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## **Targeting Social Assistance in The Context of Crises and Austerity: The Case of Sri Lanka**

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\* The views expressed in this paper are those of the author and do not necessarily represent those of the United Nations.

## 1. Introduction

Sri Lanka joined several other countries facing debt distress in the Global South when it announced that it would default on all its foreign debt obligations in May 2022. Sri Lanka owes the largest portion of its foreign debt to Western private investors and its bilateral debt to Japan and non-Paris club members, China, and India. The country faces tough prospects in negotiating the restructuring of its foreign debt in a manner that is genuinely sustainable.

Sri Lanka's economic crisis was long in the making.<sup>1</sup> The country was the first in South Asia to liberalise its economy in 1977 and has since struggled with attracting foreign direct investments. Sri Lanka's external account, with its import bill exceeding its export earning, has put a strain on its foreign reserves and increased its dependency on loans to finance development initiatives. After undergoing a structural adjustment programme aided by the IMF and the World Bank post-1977, the country became heavily dependent on earning foreign exchange via the three main sectors: garment exports, remittances of migrant domestic workers and tea exports. Women form the majority of the labour force in these three sectors, albeit under exploitative conditions and cheap wages.<sup>2</sup>

The end of the protracted civil war in 2009, which also coincided with the global financial crisis and Western foreign capital seeking to invest in emerging markets for attractive interest rates, ushered in development funding that was channelled into large-scale infrastructure projects such as ports, highways, and a financial port-city. Sri Lanka floated its first sovereign bonds in risky international financial markets in the early 2000s. Such investments did not contribute to the creation of jobs, invest in livelihoods or to strengthen the much-neglected rural agricultural production.

Within a span of a decade, signs of debt distress began to show as foreign reserves depleted and the borrowings became unsustainable. Measures taken by the Rajapaksa government such as tax concessions offered to the wealthy in 2019 and an attempt to ban chemical fertilizers overnight in 2021, eroded government revenues and made the food system vulnerable. The shocks to the system, by the COVID-19 pandemic impacting dollar earnings and the increase in commodity prices after the Ukraine war broke out, further contributed to Sri Lanka's vulnerable economy that erupted in a fully blown economic crisis in 2022. Sri Lanka's economy contracted by 7.8 per cent of GDP in 2022 and is now facing the worst economic crisis since the great depression of the 1930s with the possibility of a decade of stagnation ahead.

Sri Lanka sought help from the IMF for the 17th time this year and obtained a loan of US\$ 3 billion over a period of 48 months. However, the engagement with the IMF is starkly different this time around. The default on its loan payments for the first time looms large and the country is now

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<sup>1</sup> Available from: <https://www.phenomenalworld.org/analysis/the-imf-trap/>.

<sup>2</sup> Available from: <https://www.themorning.lk/articles/203845>.

cornered with limited space to negotiate on conditionalities. An unelected government in power that has demonstrated little political will to negotiate a better settlement makes it worse. Currently, the government is running on autopilot, only fulfilling the directives of the IMF and the World Bank with no plan to mitigate the sufferings brought on by the crisis on vulnerable sections of the population.

The austerity programme which was underway even before the government signed the agreement with the IMF in March 2023 is in full swing and has piled on more pain on ordinary people. The government resorted to doubling interest rates, devaluing the rupee, increasing indirect taxes, removing subsidies for utilities, and cutting public spending. While food inflation peaked at 95 per cent in September 2022 and has now reached negative figures, prices continue to remain high. Legal mechanisms such as labour law reforms, banking sector reforms and educational reforms are being proposed to make way for further structural changes in the coming year. Privatisation of the energy sector and other state-owned enterprises are also on the table. Furthermore, the Government has resorted to putting forward draconian anti-terrorism legislation, an Online Safety Law, and a Broadcasting Regulatory Act. Elections have been postponed by the unelected and incumbent Government, fearing that the people's mandate will not result in their favour.

