporates a number of potential scenarios about key cost drivers, and allows the user to select which of the scenarios the model uses to project future costs and resources. The model relies on or incorporates various sources of information, including data published by the Central Bank of Sri Lanka, the Department of Census and Statistics and the World Bank. These are detailed in this document, or in the spreadsheet itself.

The model projects the future costs of providing a social protection floor in the areas of protection identified by the ILO initiative, and the implied resource gaps given a continuation of current trends in resource availability. This is an inherently speculative task, and requires making assumptions not only about future trends in the economy and population, but also assumptions about what policy-makers will consider acceptable. As such the projections presented here should be treated not as forecasts of what will actually happen, but more as indications of the options available to the country, and possible financial implications. The projections should thus be seen as a tool to help assess these options, and to understand their relative fiscal implications.

## 5.1 Main assumptions of the cost projection model

### 5.1.1 Economic growth

A critical input into the model is the future rate of economic growth. Between 2000 and 2013, the economy grew at an average rate of 6.0 per cent per year in real terms. Although it might be expected that the end of the conflict in 2009 should result in a faster rate of growth, the actual trend will depend on other factors, especially the overall policy framework and external economic trends. To reflect this uncertainty we have incorporated three alternative options about future economic growth in to the model (See SL RAP MODEL V2.0.xlsx, Sheet “Options”, Cell B4).

#### Option 1: Medium outlook

In this economic outlook option we have assumed a constant real GDP growth rate of 7% per cent from 2015–2030. Seven per cent is deemed to be a reasonable expectation of medium term future growth, given that prospects for growth have improved after the end of conflict in 2009, but also taking into account continuing institutional and policy limitations that may hinder faster growth.

#### Option 1: Optimistic outlook

In this option we have assumed that future real GDP growth rates from 2015–2030 will be equal to 9 per cent (this might be regarded as an ambitious target).

#### Option 1: Pessimistic outlook

In this option we have assumed an annual real GDP growth rate of only 5 per cent for the period from 2015–2030. Economic growth statistics are summarized in Table 37.

**Table 37: Summary of economic growth assumptions**

Scenario/Year	2000-2013 (Average annual real GDP growth rate)	2014 (Annual real GDP growth rate)	2015-2030 (Annual real GDP growth rate)
Pessimistic	6	7.3	5
Medium	6	7.3	7
Optimistic	6	7.3	9

*Source:* Extracted by authors from SL RAP MODEL V2.0.xlsx

### 5.1.2 Population growth

The model requires estimates of the future size of the population and specific demographic subpopulations. After a long period when internal conflict prevented a full enumeration of the population at regular national censuses, a full national census was held in 2012, and reported a national population of 20.4 million in March 2012. This official count differs from the UN population estimates for Sri Lanka for that year of 21.1 million (Department of Economic and Social Affairs 2012).

The government has not yet published any official projections of the future size of Sri Lanka based on the 2012 population count. In their absence, the UN population projections provide one alternative. However, these report different population numbers for 2012 than adopted by the government as already noted, so these UN projections are not consistent with the government's own population estimates. The reason for this discrepancy could be that the UN population estimates take into account deficiencies in the official demographic statistics that are caused by

incompleteness in coverage, failure to incorporate the information reported by the Census 2012, and errors in reporting or coding of basic information (Department of Economic and Social Affairs 2015), but the actual reasons in this case are not known, including the possibility that the UN has not yet had time to update their own data. Given this discrepancy and the need for a robust projection of the future population, we have constructed and provided in the model two sets of population projections. Each of these projections sets includes three fertility variants in line with the UN projections. The UN population projections are provided in five-year intervals, so we used linear interpolation between these points to fill the gaps in each of these. There are three alternative fertility scenarios on the projected population incorporated into the model; low, medium and high (See SL RAP MODEL V2.0.xlsx, Sheet "Options", Cell B7). There are two options for the calculation of the projected population growth in the model (See SL RAP MODEL V2.0.xlsx, Sheet "Options", Cell B10).

### **Option 1: Population projections A**

In this version, we assumed that the 2012 census count is correct, and scaled the UN population estimates to match the national population census estimate of 2012. This overall adjustment ratio for 2012 was then applied to all future years of the UN projections to obtain a set of revised age-sex projections under each of the different fertility scenarios.

### **Option 2: Population projections B**

We analysed the age-sex distribution of the population in the UN population projections and compared with the national statistics for 2012. We found a close match between the two distributions. Noting this, we took the projected rates of change in the relative size of each age-sex group in the UN projections in future years, and applied these to the official national statistics for 2012 to obtain a set of revised age-sex projections under each of the different fertility scenarios. Projections are summarized below (Table 38).

**Table 38: Summary of population statistics with the use of varying options and scenarios**

Year	Projections A			Projections B		
	Low	Medium	High	Low	Medium	High
2010	20,154,683	20,154,683	20,154,683	20,041,395	20,041,395	20,041,395
2012	20,336,591	20,402,851	20,492,575	20,296,072	20,359,439	20,446,848
2015	20,714,683	20,880,333	21,104,644	20,678,087	20,836,506	21,055,029
2020	21,114,921	21,577,398	22,110,189	21,078,032	21,533,214	22,060,441
2025	21,269,182	22,091,149	23,001,929	21,214,395	22,032,578	22,941,760
2030	21,279,652	22,456,937	23,752,230	21,187,082	22,373,913	23,681,557

Source: Extracted by authors from SL RAP MODEL V2.0.xlsx

### **5.1.3 Labour force trends**

The model requires us to make assumptions about future labour force participation. We note that in the last few years, labour force participation, especially among women, which is significantly lower than other comparable Asian economies, has been in decline. In general, increasing female labour force participation would tend to have a positive impact on economic growth and reduce the costs of providing a social protection floor. However, it is not clear whether this trend would change or reverse, so we have not attempted to incorporate such changes in our assumptions.

To project future size of the labour force, we scaled down the ILO's projections of the future labour force size (International Labour Organization 2011) to match the statistics published by the Department of Census and Statistics Labour Force Surveys, and assumed that the unemployment rate would remain constant in subsequent years. The projections are summarized in Table 39.

**Table 39: Summary of labour force trends**

Indicator	2010	2015	2020	2025	2028	2030
Labour force (in millions)	8.1	8.8	9.1	9.5	9.7	9.8
Female LFPR (%)	33.9	36.2	36.8	37.4	37.8	38.2
Male LFPR (%)	74.6	77.5	76.3	75.1	74.5	74.2
National LFPR (%)	53.7	56.2	55.9	55.5	55.5	55.5
Unemployment rate (%)	4.9	3.9	4	4	4	4

*Source:* Extracted by authors from SL RAP MODEL V2.0.xlsx

## Extending social protection

### 6.1 Setting a minimum level of benefits

In estimating the cost of closing many social protection gaps, it is necessary to define an appropriate level for cash transfers designed to raise living standards to an acceptable level in target populations. An appropriate level would be one that is affordable with available resources, and is considered largely acceptable by society as a whole. Ultimately this is not a technical question, but a political one.

Under current arrangements of the Devi Neguma (ex-Samurdhi) scheme, the average monthly cash benefit paid to beneficiary households was Rs 717 in 2012<sup>11</sup>, which is approximately USD 5 a month per household or Rs. 175.50/USD 1.27 per capita. There was some increase in the real value of these benefits during the last year owing to election-related budgets, but their value will almost certainly fall in subsequent years since benefit payments in Sri Lanka have never been inflation-indexed. These payments in 2012 amounted to a yearly cash benefit of less than 1 per cent of GDP per capita for every beneficiary household, and a small fraction of the poverty line. It has been estimated that the then Samurdhi transfer increased the food consumption of the poorest 40 per cent of the income distribution by only 7 per cent “at best” (World Bank 2006, 68).

These cash transfers are not adequate to raise living standards to an acceptable level, or even above the poverty line for the average household below the poverty line. As such, we have decided to assume as the basis of policy a minimum income benefit of Rs 2,000 per month per eligible beneficiary from 2015 onwards; where no existing benefit is paid, we will assume the government will pay Rs 2,000 per individual per month in the target group. Rs 2,000 amounts to 5 per cent of the monthly GDP per capita in the year 2014. We further assume the government will index this benefit by GDP per capita growth every year.

