



Tackling the COVID-19 economic crisis in Sri Lanka: Providing universal, lifecycle social protection transfers to protect lives and bolster economic recovery

UNICEF Sri Lanka Working Paper

June 2020

Tackling the COVID-19 economic crisis in Sri Lanka: Providing universal, lifecycle social protection transfers to protect lives and bolster economic recovery

© United Nations Children's Fund (UNICEF), 2020

United Nations Children's Fund

No 3/1, Rajakeeya Mawatha,

Colombo 07

Sri Lanka.

Copyediting and Design: Anh Tran

Cover photograph credit: (c) UNICEF Sri Lanka/Earl Jayasuriya

This is a working document. It has been prepared to facilitate the exchange of knowledge and to stimulate discussion.

The findings, interpretations and conclusions expressed in this paper are those of the authors and do not necessarily reflect the policies or views of UNICEF.

The text has not been edited to official publication standards, and UNICEF accepts no responsibility for errors.

The designations in this publication do not imply an opinion on legal status of any country or territory, or of its authorities, or the delimitation of frontiers.

This report, additional online content and corrigenda are available at <https://www.unicef.org/srilanka/research-and-reports>

Tackling the COVID-19 economic crisis in Sri Lanka:

Providing universal, lifecycle social protection transfers to protect lives and bolster economic recovery

Stephen Kidd

Louise Moreira Daniels

Diloá Athias

Antonio Bubbico

Anh Tran

Anja Peebles-Brown

Abstract

This paper summarises findings from a series of UNICEF Policy Briefs that aim to provide evidence to support the Government of Sri Lanka in its social protection response to the economic crisis created by the COVID-19 pandemic. This summary paper examines the impact of the crisis on Sri Lanka, assesses the effectiveness of the Government's initial response and proposes introducing a package of social protection transfers for children, people with disabilities and older people as an even more effective solution. The paper shows that the package of benefits – which would cost 1.5 per cent of GDP – would significantly reduce the recession that Sri Lanka is facing and enhance wellbeing among direct and indirect recipients, who will comprise 86 per cent of the population. If Sri Lanka uses the proposed schemes as the basis of establishing a modern national social protection system and invests at a similar level annually, this will promote much strong economic growth, thereby enabling Sri Lanka to fully recover economically from the crisis.

Table of contents

Abstract	1
List of Acronyms	2
Main messages	3
1 Introduction	4
2 Impacts of the COVID-19 crisis	9
3 The Government’s cash transfer response to the economic crisis	14
4 A further cash transfers fiscal stimulus to protect the economy and Sri Lankan families	19
4.1 Coverage of the emergency lifecycle schemes.....	20
4.2 Value of lifecycle transfers received by households	21
4.3 Impacts of the proposed emergency lifecycle schemes on households	21
4.4 Impacts of the lifecycle transfers on the economy	23
5 Financing social protection measures to address the impacts of COVID-19	26
6 Conclusion	29
Bibliography	30

List of Acronyms

CGE	Computable General Equilibrium
COVID-19	2019 Novel Coronavirus Disease
GDP	Gross Domestic Product
HIES	Household Income and Expenditure Survey
ILO	International Labour Organization
IMF	International Monetary Fund
LKR	Sri Lankan Rupee
SAM	Social Accounting Matrix
SME	Small and medium enterprise
SDG	Sustainable Development Goals
UN	United Nations
UNICEF	United Nations Children's Fund