The impact of the economic crisis and the recovery programme on people's lives has been severe, particularly on women as they have the double burden of increased care work and earning an income in a collapsed economy.<sup>3</sup> While the immediate halt to everyday life as days-long queues emerged due to shortages of fuel, food and medicines have been superficially resolved and an air of normalcy pervades, the long-term consequences of the crisis are emerging. Many households have plunged into darkness unable to pay their electricity bills.<sup>4</sup> Increased fuel costs and a quota system have led to a drastic decrease in fuel consumption.<sup>5</sup> Poverty rates doubled between 2021 and 2022 from 13.1 per cent to 25 per cent. Almost half of the Sri Lankan population are now facing multiple vulnerabilities.<sup>6</sup> One third of the households are food insecure, while half of the children under 5 years are facing malnutrition.<sup>7</sup> Those who have the opportunity

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<sup>3</sup> Available from: <https://www.ft.lk/opinion/Urgent-plea-by-feminists-to-address-humanitarian-crisis-caused-by-economic-collapse/14-733198>.

<sup>4</sup> Available from: <https://asia.nikkei.com/Spotlight/Sri-Lanka-crisis/Bankrupt-Sri-Lanka-s-poor-face-life-in-darkness-as-price-of-IMF-bailout>.

<sup>5</sup> Available from: <https://island.lk/fuel-consumption-drops-by-50/>.

<sup>6</sup> Available from: <https://www.undp.org/srilanka/press-releases/report-understanding-multidimensional-vulnerabilities-launched>.

<sup>7</sup> Available from: <https://www.unicef.org/media/122356/file/2022-HAC-Sri-Lanka.pdf>,  
[https://www.cbsl.gov.lk/sites/default/files/cbslweb\\_documents/publications/annual\\_report/2022/en/13\\_Box\\_05.pdf](https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/annual_report/2022/en/13_Box_05.pdf).

are migrating abroad for better job prospects. Shortages of trained professionals in fields such as medicine have affected the once extensive and efficient free healthcare system.<sup>8</sup>

## 2. History of social assistance in Sri Lanka

The emerging statistics of the impact of the crisis on women and children and decline in the living conditions due to the economic crisis is significant as historically Sri Lanka has demonstrated to be an exceptional case in terms of its social policy.<sup>9</sup> The country had recorded higher quality of life and gender equality among developing countries reflected in the Human Development Indices and had achieved less income inequalities despite its low GDP growth. These achievements have been attributed to the state-funded social welfare programmes that were implemented since the country gained independence in 1948 and continued to expand in the subsequent decades.<sup>10</sup>

The universal free education system from primary to tertiary levels and the extensive universal free healthcare system that were introduced in the 1940s have remained intact even after the country underwent the liberalisation of the economy. While privatization of state assets occurred in the 1980s, education and health survived and are still provided as free public services. Efforts at privatization, for example of creating a private medical college, were defeated twice, first in the 1980s and later in 2018. As a result, schools and universities have more girls enrolled and outperforming boys in all disciplines. Universal subsidies on basic utilities, transport and fertilisers for agricultural production were part of the social assistance programmes. Compulsory retirement funds for public sector, private sector workers in the formal economy and voluntary contributory schemes for workers in the informal economies exist as public funds.

Sri Lanka's public spending on social assistance remained higher than its capital spending in the early decades post-independence. The prioritisation of social welfare was made possible by the surpluses earned by the exports from the plantation economy. Although Sri Lanka was susceptible to global shocks from time to time even before the liberalisation of the economy, including the fluctuations of commodity prices, successive governments committed to maintaining agricultural subsidies, land distribution programmes and social investments as part of its annual budget allocations. Any attempt to remove subsidies had political consequences, such as in 1953, when the removal of agricultural subsidies resulted in the *great hartal* (a general strike) which also threatened to oust the ruling party from power. The current economic crisis has tipped the balance on the social contract between the state and the people and the redistributive agenda that was part of Sri Lanka's democratic tradition is under serious threat. The current economic crisis is being

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<sup>8</sup> Available from: <https://www.dailymirror.lk/print/front-page/Authorities-admit-migration-of-doctors-beyond-their-control/238-267267>.

<sup>9</sup> Jayasuriya, L. (2010). *Taking social development seriously: the experience of Sri Lanka*. SAGE Publications India.