ILO raised concerns about the adequacy of Rs. 2,000 as a minimum benefit, as it is lower than even the official poverty line. Any increase in the level of benefits will be a substantial increase in expenditure for the government; it is unlikely that the government of Sri Lanka would agree to the implementation of the minimum benefit programme that would substantially raise its expenditure. However, the proposed minimum benefit of Rs. 2,000 is more implicitly acceptable as it is closer to the benefit that is already paid under the existing poverty alleviation scheme and the government is likely to find this more amenable.

There is an inevitable trade off between the adequacy of the minimum benefit and the feasibility of implementing it. The model thus settles on Rs. 2,000 as the minimum income benefit, however the excel sheet allows a user to input a different minimum income benefit and project the resulting costs (See SL RAP MODEL V2.0.xlsx, Sheet “Options”, Cell B13).

<sup>11</sup> This amount was derived using the HIES 2012 (Department of Census and Statistics 2012/13 ), by identifying the % of the population to receive any of the cash benefits identified in the HIES and then dividing that number of persons into the aggregate budgetary expenditures on those same programs.

**Table 40: Proposed minimum income benefit of Rs. 2,000 per month against local and international poverty lines, 2014**

Indicator	Rs per day	Rs per month	Rs 2,000 per month as a share of indicator
Census official poverty line	129	3,860	52%
\$1.25 poverty line (2005 PPP\$, CPI)	109	3,263	61%
\$2.00 poverty line (2005 PPP\$, CPI)	174	5,221	38%

Source: Author's own calculations

## 6.2 Projections

### 6.2.1 Education

Since Sri Lanka has an enrolment rate of 99 per cent of school-age children, coverage issues are minimal. However, large gaps still exist in terms of the quality of educational provision, and inequalities in access, implying the need to increase spending as discussed in section 1.

In recent years, the government has been spending 1.0–1.2% of GDP on primary and secondary education, not including administrative costs, special education and certain welfare activities such as providing free meals and uniforms. As discussed in the first part of this study, Sri Lanka spends much less per student at these levels of education, as a ratio of GDP per capita, in comparison with other countries of similar economical and historical backgrounds.<sup>12</sup> This would remain true even if private spending on primary and secondary education were taken into account. To the extent that Sri Lanka fails to provide adequate social protection in education of children and fails to meet its development goals of an educated workforce, the major explanation is not the lack of market forces, but chronically low levels of government spending.

The question arises as to what higher level of public spending is warranted to close the existing gap. This will ultimately depend on what quality and level of educational provision the country wishes to provide, and the efficiency of service delivery. Such a decision ultimately has to be made by society as a whole. However, we note that the low levels of spending to date may reflect low aspirations by society as a whole or relatedly low willingness to raise and allocate the required tax resources. Given this, we have assumed two options for target levels of spending to close the gap. The first would raise spending levels to the 2009 Bangladeshi levels of public expenditure per levels of 2011 spending in Malaysia by 2020 (17.1% of GDP per capita per student on primary education and 19.8% of GDP per capita per student on secondary education).

To meet the Bangladeshi option target goals Sri Lanka would need to increase government spending on primary and secondary education from 1.2 per cent in 2012 to 1.5 percent of GDP by 2020, and to meet target goals of the Malaysian option Sri Lanka would need to increase government spending on primary and secondary education from 1.2 per cent in 2012 to 3.0 percent of GDP by 2020. Since the government has committed itself to reach a target of public expenditure on education of 6% of GDP, aspiring to the level of spending by Bangladesh and Malaysia is certainly consistent with recent public declarations of policy makers in Sri Lanka.

<sup>12</sup> Sri Lankan government expenditure (per student in the given level of education) in 2012 for primary education was 4.8% of GDP per capita per student, and was 6.8% of GDP per capita per student for secondary education. In comparison, government primary education expenditure per student (as a % of GDP per capita) in Bangladesh, Malaysia and Singapore was 7.8 (2009), 17.1 (2011) and 11.0 (2010) respectively. Likewise, government secondary education expenditure per student (as a % of GDP per capita) was 10.6 (2009) in Bangladesh, 19.8 (2011) in Malaysia and 16.7 (2010) in Singapore (World Bank Data 2015).

Summary of fiscal costs that result from the above targets are given in Table 41.

**Table 41: Projected fiscal costs (% of GDP) of increasing education expenditure to match comparable countries by 2020**

Policy target	2012	2020	2030
Maintaining current spending levels	1.2	0.9	0.8
Reaching current Bangladesh levels by 2020	1.2	1.5	1.3
Reaching current Malaysia levels by 2020	1.2	3	2.6

*Source:* Extracted by authors from SL RAP MODEL V2.0.xlsx

### 6.2.2 Disability

One of the four areas of interest in the Social Protection Floor (SPF) Initiative is providing an income to those in an active age who are unable to earn an income due to disability or invalidity. The only existing type of welfare programme for this is run by the Ministry of Social Services.

It is not known with certainty as to the number of disabled persons living in Sri Lanka; the only source of information for this was the 2001 Census of Population and Housing that tabulated the characteristics of disabled persons<sup>13</sup>. According to the definition used by the Department of Census and Statistics in conducting this census, a person was said to be disabled if she has a disability in seeing, hearing, speaking, disabilities in the hands, legs or any other physical disability, mental retardation and psychosis.

In 2001, 1.5 per cent of the population were disabled according to the above definition. Since there are no further reliable sources of information for more recent data on disabled persons, we have assumed that the number of disabled persons in any year from 2015 to 2030 will remain at a constant rate of 1.5 per cent of the population, equivalent to 328,000 people in 2030. We will assume that the government will pay Rs 2,000, the proposed minimum cash benefit to disabled persons. With these assumptions, the model projects that Sri Lanka would need to spend 0.07 per cent of GDP on disability allowance in the future.

### 6.2.3 Unemployment

There is no income benefit for unemployed persons in Sri Lanka. Sri Lanka presently has an unemployment rate of 4 per cent, which is quite low. We have assumed that the rate of unemployment will remain constant in future, a reasonable assumption given our other assumptions about future GDP growth. If we assume the government adopts the SPF initiative and provides a cash benefit for all unemployed persons at Rs2,000 per month, then we project the cost would be around 0.08 per cent of GDP in the future.

<sup>13</sup>The 2001 census was tailor made to collect information on disabled persons as part of a special exercise by the Department of Census and Statistics, the collection of this type of information was not replicated in the more recent census of 2011 and thus there are no newer statistics to be used.



## 6.2.4 Health

Sri Lanka provides free healthcare services to all its citizens, although people are free to choose private services. In 2013, government health expenditure was 1.6 per cent of GDP (Institute for Health Policy 2015). This is much lower than other comparable countries, and is insufficient to finance sufficient volumes of care for 90% of the population. This deficiency mostly results in reductions in public sector consumer quality, with quality of clinical care largely maintained in the public sector (Rannan-Eliya et al. 2015, Rannan-Eliya et al. 2014). Richer patients generally opt out of the public sector to obtain higher consumer quality in the private sector, self-financing their own care. To the extent that this is voluntary, and poorer patients do have real access to free care, including expensive tertiary care, in the public sector, social protection is achieved. However, the funding shortfalls also affect the patients who do use the public sector, manifesting primarily in inadequate availability of medicines and diagnostic services for public sector patients, many of whom are then forced to self-purchase these out-of-pocket. The extent of this has been increasing the past decade, and is a major source of patient dissatisfaction. From a social protection perspective, preventing such forced spending should be a priority.

