

# Reviewing public expenditure on social protection in Sri Lanka

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As policymakers gradually (re-)assess social protection systems in the wider context of recovery from the COVID-19 pandemic, it is becoming increasingly important to have clear information on country-level programmes. Evaluating existing social protection policy, notably through the coverage, adequacy (or generosity), and life-cycle aspects of existing programmes, creates an opportunity to re-assess existing strategies based on the demographic and socio-economic challenges facing Sri Lanka. The research report *Public Expenditure Analysis for Social Protection in Sri Lanka* (IPC-IG & UNICEF Sri Lanka 2022) examines existing non-contributory (social assistance) and (semi-)contributory (social insurance) social protection programmes.

Although the country has achieved significant socio-economic development after many years of conflict, challenges remain to achieve greater levels of well-being, equity and protection for its citizens. Economic vulnerability is largely linked to many Sri Lankans working in informal and precarious jobs that do not offer social insurance benefits. Meanwhile, the country still presents very high levels of wasting and stunting among children. The COVID-19 crisis has likely exacerbated the vulnerabilities described above, as many people found themselves with reduced or even no income, resorting to negative coping strategies to cover basic needs.

A fiscal overview of Sri Lanka highlights key indicators on debt, government expenditure and tax revenues, while comparing statistics against other middle-income countries across South and Southeast Asia. Prior to the pandemic, tax revenues in Sri Lanka had already shown a steady decrease as a percentage of gross domestic product (GDP), from 12.4 per cent in 2015 to 11.6 per cent in 2019. During 2019 and prior to COVID-19, the Government of Sri Lanka made significant changes to its tax system, including lowering income tax rates and introducing new value-added tax (VAT) exemptions for consumer goods. The composition of government expenditures shows a significant shift, as capital expenditure decreased at the expense of rising interest payments—both domestic and foreign—jeopardising the country's fiscal space. These trends have worsened due to the economic impacts of the pandemic, demonstrating the need for an explicit strategy for public finances and fiscal space to avoid spiralling public debt.

The public expenditure review (PER) of social protection focuses on the main non-contributory and (semi-)contributory schemes financed by the government. Successive governments have recognised the need to protect the most vulnerable populations and support poor people through food subsidies and income supplementation programmes. The PER focuses on 12 social assistance programmes: i) *Samurdhi*; ii) *Thripasha*; iii) *Poshana Malla*, iv) school feeding programmes, v) the Public Welfare Assistance Allowance; vi) the Elderly Assistance Programme; vii) the Assistance for persons with disabilities; viii) the Allowance for patients with Chronic Kidney Disease of Unknown Cause, ix) free/subsidised school materials, x) scholarships and bursaries for education; xi) season transportation tickets for students, and xii) flood and drought relief. Two social insurance schemes that are financed

by the government are also assessed: i) Public pensions and ii) Compensation for deceased people and persons with disabilities. The PER finds that the government spends approximately 0.63 per cent of GDP on social assistance, but 1.97 per cent on social insurance (primarily public pensions), despite the country having far fewer beneficiaries of social insurance schemes. To improve the equity of the social protection system, budget allocations should consider prioritising public spending on poverty reduction and life-cycle interventions that have a greater impact on poor and vulnerable people.

Descriptive and incidence analyses of the main social protection programmes in Sri Lanka using the 2016 Household Income and Expenditure Survey (HIES) largely confirm the pro-poor distribution of social assistance interventions and the pro-rich distribution of pension income. The analysis also considers programme coverage across districts and cases of households reporting multiple programmes. In addition, simulations for a universal child benefit for children aged 5 years and under shows a considerable increase in social protection coverage using the HIES, and a pro-poor distribution of the benefit, since more children live in families among the poorest quintiles.

Based on the findings from the report, the following recommendations to reform social protection in Sri Lanka are suggested:

- Increase expenditure on social protection—especially social assistance—by increasing taxation and reprioritising existing government expenditures.
- Expand coverage of social protection to include households not currently covered by existing social assistance or social insurance schemes, with a focus on the 'missing middle' groups that have been particularly affected during COVID-19.
- Improve social protection inclusion of poorer households, including through geographical targeting. Geographical targeting starting with poorer areas can serve as a gradual approach to expand social protection coverage towards universal schemes.
- Reform *Samurdhi* to improve efficiency and programme transparency. Priorities include lowering operational costs and making eligibility criteria more transparent for beneficiaries.
- Use existing programmes as a starting point to devise new and/or expanded social protection programmes. (For instance, *Poshana Malla* could serve as a basis for expanding child-centred social protection.)
- Consider a universal child benefit (UCB) and other life-cycle initiatives to expand social protection coverage. UCBs can have a significant impact in expanding social protection coverage and can be financed through more progressive taxes to guarantee greater fiscal equity.

#### Reference:

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