<sup>10</sup> Ibid.

used as a scapegoat by the current Government to dismantle the gains made by Sri Lanka's social protection programmes.

### **3. Social protection schemes under attack**

Sri Lanka's celebrated social investment programmes have been under stress since the late 1970s as investments for these programmes were systematically reduced. Given the current economic crisis, social protection programmes are under serious threat. Reform agendas have been put on the table or have already been implemented to dismantle Sri Lanka's social protection schemes.

The people's contributory superannuation fund, for example, is the first to be targeted. Although it is rare for the IMF to insist on a domestic debt restructuring programme, Sri Lanka has initiated one under pressure from its external lenders. Under the domestic debt restructuring programme, government borrowings from people's superannuation funds will undergo restructuring. The proposal which was passed in this regard is to deduct 0.5 per cent of GDP annually from the Employee Provident Fund (EPF) borrowings. Almost 90 per cent of the EPF is invested in government bonds and will leave many working poor members vulnerable as their only savings and provision for their retirement age will be reduced.

Approval has been granted by the Cabinet to create three private medical colleges in the country, which poses a threat to both universal public free education and health systems. Furthermore, a proposal to introduce several other private universities has also been presented. The *Samurdhi* programme, which is the main social assistance programme targeting the poor in the country, is being gradually replaced by the World Bank designed *Aswesuma* programme that was implemented in March 2023. While both programmes use a pro-poor targeting approach there are marked differences in the design and administration of the programmes.

#### **Samurdhi**

The *Samurdhi* programme was introduced in 1995, as a pro-poor targeted scheme and was envisioned as a poverty alleviation programme. The three core components of the programme are cash transfers, micro loans, and social development initiatives. Priority was given to ensure poor households were able to meet the basic nutritional needs in its early days. However, *Samurdhi* has undergone several transformations since it was first introduced. Cash transfers have now replaced food stamps and direct distribution of basic nutritional items to poor families via the cooperative system. Women have found the cash transfers important, although at times they are not able to utilise it for food amongst other pressing needs. For poor women who are often engaged in the precarious and informal economy, the cash transfers are the only regular monthly incomes they can depend on. Currently, instead of measuring nutritional levels, more weightage is given to criteria that measure the ownership of assets and access to employment as indicators for coming out of poverty and ending their access to the programme.

Earlier recipients of *Samurdhi* were provided with micro loans at reasonable interest rates to support livelihood activities, to build basic sanitary facilities or semi/permanent houses. While *Samurdhi* loans continue to be provided at low interest rates, newer members have only been invited to participate in the loan programmes and do not benefit from the cash transfers. Thus, a clear generational difference between older and younger women who are part of the programme is observable. It is also reflected in the rapidly increased loan portfolio of the *Samurdhi Bank* as well as in the purposes for which the loans are being utilised, with loans being used to compensate for inadequate incomes to fulfil daily basic needs. The transition towards credit as a means for poverty alleviation is a noteworthy shift and coincides with the growing thinking in the development sector about women's empowerment via microfinance programmes. The increase in loans via the social protection programmes has diminished women's ability to ensure food on the table for the household.

Cash transfers based on a life cycle model – for birth, child passes a general certificate exam, death etc. – continue to be paid out. As part of the social development initiatives, village level societies were created for *Samurdhi* members with regular activities organized for cleaning and building basic infrastructure in villages, conducting awareness programmes and distributing relief. *Samurdhi* societies are important spaces for poor women to congregate and form a collective identity, assume leadership and engage in collective action to access their social protection programmes. It is the primary way in which poor women can negotiate with the state and make their demands visible. Being a member of the *Samurdhi* programme also allowed for gaining access to many other social protection services such as school admissions, electricity connections at discounted rates and priority for ad hoc relief programmes. The '*Samurdhi* status' – as women have referred to it – has enabled those on the margins to be able to access other state support. While the cash transfers in themselves are inadequate to meet their basic needs, women have sought to be included in the programme for the citizenship and political participation that is accessible via the social protection programme.