Quantifying how much higher government spending should be to address these gaps is not straightforward. However, we know that around half of all medicines are being financed privately (Amarasinghe et al. 2013). Covering most of this gap would probably cost around 0.5% of GDP, and if the cost of unfunded diagnostics is also covered, the cost would increase to at least 0.75% of GDP. Such increases in spending so targeted would largely address the immediate gaps, but probably results in deterioration in consumer quality in the public sector as fewer patients opt to use the private sector, so additional funding would also be needed to expand overall capacity in the public sector. So, we have assumed that an adequate level of government spending by 2030 would be 3.0% of GDP, which is 1.4% higher than current spending levels. This level is also closer to the average for countries at Sri Lanka's income level, and also consistent with the government's own commitments in the January 2015 budget (Department of Fiscal Policy 2015). This higher target level would also allow the quality of services to be improved so as to improve patient satisfaction.

## 6.2.5 Child nutrition

A large percentage of children in Sri Lanka continue to be undernourished, as evidenced by continuing high rates of stunting, underweight children and wasting. Recent analysis has demonstrated that this is concentrated in those below the poverty line, and that the major determinant is food insecurity caused by poverty (Rannan-Eliya et al. 2013). Although the government does operate a scheme, Thriposha, to provide supplementary nutrition to pregnant women and mothers with infants, this provides inadequate quantities of nutrition to have much impact. The government has recognized the need for greater action in this area by initiating a new scheme in 2015 to provide Rs 20,000 in funding or nutritional goods to new mothers. Whether this scheme will be effective is yet to be seen, but an expanded supplementary nutrition programme on this scale reaching the poorest families is needed to substantially address child under nutrition.

To project future costs we assumed that the current Thriposha programme and the new scheme to give money to new mothers would continue, with the cost per beneficiary remaining the same as a share of GDP. Projections are summarized in Table 42.

**Table 42: Projected fiscal costs (% of GDP) of child nutrition programmes, 2012–2030**

Scheme	2012	2020	2030
Thripasha	0.02	0.02	0.02
Maternity benefit scheme	-	0.07	0.07
Total	0.02	0.09	0.09

Source: Extracted by authors from SL RAP MODEL V2.0.xlsx

### 6.2.6 Pensions

There are six pension/old age benefit schemes in Sri Lanka presently: the Civil Servant's Pension Scheme (CSPS), the Farmers' Pension and Social Security benefit scheme, the Fishermen's Pension and Social Security benefit schemes, the Self-Employed Persons Pension and Social Security benefit scheme, the Employees' Provident Fund (EPF) and the Employees' Trust Fund (ETF).

Only the first four of the above schemes pay a monthly pension to their members. The EPF and ETF provide lump sum payments to their beneficiaries. The Farmer's Pension scheme effectively collapsed in 2012, and has not made pension payments since. There is no official word on the future of the scheme, so we will assume that it will provide no pension payments from 2012 onwards. The Self-Employed Persons Pension scheme provides very minimal benefits. Its further enrolment and retainment of members and collection of contributions is not strictly enforced; as such the cover it provides for its members does not provide much meaningful social protection. We, therefore, assume that presently only members of the public sector, Fishermen's Pension scheme, EPF and ETF are covered by a pension/old age scheme. In 2012, this amounted to 71 per cent of those above the retirement age receiving pensions or alternative old age benefit.

To project the future fiscal cost of the CSPS, we have modelled two options; the first one being where the retirement age remains at 60, and the second option being where the retirement age gradually increases from 60 in 2015 to 70 by 2025 (See SL RAP MODEL V2.0.xlsx, Sheet "Options", Cell B19). The CSPS pensions are not inflation indexed, but they tend to be raised with increases in government wages. So we assumed that the value of the pension benefit would increase in future at the same rate as GDP per capita, on the assumption that government wages will track that indicator in the long-term.

Presently the government finances some pension costs through its financing of the public sector pensions and contributions made to the Farmer's Pension scheme. The Farmer's Pension scheme needs thorough and heavy reforms in its legislation and administration. The financial balance of these schemes would be improved if action were taken to strengthen the administration of the programme with strict adherence to collection of contributions and enforcement of rules. If we hypothesize that the existing 960 thousand members are of an average age of 45, they would need to contribute Rs 800 every year for 15 years. This is an annual total member contributions amount of Rs 767 million. In 2012 not even 10 per cent of this estimated amount was collected. However, 100% enforcement is realistically not feasible as noted in section 1, and as previous studies have found (Eriyagama and Rannan-Eliya 2003), the schemes cannot be sustainable on contributions alone, and will require significant government contributions from taxation to remain viable.

To project the future fiscal cost of the Farmer's Pension scheme, we assumed that the required fiscal transfers would remain constant as a share of GDP from a baseline level of 0.02 per cent of GDP in 2013, since we had little other information to allow us to model this better, and given the uncertainties over the future arrangements.

In the costing model, we have assumed that over time the number of persons covered by an old age pension or other income arrangement scheme that is contributory will remain at a constant 71 percent of those above the retirement age till 2030. This is a relatively high level. Higher levels of coverage with purely contributory funding cannot be achieved since such schemes mostly cannot cover those outside the formal sector. For those not receiving any pension, we have assumed that the government will provide the minimum cash benefit from 2015 onwards on a non-contributory basis. In doing this, we considered two alternative scenarios: (i) the income benefit for such persons is paid to all those above 60 years of age, and (ii) the age threshold is 70 years of age. This recognizes that as life expectancy increases, it would make sense to also increase the retirement age, and mindful of the fact that the higher the retirement age, the lower the fiscal cost. Table 43 presents the estimated costs of such a scheme.

**Table 43: Projected fiscal costs (% of GDP) of old age income schemes, 2012-2030**

Scheme	2012	2020	2030
<b>CSPS</b>			
– Eligibility remaining at age 60	1.47	1.82	2.3
– Eligibility gradually increasing to 70	1.47	1.21	1.07
<b>Farmers Pensions</b>	0.02	0.02	0.02
<b>Non-contributory benefit for non-covered population</b>			
– Eligibility at age 60	-	0.22	0.27
– Eligibility at age 70	-	0.09	0.13

*Source:* Extracted by authors from SL RAP MODEL V2.0.xlsx

## Estimating financing needs and gaps

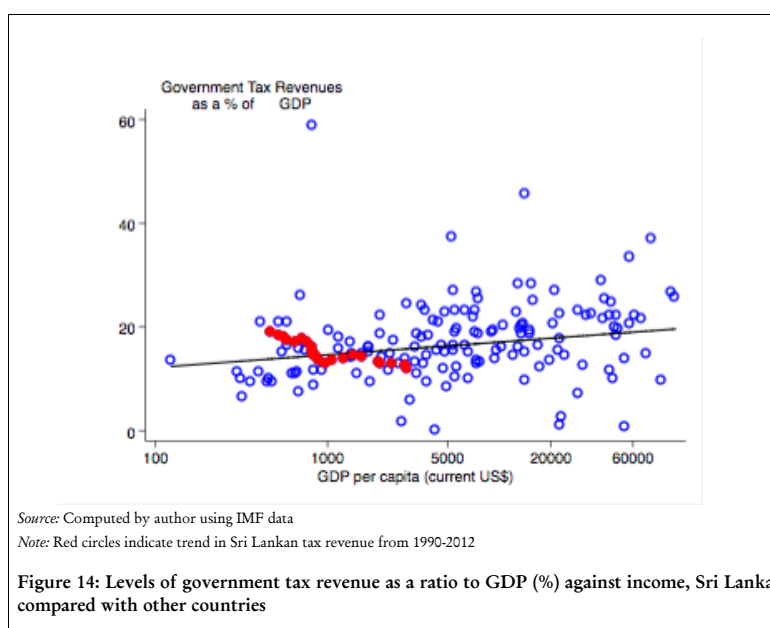
### 7.1 Trends in general revenue tax mobilization in Sri Lanka

The primary aim of this exercise is to estimate the total cost of providing the social protection floor as envisaged by ILO. However, to assess the financing challenge this cost should be considered against the likely available resources, which itself is largely a policy choice.