Main messages

- Sri Lanka is at risk of a deep economic recession, potentially a fall of up to 8 per cent in annual GDP if the COVID-19 crisis continues for longer than expected.
- The impacts on family wellbeing will be significant, as evidenced by a recent UNICEF/UNDP telephone survey in which 71 per cent of a sample of 2,067 households representing all districts of Sri Lanka say they experienced either a total or partial loss in income.
- The survey also found that 30 per cent of the respondents were already reducing their consumption of food by early May, mainly cutting back on more nutritious foods. This may well cause health problems, in particular for children, and any increases in rates of iron deficiency, stunting or wasting could cause lasting damage to child development. Older people and people with disabilities will be more vulnerable to illness.
- With 66 per cent of the labour force working informally, many women undertaking domestic labour and the limited provision of social protection support across the lifecycle, including for those in the formal economy, large segments of society are without access to any social protection and, therefore, were vulnerable in the event of a crisis such as COVID-19.
- To address the recession and protect families, it will be necessary for Sri Lanka to put in place a large fiscal stimulus package, comprising social protection transfers to families.
- The Government of Sri Lanka quickly responded to the crisis by establishing a cash transfer response, providing over 5.7 million monthly payments of LKR 5,000 to households. Payments were made in both April and May of 2020. The total cost is around LKR 55 billion, or 0.33 per cent of GDP.
- This was a remarkable initial response, reaching a large percentage of the population. Still, much more is needed to minimise the severity of the recession and provide significant protection to households.
- Although the initial response offered important and necessary support, there have been some challenges. For example: nearly a third of children and older people and around half of all single parents/caregivers, are likely to have missed out; the effective transfer values for individuals are smaller in larger households, which tend to be poorer; and, the methodology for selecting recipients may not be perceived as fair and transparent.
- It is crucial that Sri Lanka continues to support family incomes for a further 6 months while continuing with a strong fiscal response to boost the economy and enable its recovery. This paper proposes that the next stage of the response should provide transfers to the most vulnerable members of society, that is children (to receive LKR3,000 per month), older people and people with disabilities (to receive LKR7,000 per month). The total investment would be 1.5 per cent of GDP, or LKR233 billion.
- 86 per cent of the population would be supported if these transfers are provided on a universal basis while the average value received by households would be LKR8,630 per month, a significant increase on the current level of assistance.
- As a result of the proposed universal lifecycle schemes, the poorest members of society would be in a better position than before the crisis, while those on middle incomes would have a high proportion of their lost incomes restored. Children, older people and people with disabilities would receive a significant level of financial protection. Many negative impacts of the crisis would be mitigated.
- While the Government's current response would reduce the severity of the recession in 2020 from 8.3 to 7.2 per cent, the universal lifecycle transfers would reduce it by much more, to 3.9 per cent.
- If the Government continues to invest around 1.5 per cent of GDP per year in universal, lifecycle transfers, the economy could, by next year, recover to where it would have been if the COVID-19 crisis had not happened. By 2030, the economy could be 3.9 per cent larger when compared to no further fiscal stimulus being implemented by the Government.

1 Introduction

The COVID-19 pandemic has created a truly global economic crisis. The IMF (2020) estimates that the global economy will contract by 3 per cent, much worse than during the 2008/09 financial crisis, and estimates will probably be revised down. Sri Lanka's economy is likely to be hit particularly hard due to a perfect storm of crises: demand for Sri Lanka's exports has fallen dramatically; the tourism industry has collapsed; businesses are finding it more difficult to operate due to the impacts of the curfew and physical distancing measures; remittances are falling rapidly; and, the Rupee has depreciated by 4 per cent since early March 2020, increasing the costs of essential imports and servicing debt held in foreign currencies. Many businesses, across both the formal and informal economies, are in danger of either closing down or cutting their workforces.¹

Prior to the crisis, Sri Lanka and its people were already facing challenges. In 2019, annual economic growth was only 2.3 per cent, largely due to the Easter Sunday attacks. Government revenues comprised only 12.4 per cent of GDP in 2019, well below Government expenditures of 18.6 per cent of GDP and, indeed, the level required to sustain good public services.² Government gross debt was equivalent to 83 per cent of GDP and annual debt repayments comprised almost 5 per cent of GDP, or around 40 per cent of Government revenues.³ Income tax cuts were also implemented in December 2019 – in a context when the fiscal challenges presented by COVID-19 crisis could not yet be predicted – which left the top rate at only 18 per cent, the lowest in the South Asia region, further reducing revenues.⁴