The *Samurdhi* bank was created with the compulsory savings of the poor, loans and cash transfers that were administered through the bank. Created with a membership model of all the recipients, the *Samurdhi Bank* is the only public institution created exclusively for the poor in Sri Lanka. Public sector employees are tasked with the administrative function of the Bank and the social protection programme, including the selection of members. However, the members have not been able to fully exercise their rights as shareholders of the institution and in the decision making regarding the significant funds they have contributed to building.

Much of the preoccupation in relation to *Samurdhi* has been around the failure of targeting at the level of IFIs like the World Bank, policymakers, and government officials. Concern has been raised that those who have come out of poverty continue to benefit from the programme, whereas others who are in poverty are left behind. The reasons for the failure for accurate targeting are either attributed to the political favouring or the failure in the criteria or statistical models used

for targeting. Thus, the bulk of the research literature has focused on developing better economic and statistical models to mitigate future errors in the *Samurdhi* programme. The discourse on targeting often also leads to the blame game, where government officials who are tasked with the selection of members accuse the women of lying or hiding information, while *Samurdhi* members blame the officers of discrimination and favouritism. From time to time, the government has attempted to reissue lists based on ‘better targeting’ which have invariably led to protests by the people.

The state funding allocations for social security programmes have become dismal in recent years. Prior to the COVID-19 pandemic, an allocation of 0.4 per cent on average was spent on social protection and was raised to 0.9 per cent during the pandemic. These amounts have been hugely inadequate to include those who are identified as poor across the regions. There is an arbitrariness that sets in via targeted schemes and low financing, as every region is given a quota for the selection of members to the programme. The quotas are inadequate to accommodate all those who fit the criteria set out in the targeted schemes. Furthermore, officials administering the programme are pressured to show a reduction in the poverty levels in their areas over time. Such a system leads to arbitrary actions by the officers and the exploitation of poor women. The pro-poor targeting programmes have led to anti-poor policies, leaving out many deserving women and pitting the poor against each other.

As the economic crisis struck, the IMF’s Staff Report of March 2023 for Sri Lanka included the following comments and recommendations in relation to social safety nets:

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Social safety nets (SSN) programs, including the poverty-targeted Samurdhi cash transfers, support for the elderly, disabled people, kidney patients, and the COVID-19 relief have helped to partly mitigate the adverse impact to the poor. The authorities have raised annual SSN spending from about LKR 60 billion on average before the pandemic to LKR 100–140 billion during 2020–22 and used the existing SSN delivery systems to provide emergency support. However, the real value of cash transfers eroded in 2022, especially for poorer households facing disproportionately higher inflation.

The program aims to strengthen the social safety nets (SSN) to help cushion the impact of the economic crisis on the poor and vulnerable (Annex IV). The ambitious fiscal consolidation should protect SSN spending. In addition, Sri Lanka’s SSN programs have suffered from poor adequacy, coverage, and targeting. A World Bank study found that, in 2019, only 38 per cent of the poorest income quintile received targeted cash transfers under the Samurdhi program, while 12 per cent of the richest income quintile received the transfers. Accordingly:

The program will set a floor on SSN spending of LKR 187 billion in 2023 (0.6 per cent of GDP, indicative target). This will allow the major four SSN programs (Samurdhi cash transfers and support for elderly, disabled, and chronic kidney disease) to mitigate

inflation eroding per household benefits. Beyond 2023, the authorities will maintain SSN spending at least at 0.6–0.7 per cent of GDP.

In parallel, the authorities will implement broader institutional reforms to improve efficiency, coverage, and targeting of the SSN. The authorities have made the Welfare Benefits Board (WBB) operational as the legal entity responsible for coordinating all SSN programs and reforms. They have also populated a new Social Registry, an electronic database of SSN beneficiaries, and obtained parliamentary approval of the new eligibility criteria for selecting beneficiaries for SSN programs. The eligibility criteria, developed with support from the World Bank, are based on objective and verifiable characteristics of households. Parliamentary approval of the welfare benefit payment scheme and application of the new eligibility criteria are expected by May 2023 (structural benchmark), which will allow the WBB to start selecting SSN beneficiaries using the new eligibility criteria. By January 2024, beneficiaries who are ineligible according to the eligibility criteria would no longer receive Samurdhi cash transfers. These reforms will be assisted by the World Bank and will help ensure that the SSN is well targeted and covers all eligible low-income and vulnerable households.<sup>11</sup>

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The observations clearly point to their preference for targeted social safety nets for the poor, consolidation of the social protection programmes and the phasing out of the *Samurdhi* programme. Furthermore, the allocated amount of a mere 0.6 per cent of GDP is inadequate given that poverty levels have doubled, and half of the population is facing multiple vulnerabilities due to the economic crisis. As per the structural benchmarks outlined in the report, a new social protection programme – *Aswesuma* – designed by the World Bank was introduced in May 2023.