A critical, almost certainly the primary constraint to improving social protection in Sri Lanka is the low and declining level of tax revenues. Although some components of the social protection floor can be partially financed through contributory mechanisms, it is not possible to mobilize all the necessary financing through contributory means. The remaining finance must come from general revenue taxation, so the amount of tax revenues mobilized is a key constraint for the level of social protection that can be provided. It should also be noted that Sri Lanka does not historically have a tradition of financing social protection through contributory mechanisms, so it is likely that it will need to rely more on tax mechanisms for financing the social protection floor than would other countries with histories of contributory social security.

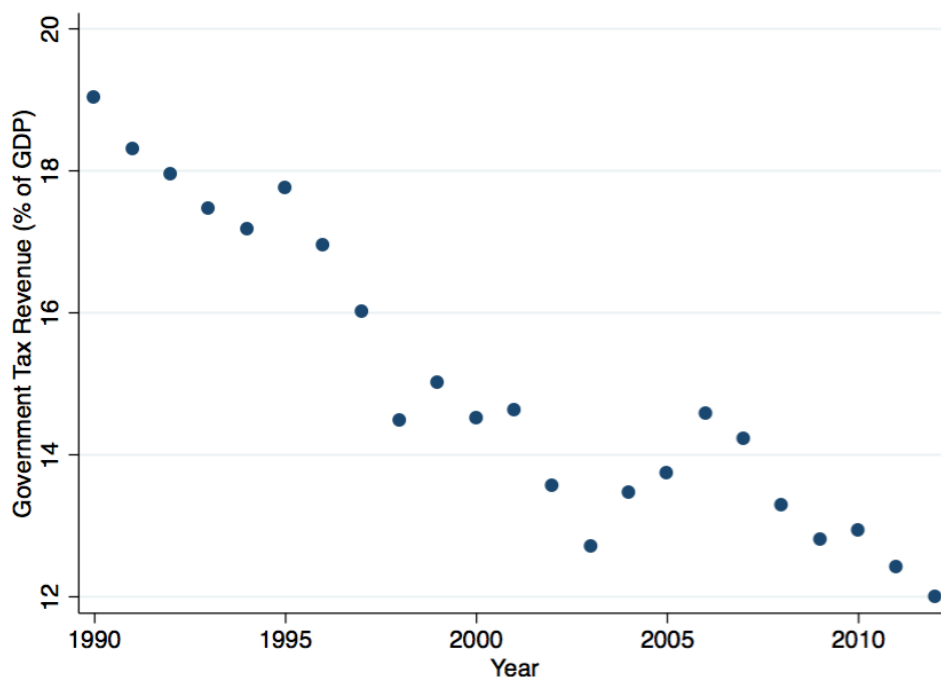
Figure 14 shows the relationship between the level of general revenue taxation and income levels across countries<sup>14</sup>. The red circles indicate the performance of Sri Lanka between 1990 and 2012. As countries develop and incomes rise, they generally increase taxation as a share of GDP. However, in Sri Lanka's case tax effort has fallen as incomes have risen, leading to a situation where Sri Lanka considerably under-performs in tax mobilization.

Figure 15 illustrates the deviation in actual tax revenues from predicted levels in Sri Lanka from 1990 to 2012. This shows how tax efforts have consistently fallen in recent decades, resulting in a change from doing better than average in 1990 to a shortfall of (-)3.7% of GDP by 2012. This represented a net reduction in tax effort of 7.9% of GDP between 1990 and 2012.



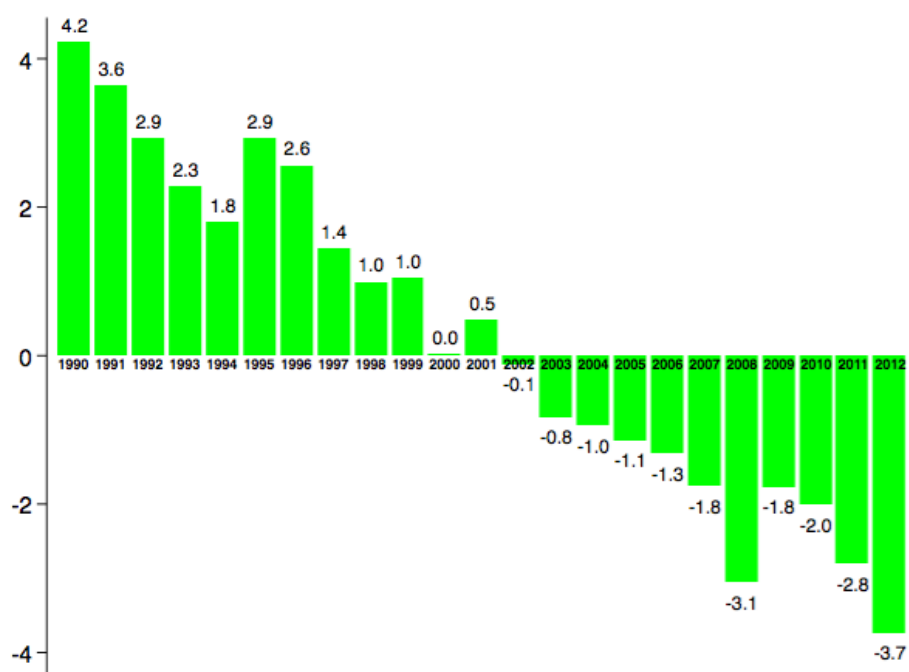
<sup>14</sup>The year used for each country was chosen by looking at the year for which tax revenue data had last been recorded (i.e. the maximum year for which tax revenue data was available).

A dummy variable for countries with population less than 1 million was included in the regression.



Source: Computed by author using IMF data

**Figure 15: Sri Lankan Government Tax Revenue (% of GDP), 1990-2012**



Source: Computed based on regression of revenues against per capita GDP using IMF data

**Figure 16: Tax Revenue shortfall for Sri Lanka, 1990-2012**

## 7.2 Cost of providing a social protection floor

Depending on the choice of scenarios and assumptions adopted for the model, the total cost to government in terms of tax resources to finance the social protection floor would range between 5.2% and 7.5% of GDP in 2020<sup>15</sup>. Assuming the medium economic scenario, medium fertility and population projection A, a retirement age of 60 years, and a target of raising education spending to Bangladesh levels, total spending would need to increase to 5.9% of GDP by 2020. This compares with current (2012) spending levels of 4.19% of GDP. The largest components of this would be health and education (Table 44).