Sri Lanka has made impressive progress in tackling poverty, as official poverty estimates indicate that only 4.1 per cent of the population live below the national poverty line.⁵ Yet, according to the World Bank⁶ – which uses Government of Sri Lanka data from the 2016 Household Income and Expenditure Survey – around three-quarters of Sri Lankans live on US\$10 per day or less, when measured in purchasing power parity (PPP) terms.⁷ Using the World Bank's conversion factor – and adjusted for inflation – this is the equivalent of LKR613 per person per day in 2020. Furthermore, around eight per cent of Sri Lankans live on US\$3.20 per day or less, and 36 per cent live on US\$5.50 per day or less, expressed in PPP terms. On the one hand, this demonstrates that many households will likely struggle if hit by a major shock. On the other, while, at first glance, such daily per capita consumption may seem low, it shows how well Sri Lanka has progressed as a country and needs to be understood in international comparison. Figure 1 shows the per capita consumption of people at the 75th percentile across 10 countries in Asia. It demonstrates that Sri Lanka is well ahead of other middle-income countries such as the Philippines and Indonesia and a little behind the dynamic economy of Vietnam. Further, it is significantly ahead of other countries in the South Asia region, with families at the 75th percentile having more

¹ UNESCAP (2020).

² Source: IMF World Economic Outlook database, October 2019. Retrieved from: <https://www.imf.org/en/Publications/SPROLLS/world-economic-outlook-databases#sort=%40imfdate%20descending>

³ Source: Government of Sri Lanka Treasury. Budget Estimates. Retrieved from: <http://www.treasury.gov.lk/documents/10181/693643/Approved+Vol+1+English+Web+May.pdf/5882f82a-b0ae-46a2-aa66-f28997b2e713>

⁴ Source: Sri Lanka Inland Revenue Department. Retrieved from: tradingeconomics.com

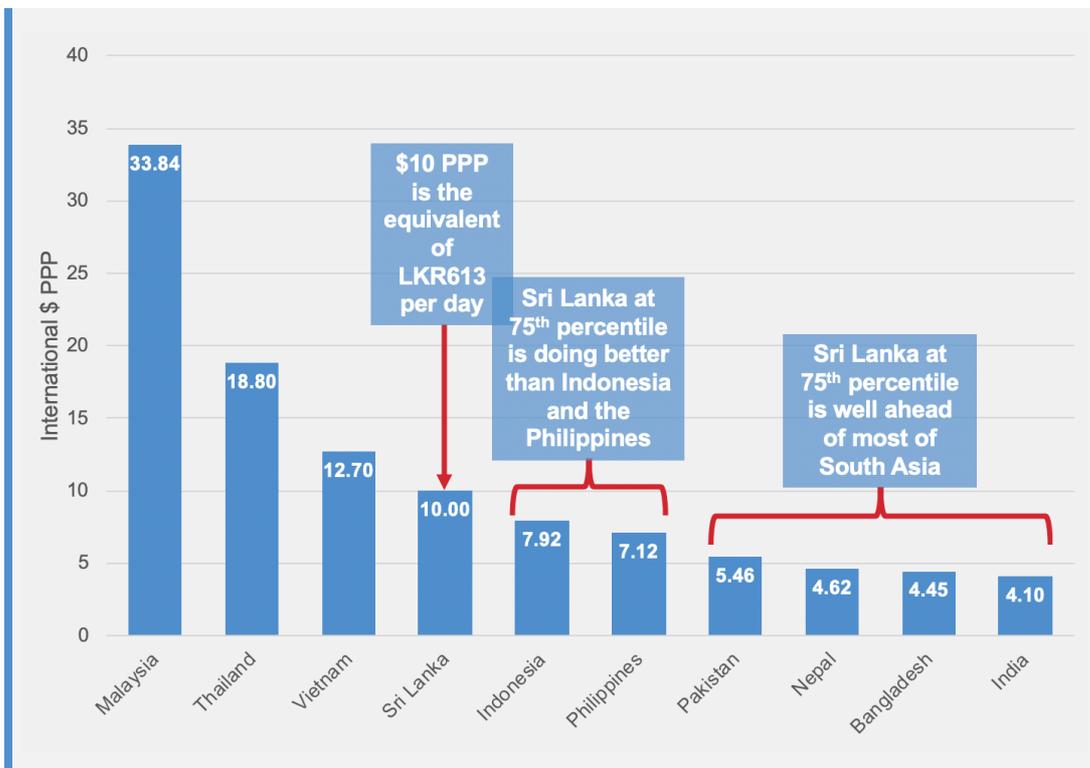
⁵ Source: HIES 2016.