### **Aswesuma**

The *Aswesuma* programme was launched in 2023 with the selection of beneficiaries based on criteria designed by the World Bank. Notably, the criteria used for this exercise were developed in 2019 and did not take into consideration the drastic changes to people’s poverty and vulnerabilities brought on by the global pandemic and the devastating economic crisis. For example, the list of criteria that was to identify the ‘deserving poor’ on a 0/1 points system (with the final score to be determined by weighted criteria and district quotas) did not include adequate measurement for the ability to meet basic nutritional needs. This is a significant omission at a time when several reports, including the WFP report on food security had highlighted that one third of the households in Sri Lanka are food insecure.<sup>12</sup> Instead, the ownership of assets as indicators of poverty was utilised to identify recipients for the programme. Recipients were

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<sup>11</sup> Available from: <https://www.imf.org/-/media/Files/Publications/CR/2023/English/1LKAEA2023001.ashx>.

<sup>12</sup> Available from: <https://reliefweb.int/report/sri-lanka/sri-lanka-remote-household-food-security-survey-brief-august-2022#:~:text=More%20than%20one%2Dthird%20of,across%20all%20facets%20of%20life.>



urged to create accounts at other state banks and a direct transfer system was established, instead of utilising the *Samurdhi Bank*. There is no clarity among officials or members of *Samurdhi* as to the bank's future role.

The verification process itself was contentious as the programme was launched with a negative and damaging media campaign against the poor as 'lazy' and 'liars.' TV advertisements in the local languages urged poor people in explicit language to speak the truth ("Let's be honest – Benefit the real needy") when the officials visited to verify their status.<sup>13</sup> Names of all those who were selected for the *Aswesuma* programme have been published online raising concerns for privacy. An appeals process was set up for those who were excluded from the programme and also included an option for people to report any 'underserving' recipients to the authorities, enabling the poor to police each other. The use of technology in the selection process as well as hiring non-public sector officials were initiated with the promise of making the process efficient and accurate. However, the hit-or-miss approach aided by the verification process via text messaging and QR codes ensured many vulnerable women were left out of the process of identification. It also led to a lack of accountability, as public officials claimed that they were not involved in the selection process.

Protests erupted in various parts of the country when the results of the verification process were announced as many who were previously part of the social protection scheme were left out of the programme. More accusations about inaccurate targeting were levelled against the government and the programme has already lost legitimacy in the eyes of the people. The prevailing view about the *Aswesuma* programme is that it seeks to reduce the number of people receiving social protection schemes. In fact, the programme itself is designed to phase out in a few years as mentioned in the gazette notification:

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Aswesuma Benefits scheme will be rolled out as follows: 400,000 families/individuals will receive Rs. 2,500 per month until 31 December 2023; 400,000 families/individuals will receive Rs. 5,000 per month until 31 March 2024; 800,000 families/individuals will receive Rs. 8,500 per month for a period of three years starting July 2023; and 400,000 families/individuals will receive Rs. 15,000 per month for a period of three years starting July 2023. If there are only two or less than two persons in a household, they will receive half of the allocated monthly payment. According to this Gazette, at its most, the scheme will reach only 2 million people until the end of the year and will be further rolled back in 2024.

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The new programme is stripped of the broader definition, embeddedness, and community participation of even the previously administered pro-poor targeted *Samurdhi* scheme, which had

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<sup>13</sup> Available from: <https://www.ft.lk/opinion/World-Bank-and-IMF-s-targeted-discourse-against-working-poor-of-Sri-Lanka/14-748032>.

its own shortfalls. Alarm bells have been raised regarding the violation of rights due to targeted programme such as *Aswesuma*.<sup>14</sup> The need for a social protection programme that helps women remain resilient amidst the onslaught of the economic crisis and the economic recovery programme is urgent. For such a programme to emerge, there is a need to change the policy discourse about social protection in Sri Lanka.