**Table 44: Projection of fiscal costs (% of GDP) of providing a social protection floor in Sri Lanka 2012-2030**

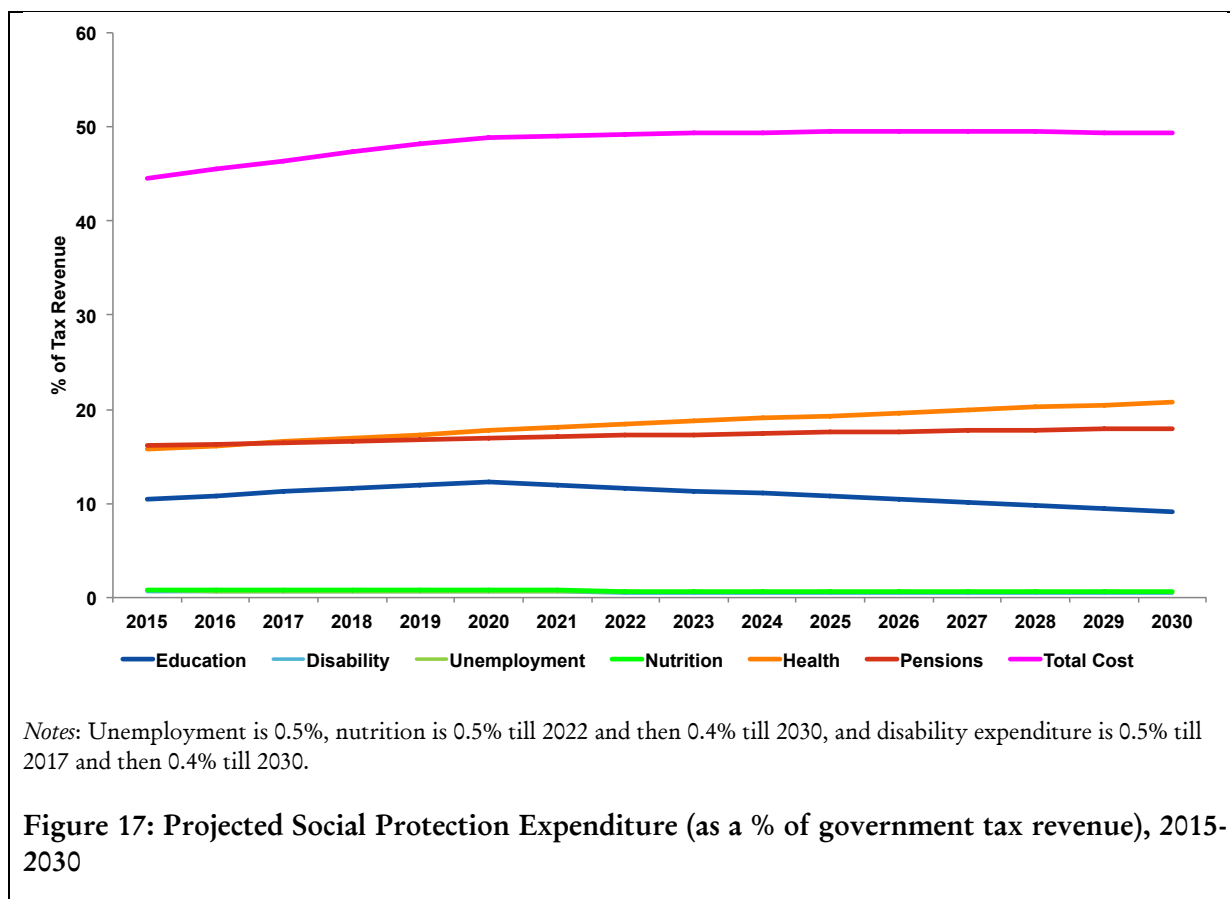
Component	2012	2020	2030
Education	1.23	1.5	1.31
Disability	0.01	0.07	0.07
Unemployment	-	0.08	0.08
Health	1.45	2.15	3
Nutrition	0.02	0.09	0.09
Pensions/old age income security	1.49	2.05	2.6
Total	4.19	5.94	7.15

*Note:* Assumptions set in model are as follows – medium economic scenario, medium fertility, population projection A, retirement age of 60 years, education spending target of current Bangladesh levels, health spending target of 3% of GDP, and a minimum income benefit equivalent to Rs. 2,000 in 2015.

*Source:* Extracted by authors from SL RAP MODEL V2.0.xlsx

Assuming that general tax revenue mobilization remains at 12.0% of GDP as in 2012, and that there is no space for reallocation of budgetary spending from other activities to those needed for the social protection floor, this implies a funding gap of 1.75% of GDP by 2020, and 2.96% of GDP by 2030<sup>16</sup>. These spending levels would also be equivalent to 31% of government tax revenue in 2015, 32% in 2020 and 37% in 2030 (Figure 4).

<sup>15</sup> For the lowest spending scenario we have assumed optimistic economic scenario, low fertility and population projection A, a retirement age of 70 years, and a target of raising education spending to Bangladesh levels. For the highest spending scenario we have assumed pessimistic economic scenario, high fertility and population projection A, a retirement age of 60 years, and a target of raising education spending to Malaysian levels.



<sup>16</sup> The Central Bank Annual Report 2014 gives tax revenue as a % of G DP for 2012, 2013 and 2014 as 13.9%, 13.1% and 12.2%. This shows a further fall in tax revenue by 1.7 percentage points, which is an even more significant reduction in Sri Lanka's tax revenue base.

## Annexes

**Table A1: Details of the Public Health System of Sri Lanka**

<b>Name of the programme/ scheme:</b>	<b>The Public Health System of Sri Lanka</b>
<b>Implementing organization</b>	Ministry of Healthcare and Nutrition, Provincial Ministries of Health, Regional Directors of Health Services, Medical Officer of Health units
<b>Type of organization</b>	Central government, provincial, regional, local
<b>Legislation</b>	Article 27 of the Constitution of 1878, Ninth Schedule (Provincial Council List) - 13th amendment to the Constitution
<b>Source of funding</b>	Tax revenue (budget allocations)
<b>Benefit provided</b>	In-kind
<b>In kind benefits are</b>	Direct provision of health care services
<b>Target group</b>	The entire population of Sri Lanka
<b>Level of assistance</b>	Individual
<b>Scope of the program</b>	National, provincial
<b>Domains of intervention of the programme</b>	Main domain is Healthcare
<b>Total annual budget (state currency) in 2013</b>	Rs. 118 billion
<b>Human resources</b>	Employees
Delivery of healthcare	Doctors, nurses, attendants, administrative staff
Implementing organization	Minister, ministry staff
<b>Eligibility conditions</b>	Universal
<b>Population coverage</b>	The entire population of Sri Lanka
<b>Information system</b>	Non computerized information system
<b>Impact</b>	Many studies that examine the system are available



Table A1: Details of the Public Health System of Sri Lanka

<b>Main challenges</b>	<p>Absence of clear referral and admissions policy - leads to overcrowding at large institutions and underutilization of peripheral institutions (30-35%) Increasing demand for trained technical staff.</p> <p>Lack of an updated Information Management System and non-use of available information for decision-making Increasing demand for better infrastructure and human resources in resettled areas, the Estate sector, hard to reach areas, etc. Problems related to management of medical supplies (estimation, procurement, storage, distribution, prescribing, quality, registration of pharmaceuticals, etc.) Organizational issues demanding reforms to respond to changing needs</p> <p>Problems related to regulation and promotion of private sector to provide affordable and quality healthcare services and need for improvement of efficiency, productivity, quality and safety of healthcare. Addressing the needs of vulnerable and special groups (youth, disabled, vulnerable, estate, rural, hard to reach and newly resettled)</p> <p>Issues related to health legislation</p>
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**Table A2: Details of the public education system of Sri Lanka**

<b>Name of the programme/ scheme:</b>	<b>The Public Educational System of Sri Lanka</b>
<b>Implementing organization</b>	The Ministry of Education, Provincial Ministries / Departments of Education (PME / PDE), Zonal Education Offices (ZEO), Divisional Education Offices (DEO), Schools (Provincial and National)
<b>Type of organization</b>	Central, provincial
<b>Starting date of the program</b>	1949
<b>Legislation</b>	Article 27 of the Constitution of 1978, Education Act of 1938
<b>Source of funding</b>	Tax revenue (budget allocations)
<b>Benefit provided</b>	In-kind
<b>In kind benefits are</b>	Free tuition, material for school uniforms, textbooks, nutritional programmes, hostel facilities (not always free of charge), subsidised/free meals
<b>Target group</b>	Children aged 5-14 (official school going age)
<b>Special needs/vulnerable groups</b>	Orphans, disabled children, children from low-income families
<b>Level of assistance</b>	Individual
<b>Scope of the program</b>	National program - education for children
<b>Domains of intervention of the programme</b>	Main domain is Education
<b>Total annual budget (state currency) 2013</b>	104,788 million
<b>Human resources</b>	Employees
Delivery of education	Teachers, assistant, principals, administration staff
Implementing body	Minister, ministry staff
<b>Eligibility conditions</b>	Universal
<b>Enrolment rules</b>	Mandatory for children aged 5-14
<b>Adequacy of social services / social transfers</b>	Schools are located in all provinces and districts
<b>Quality of goods/services</b>	<i>Subjective</i>
<b>Data on impact</b>	Many studies that examine the system are widely available
<b>Main challenges</b>	<p>Lack of teachers in rural schools</p> <p>Lack of English proficiency among teachers</p> <p>Relatively high failure rates</p> <p>Mismatch of occupational skills and needs</p> <p>Less than 20% get to go to university.</p> <p>Administration issues e.g.: confidentiality of exam papers, discrepancies in grading schemes.</p>

Table A3: Details of the Triposha nutrition programmes

Name of the programme/ scheme:	<b>Triposha Nutrition Programme</b>
Implementing organization	Ministry of Health
Technical and financial partners	WHO, UNICEF, National Nutrition Surveillance System (NNSS)
	Central government
Type of organization	1973
Starting date of the programme	None
Legislation	Budget allocations and donor funding
Source of funding	In kind benefit; food supplement
Benefit provided:	Take-home dry food supplement consisting of cereals, pulses, micronutrients; beneficiaries are entitled to a packet (750 g) of Triposha once every two weeks, which translates into a daily food supplement of 50 g providing 200 K Cal, 10g of protein and an array of vitamins and minerals
How is the amount of the benefit set?	According to availability of funds
Frequency of pay out	Bi-monthly
Target group(s)	All pregnant (antenatal) mothers throughout their pregnancy All lactating (postnatal) mothers for a period of six months after delivery Infants aged 6-12 months whose weight for age-Z score (WAZ) < -3SD or having growth faltering Pre-school children (from 13-59 months) whose WAZ < -3SD or having growth faltering Hospitalized children who fall into the above categories
Special needs/vulnerable groups?	Poor households Pregnant women Children (aged 0 to 3 years)
Level of assistance	Individual
Scope of the program	National
Domains of intervention of the programme	Main domain is nutrition
Total annual budget (state currency) in 2013	Rs. 1,820 million
Human resources	Employees
Enrolment rules	Voluntary
Information system	No system
Impact	Limited.

**Table A3: Details of the Triposha nutrition programmes**

<p><b>Main challenges</b></p>	<p>Weak production capacity. Weak delivery capacity. Lack of financial resources (suppliers delay supply when they are unpaid). Beneficiary selection and management. Sustainability of production;</p> <p>1. Triposha production severely affected due to short supply of raw materials, lack of streamlining of procurement procedures, insufficient factory capacity and other production-related production.</p> <p>2. No strict selection criteria of beneficiaries practiced at field level although clear guideline is present. A variety of criteria adopted in an ad-hoc manner in selecting beneficiaries. Lack of proper nutrition education has led to issues such as family sharing and dependency.</p> <p>3. Limited monitoring of impact on beneficiaries. Inadequate training of public health midwives (PHMs) in growth promotion, and inclusion of growth monitoring in crowded MCH clinics, where a variety of other activities must also be carried, have constrained quality of services.</p> <p>4. Poorly conducted nutrition education by PHMs.</p> <p>5. Minimal community participation at implementation level.</p> <p>6. Unintended consequences - (a) sharing - the supplement may be consumed by the entire family rather than the target beneficiary; (b) substitution - when the supplement is given for the under-five child, the mother may reduce the child's regular food, resulting in no increase in nutrition intake; (c) dependency - free distribution of food may reinforce a dependent attitude on the part of the recipient.</p> <p>7. Sustainability - the production of Triposha is dependent on supply of raw materials and imported commodities (milk powders).</p>
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Table A4: Details of the president's fund of Sri Lanka

Name of the programme/ scheme:	President's Fund
Implementing organization	President's Fund of Sri Lanka
Technical and financial partners	Central Bank of Sri Lanka
Type of organization	Charitable organization
Starting date of the programme	1978
Legislation	President's Fund Act of 1978
Source of funding	From fund balances
Benefit provided	
Cash	Financial assistance to patients undergoing heart, kidney, hip and knee replacement surgery, cancer treatment and Scoliosis and other life threatening illnesses Scholarships for postgraduate studies in priority areas Scholarships for advance level students Scholarships for primary students
In kind	Building new medical facilities and providing medical equipment to hospitals
How is the amount of the benefit set?	In constitution
Frequency of pay-out	Ad hoc
Target group(s)	Needy persons Students who are unable to meet tuition requirements
Level of assistance	Individual
Scope of the program	National
Domains of intervention of the programme	Main domain is poverty Other domains are health and education
Human resources	Employees
Enrolment rules	Only those who are genuinely unable to bear costs must apply
Adequacy of social services / social transfers	Applications must be submitted to one central office, however it is not necessary for the applicant to physically present it, therefore it is not a difficult process. The President of Sri Lanka must approve all claims himself Reimbursements are usually only a fraction of the claimants full cost
Quality of goods/services	Adequate
Information system	
Impact	No data on impact
Main challenges	Beneficiary identification

Table A5: Details of the workmen's compensation benefits for injured workers

<b>Name of the programme/ scheme:</b>	<b>Workmen's Compensation</b>
<b>Implementing organization</b>	Individual employer (businesses)
<b>Technical and financial partners</b>	The Office of the Commissioner of Workmen's Compensation
<b>Type of organization</b>	Not applicable
<b>Starting date of the scheme</b>	1934
<b>Legislation</b>	Workmen's' Compensation Ordinance of 1934
<b>Source of funding</b>	Employer liability
<b>Benefit provided</b> Statutory	Wage replacements in periodic and lump sum form for disabilities caused by workplace injuries
<b>How is the amount of the benefit set?</b>	Set in the legislation
<b>Frequency of pay-out</b>	Ad hoc. An injured employee has the right to obtain compensation from his employer in case he is injured due to a work related accident. The employer is liable to compensate the employee, however he may choose to insure his liability with private insurers, this is not mandatory though.
<b>Target group(s)</b>	Working age Beneficiaries of above group
<b>Special needs/vulnerable groups</b>	Disabled (due to work related injury)
<b>Level of assistance</b>	Individual
<b>Scope of the program</b>	National program
<b>Domains of intervention of the programme</b>	Main domain is income security for disabled persons and their beneficiaries
<b>Total annual budget (state currency)</b>	Not applicable
<b>Human resources</b>	Employees
<b>Eligibility conditions</b>	Universal
<b>Enrolment rules</b>	Mandatory employer liability
<b>Adequacy of social services / social transfers</b>	Eligible individuals from around the country must travel to the office located in Colombo to claim their refunds; no other offices perform this task. The commissioner is the sole agent responsible to mediate any disputes arising. Lump sum payments are grossly inadequate to provide proper income security for disabled individuals
<b>Quality of goods/services</b>	Grossly inadequate
<b>Information system</b>	No computerized system at the workmen's' compensation office to record the cases that do get reported to them, only a manual filing system exists No system that records all cases of work related incidents

Table A5: Details of the workmen's compensation benefits for injured workers

<b>Impact</b>	No data on impact
<b>Main challenges</b>	<p>Lack of awareness among many low income workers on their rights to compensation</p> <p>Compensation payments are grossly inadequate to provide proper relief to individuals</p> <p>Lack of enforcement of the law</p> <p>Severe under reporting of work related accidents</p> <p>Weak delivery capacity</p> <p>Employer liability is out dated and inefficient.</p>

Table A6: Details of the Samurdhi programme of Sri Lanka

Name of the programme/ scheme:	Samurdhi Programme
Implementing organization	Ministry of Economic Development, Department of the Commissioner General of Samurdhi
Type of organization	Central government
Starting date of the programme	1996
Legislation	Samurdhi Authority Act No 3 of 1995
Source of funding	Budget allocations
Benefit provided Cash  In kind	Welfare grant (transfer component) Insurance scheme (compulsory for certain categories of families) Social development programmes (such as the promotion of agriculture, animal husbandry and fisheries, industrial development and banking and finance) Depending on their eligibility, beneficiaries can claim the appropriate benefit
How is the amount of the benefit set?	Determined by available funds and necessity of beneficiary
Frequency of pay-out	Monthly
Target group(s):	Working age
Special needs/vulnerable groups?	Poor households
Level of assistance	Household and community
Scope of the program	National
Domains of intervention of the programme	General poverty
Total annual budget (state currency) in 2013	Rs 14,912 million
Human resources	Employees
Eligibility conditions	Targeted; low-income households Low income households
Enrolment rules	Voluntary
Adequacy of social services / social transfers	Wide geographic access for beneficiaries (23 district offices, 316 Mahasangam offices, 1042 Zonal offices, 14000 Samurdhi officials and 18788 Samurdhi societies)
Quality of goods/services	Average benefit is below the official poverty line (short by approx. Rs. 3,000)
Information system	Mahasangam and monitoring and evaluation system in place
Impact	No data on impact
Main challenges	Identifying/selecting beneficiaries. Lack of funds. Low benefit levels.