#### **4. Universal social protection as redistribution**

The Sri Lankan experience with its long history of social investments clearly points to the failure of targeted programmes for the poor. Sri Lanka also is a unique example of maintaining universal social assistance in free health, free education, and other state subsidies. Delving into the history of how such universal programmes were maintained in Sri Lanka can provide insights for a way forward to build a robust social protection programme. The failure of the most recent targeted scheme is yet another reminder about the direction in which social protection schemes should move – towards a universal model.

In the current context of an economic crisis, the question of whether the country has the means to maintain existing programmes, let alone support the expansion of existing programmes or afford universal schemes in the face of an economic crisis is often posed. Currently, the state's contribution to the existing social protection schemes has declined drastically. Less than 2 per cent of GDP has been allocated for education and health leaving Sri Lanka one of the lowest spenders in South Asia in these two key sectors and the allocation for targeted social protection schemes is a mere 0.6 per cent of GDP. Given the lesser amounts, dismantling the existing programmes will not result in significant savings for the government; rather, the social cost of doing away with existing programmes will be much higher. The motivation for the government to pursue such a path is to do with using the crisis as an excuse to fulfil its intention to privatise and commercialise the education and health sectors.

The steady decline of social spending in Sri Lanka's budgets for the last five decades is due to the influence of neoliberal policymaking. Thus, the question of financing is an ideological one – whether governments are willing to take on a programme of redistribution and challenge corporate greed. Austerity measures lead to a redistribution from the bottom to the top, from countries in the Global South to repay the loans to wealthy financial institutions in the Global North and are easily set in motion in the face of a crisis. On the contrary, demands for redistribution from the top to the bottom are vehemently resisted. For example, the IMF recommends increasing state incomes as part of its fiscal consolidation measures for Sri Lanka, however, it is partial towards increasing indirect taxes rather than implementing a wealth tax to do so. Exploring the possibility of implementing a wealth tax has been postponed till 2025. Furthermore, the Government has opted to impose debt restructuring on people's hard-earned superannuation

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<sup>14</sup> Available from: <https://www.hrw.org/news/2023/08/07/sri-lanka-chaotic-social-security-reform-denies-peoples-rights>.

funds instead of taxing the rich on their wealth stock. Thus, the lack of political will to put forward an agenda for redistribution and as a means for the financing of social protection is the main obstacle in Sri Lanka's case.

Finally, the role of social protection as a tool for governance and control of populations historically has been explored in existing literature in Sri Lanka.<sup>15</sup> In a context, where the government has little fiscal space or political will to offer its constituencies relief, in the form of social protection or otherwise, Sri Lanka is now experiencing the postponement of elections. Instead, the Government is leaning towards a greater reliance on the regime of repression to secure their seats in power.<sup>16</sup> Without an agenda of redistribution as part of the economic recovery programme for a country marred in an economic crisis, the erosion of democracy and the danger of authoritarianism are real. While governments can use targeted social protection schemes more frequently towards their political ends, universal programmes tend to function under popular control, somewhat shifting the balance of power. Sri Lanka's experience with universal free health and education has demonstrated that it is harder for governments to tamper with universal provisions. The democratisation of social protection programmes is an important aspect of a redistribution agenda. For these reasons, the *Feminist Collective for Economic Justice* has repeatedly demanded for a universal social protection programme to be introduced in Sri Lanka since the crisis began.<sup>17</sup>

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<sup>15</sup> Jayasuriya, L. (2004). The colonial lineages of the welfare State (pp. 403–425). New Delhi: Sage.

<sup>16</sup> Available from: <https://hrp.law.harvard.edu/the-crisis-in-sri-lanka-human-rights-in-peril/>.

<sup>17</sup> Available from: <https://www.ft.lk/opinion/Universal-social-security-If-not-now-when/14-736777>.