Table A7: Details of the schemes under the Ministry of Social Services

Name of the programme/ scheme:	Ministry of Social Services
Implementing organization	Ministry of Social Services
Type of organization	Central government
Starting date of the programme	Programme for elders in year 2000 Programme for the disabled in year 1996 Programme for single parents in year 1996
Legislation	Protection of rights of persons of disability act no 28 of 1996, Protection of rights of elders act no 9 of 2000, National Institute for social development act no 41 of 1992
Source of funding	Budget allocations and donations from private entities
Benefit provided	
Cash	Financial assistance for intra ocular lenses operation Financial assistance for elders to buy materials for income generation Allowance to each elders committee Sponsorship programme for elders Home care services at concessionary rates Disability stipend, housing construction and financial assistance to purchase medicines for disables persons Financial assistance for single parent families
In kind	Day care centres for the elderly Establishing elders committees and holding seminars Issuing elders identity cards for priority service in government and private services, banking institutions and pharmaceutical department. Care and rehabilitative services for disabled persons Providing access facilities for disabled persons (ramps, toilets and roads) and assistive devices (wheel chairs, crutches) Counselling services for mental health
How is the amount of the benefit set?	Set in the constitution of the ministry
Frequency of pay-out	Monthly
Target group(s)	Working age Elderly
Special needs/vulnerable groups?	Elderly (above 60), could be below 60 if insufficient income is earned Poor households Women headed households Disabled
Level of assistance	Individual and household
Scope of the program:	National
Domains of intervention of the programme	Main domain is general poverty  Other domains are housing and health

**Table A7: Details of the schemes under the Ministry of Social Services**

<b>Total annual budget (state currency) in</b>	Rs 606 million
<b>2013</b>	
<b>Human resources</b>	Employees
<b>Eligibility conditions</b>	Targeted Elders, disabled and single parent households Conditional Can only receive benefits if individual is below a certain income group
<b>Enrolment rules</b>	Voluntary
<b>Adequacy of social services / social transfers</b>	Counsellors are assigned to all Divisional Secretariat divisions Services don't have wide reach
<b>Quality of goods/services</b>	Inadequate
<b>Information system</b>	Non computerized monitoring system for all 3 groups
<b>Impact</b>	Data on impact of programmes for elders and single parent families
<b>Main challenges</b>	No proper database Lack of financial resources Lack of proper monitoring system Beneficiary identification Rapidly increasing elderly population and increasing numbers of deserted and neglected elderly parents Lack of resources for disabled persons who are growing in number Increasing possibility of abuse of disabled children

Table A8: Details of the civil pension scheme of Sri Lanka

<b>Name of the programme/ scheme:</b>	<b>Civil Pension Scheme (Civil VishramaVatup)</b>
<b>Implementing organization</b>	The Department of Pensions, Ministry of Public Administration and Home Affairs
<b>Technical and financial partners</b>	Central Bank of Sri Lanka (for PSPF and CPF fund management)
<b>Type of organization</b>	Central government
<b>Starting date of the scheme</b>	1901
<b>Legislation</b>	Section 2 of ordinance No 2 of 1947 (legalizing CPS to be effective from 1901), Ordinance No. 18 of 1942
<b>Source of funding</b>	
Contributory	Widows/Widowers' & Orphans Pension (W&OP), Public Servant's Provident Fund (PSPF), Contributory Pension Fund (CPF)
Non contributory	Public Servant's Pension scheme (for permanent and pensionable employees), Armed Forces Pension
<b>Level of contributions</b>	6-7% by employees towards the W&OP 8% by employees, 12% by the government for PSPF and CPF
<b>Benefit provided</b>	Cash
<b>How is the amount of the benefit set?</b>	85-90% of final salary, not adjusted for inflation
<b>Frequency of pay-out</b>	Monthly
<b>Target group(s)</b>	Children (orphans) age (child receives pension W&OP pension till age 21; 26 if unemployed) Elderly (retirees and widows)
<b>Special needs/vulnerable groups</b>	Armed force personnel and their widows and orphans Public servants in permanent and pensionable positions Public servants in non pensionable positions Widows and orphans of public servants
<b>Level of assistance</b>	Individual
<b>Scope of the program</b>	National
<b>Domains of intervention of the programme</b>	Main domain is old age income security for retirees  Other domains; income security for children, old age income security for widows
<b>Total annual budget (state currency) in 2013</b>	Rs 143, 674 million
<b>Human resources</b>	Employees

**Table A8: Details of the civil pension scheme of Sri Lanka**

<b>Eligibility conditions</b>	Targeted and conditional Public sector employees (retirees having served 22 years in non pensionable public service positions) Public servants (retirees having served more than 19 years in permanent and pensionable public service positions) Military personnel (retired officer had served in the Forces for more than 22 years) Widows and orphans of public servants
<b>Enrolment rules</b>	Mandatory
<b>Adequacy of social services / social transfers</b>	Pensions are dispatched through post offices, wide geographic access Pension is a percentage of final salary not adjusted for inflation
<b>Quality of goods/services</b>	<i>Subjective</i>
<b>Information system</b>	Computerized monitoring and evaluation system available
<b>Impact</b>	Data on impact available
<b>Main challenges?</b>	Shortcomings in the applications submitted by institutions to process pensions
<b>Main challenges?</b>	Insufficient financial allocation to meet disbursement requirements pension
<b>Quality of goods/services</b>	Require more effective rules and regulations
<b>Information system</b>	Pensioners can access pension records using an online system.

Table A9: Details of the Fishermen's pension and social security benefit

<b>Name of the programme/ scheme:</b>	<b>Fishermen's Pension and Social Security Scheme</b>
<b>Implementing organization</b>	Ministry of Fisheries and Aquatic Resources Development, Agricultural and Agrarian Insurance Board (AAIB)
<b>Technical and financial partners</b>	Ministry of Finance and Planning
<b>Type of organization</b>	Central government
<b>Starting date of the programme</b>	1990
<b>Legislation</b>	Fishermen's Pension and Social Security Benefit Scheme Act of 1990
<b>Source of funding</b>	Contributions from enrolees and budget allocations
<b>Level of contributions</b>	Rs. 260 if enrolling at age 18, Rs. 1380 if enrolling at age 59
<b>Benefit provided</b>	A periodical pension in cash; in case of permanent partial or total disablement, a lump sum gratuity or pension when it becomes due, death gratuity Average monthly pension in 2012 was Rs.1,099
<b>How is the amount of the benefit set?</b>	By the AIIB and pension from Rs.1, 000 up to Rs. 4,166
<b>Frequency of pay-out</b>	Monthly
<b>Target group(s)</b>	Fishermen and related workers
<b>Special needs/vulnerable groups</b>	Poor households
<b>Level of assistance</b>	Individual
<b>Scope of the program</b>	National
<b>Domains of intervention of the programme</b>	Main domain is old age income security for retired fisherman
<b>Total annual budget (state currency) in 2013</b>	Rs.140 million to AAIB, no direct allocation to the Fishermen's fund
<b>Human resources</b>	Employees
<b>Eligibility conditions</b>	Targeted Fishermen and related workers Conditional Enrolees should be between ages 18 to 59 Enrolees cannot own more than 3 or more mechanized boats, one or more fish farms with a land extent of 5 acres Cannot be eligible for a provident plan such as EPF Cannot already be active member of EPF Must not fall in the income tax bracket Must not be in receipt of any other pensions (even that of a dead spouse)
<b>Enrolment rules</b>	Voluntary
<b>Adequacy of social services / social transfers</b>	Pensions are dispatched through post offices, wide geographic access The average pension is below the official poverty line.
<b>Quality of goods/services</b>	Inadequate
<b>Information system</b>	No system

**Table A9: Details of the Fishermen's pension and social security benefit**

<b>Impact</b>	No data on impact
<b>Main challenges</b>	<p>Lack of financial resources to meet pension obligations.</p> <p>Limited effective coverage.</p> <p>Beneficiary selection/management and identification.</p> <p>Lack of transparency in management of funds.</p>

Table A10: Details of the Employees' Provident Fund

<b>Name of the programme/ scheme:</b>	<b>Employees' Provident Fund</b>
<b>Implementing organization</b>	Employees' Provident Fund Department, Central Bank of Sri Lanka, Commissioner General of Labour
<b>Type of organization</b>	Central government
<b>Starting date of the scheme</b>	1958
<b>Legislation</b>	Employee's Provident Fund Act No. 15 of 1958
<b>Source of funding</b>	Employer's and employee's contributions
<b>Level of contributions</b> Employers Employees	Minimum of 12% of monthly wage Minimum of 8% of monthly wage
<b>Benefit provided</b> Statutory Non statutory	Refunding member balances Housing loans of 50-75% of balance
<b>How is the amount of the benefit set?</b>	Total balance and interest accumulations are refunded in lump sum
<b>Frequency of pay-out</b>	One-off lump sum upon reaching the ages of 55 years (men) and 50 years (women), upon ceasing to be employed after marriage (for women only), due to permanent and total incapacity for work and being certified by a medical practitioner, on emigrating from Sri Lanka, upon taking up pensionable employment in the public service, local government, in district service or any other local authority service. Under the Amendment Act No. 14 of 1972, an employee in a public corporation or government owned business undertaking can withdraw the total amount lying to his/ her credit upon being retrenched from service.
<b>Target group(s)</b>	Retirees from semi-government and private institutions Beneficiaries of above group
<b>Special needs/vulnerable groups</b>	Disabled
<b>Level of assistance</b>	Individual
<b>Scope of the program</b>	National program
<b>Domains of intervention of the programme</b>	Main domain is old age income security for retirees Other domains are financial assistance for housing
<b>Total annual budget (state currency)</b>	Not applicable
<b>Human resources</b>	Employees
<b>Eligibility conditions</b>	Targeted Compulsory contributory system to all employees the private sector, with a minimum contributory proportion by employer and employee.
<b>Enrolment rules</b>	Mandatory

**Table A10: Details of the Employees' Provident Fund**

<b>Adequacy of social services / social transfers</b>	Eligible individuals from around the country must travel to the office located in Colombo to claim their refunds, no other offices perform this task Lump sum payments are inadequate to provide proper old age security
<b>Quality of goods/services</b>	Inadequate to provide income security for old age
<b>Information system</b>	Plans are underway to implement a computerized system
<b>Impact</b>	No data on impact
<b>Main challenges</b>	<p>Lack of financial transparency, general public has no confidence in the ETF</p> <p>Mismanagement of funds Funds are mostly invested in government securities, conservative investment strategies that do not substantially help to improve asset base The need to establish a key objective of providing pensionable benefits as opposed to lump sum payments to provide proper and maximum income security for retirees Process to make claims is slow and tedious, unnecessary delays in locating files, employment history etc. because the system is not computerized Time between making the claim and receiving the refunds is inconsistent (2 weeks for some, 3 months for others etc.) Companies that have closed down are not tracked, so individuals making claims for their refunds from contributions from these companies have to physically go to these places and provide proof that they are shut down. This too is slow process because an ETF official must then visit the site and validate that it is closed.</p>



Table A11: Details of the Employees' Trust Fund

<b>Name of the programme/ scheme:</b>	<b>Employees' Trust Fund</b>
<b>Implementing organization</b>	ETF board, Ministry of Finance; Central Bank of Sri Lanka
<b>Type of organization</b>	Central government
<b>Starting date of the scheme</b>	1981
<b>Legislation</b>	ETF Act No. 46 of 1980
<b>Source of funding</b>	Contributions from employer only (not to be deducted from the employees salary)
<b>Level of contributions</b>	3% of monthly wage
<b>Benefit provided</b> Statutory Non statutory	Refunding member balances Automatic life insurance cover for active members (subject to a maximum of Rs.50,000) Permanent and total disability benefit (subject to a maximum of Rs.200,000) Financial assistance for heart surgery and kidney transplant surgery Reimbursement for intra ocular lens implants Reimbursement for hospitalization Housing loans at concessionary rates from a predefined lending institution for active members Educational scholarships and grants for children of active members/disabled members unable to work anymore
<b>How is the amount of the benefit set?</b>	Total balance and interest accumulations are refunded in lump sum
<b>Frequency of pay-out</b>	Once very five years, during the period of employment, upon reaching retirement age; 55 for males, 50 for females, permanent migration, cessation of employment due to permanent and total incapacity for work, upon appointment in a pensionable service, in the event of the death of a member.
<b>Target group(s)</b>	Retirees from semi-government and private institutions and self employed persons Beneficiaries of above group
<b>Special needs/vulnerable groups</b>	Disabled Orphans
<b>Level of assistance</b>	Individual
<b>Scope of the program</b>	National program
<b>Domains of intervention of the programme</b>	Main domain is old age income security for retirees Other domains housing, education
<b>Total annual budget (state currency)</b>	Not applicable
<b>Human resources</b>	Employees

**Table A11: Details of the Employees' Trust Fund**

<b>Eligibility conditions</b>	Targeted Compulsory contributory system to all employees the private sector, with a minimum contributory proportion by employer
<b>Enrolment rules</b>	Mandatory for government, semi-government and private sector employees, excluding employees in religious, social or charitable institutions employing less than 10 employees, Industrial undertakings training juvenile offenders, orphans, or persons who are destitute, deaf or blind and businesses where only family members are employed. Voluntary for self-employed and migrant workers.
<b>Adequacy of social services / social transfers</b>	Eligible individuals from around the country must travel to the office located in Colombo to claim their refunds; no other offices perform this task.  Lump sum payments are inadequate to provide proper old age security
<b>Information system</b>	Computerized reporting or recording system
<b>Impact</b>	No data on impact
<b>Main challenges:</b>	Funds are mostly invested in government securities, conservative investment strategies that do not substantially help to improve asset base.  The need to establish a key objective of providing pensionable benefits as opposed to lump sum payments to provide proper and maximum income security for retirees.  Process to make claims is slow and tedious. Unnecessary delays in locating file, employment history etc. because the system is not computerized.  Time between making the claim and receiving the refunds is inconsistent (2 weeks for some, 3 months for others etc.)  Identifying and enrolling self-employed persons for ETF benefits.

Table A12: Details of approved Provident and Pension Funds

Name of the programme/ scheme:	Approved Provident and Pension Funds (APPF's)
Implementing organization	Private organizations
Technical and financial partners	Central bank of Sri Lanka manages the funds
Type of organization	Private business
Legislation	Employee's Provident Fund Act No. 15 of 1958
Source of funding	Contributions
Level of contributions (minimum contributory levels)	Employers - Minimum of 12% of monthly wage Employees - Minimum of 8% of monthly wage Higher contributions can be made as per company policy
Benefit provided	Refunding member balances (other benefit, if any, are not known)
How is the amount of the benefit set?	Total balance and interest accumulations are refunded in lump sum
Frequency of pay-out	Lump sum payment at retirement age; 55 for males, 50 for females
Target group(s)	Employees of organizations who have set up and continue to maintain private pension funds before the implementation of the mandatory EPF scheme
Special needs/vulnerable groups	Retirees
Level of assistance	Individual
Scope of the program	Individual (company wise)
Domains of intervention of the programme	Main domain is old age income security for retirees  Other domains, if any, are not known
Total annual budget (state currency)	Not applicable
Human resources	Employees
Eligibility conditions	All past, present and future employees are entitled to these benefits
Enrolment rules	Mandatory
Adequacy of social services / social transfers	Geographic access not known  Lump sum payments are inadequate to provide proper old age security
Quality of goods/services	Not known
Information system	Not known
Impact	No data on impact
Main challenges	Lack of regulatory framework for supervision of APPFs  Companies do not always report fund information on time or consistently, so the central bank is unable to maintain proper records on it

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