⁶ Source: PovCalNet of the World Bank at: <http://iresearch.worldbank.org/PovcalNet/home.aspx>

⁷ This should be understood as reflecting the standard of living that Sri Lankans at the 75th percentile would have in the United States of America (USA). Given that the poverty line in the USA is around US\$20 per day, this would mean that most Sri Lankans would be considered as living in poverty, if they were to live in the USA with their current incomes.

than twice the equivalent standard of living as those in India, for example. Indeed, in India, only 3 per cent of the population has the equivalent standard of living as those in the top 25 per cent in Sri Lanka. This demonstrates the significant progress that Sri Lanka has made in recent decades. However, since Sri Lanka aspires to become a strong upper middle-income country, attaining the equivalent standard of living of, first, Thailand and then Malaysia should be the goal. So, while Sri Lanka is doing very well in a regional comparison, there is more to do if the nation is to progress as an upper middle-income country and reach its ambitious aspirations.

Figure 1: Per capita daily consumption figures – in PPP dollars – for those at the 75th percentile of the population for a range of countries in Asia

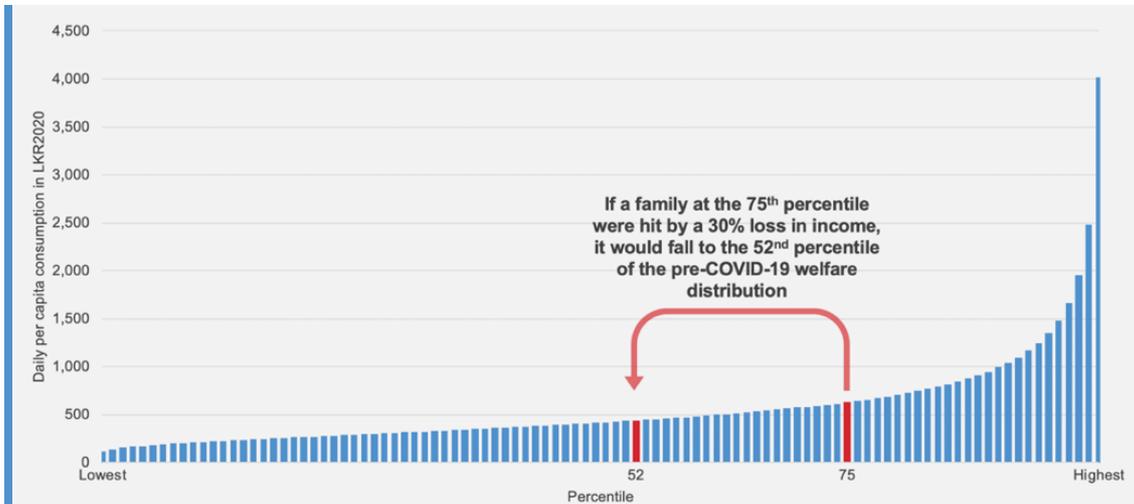


Source: World Bank Povcalnet data, retrieved from <http://iresearch.worldbank.org/PovcalNet/povOnDemand.aspx>

However, in common with other high- and middle-income countries, it should be recognised that a per capita daily consumption of US\$10 PPP – or LKR613 per day – still means that many families do not have the resilience to cope with a shock as large as COVID-19. Further, as Figure 2 shows, across the majority of the population, incomes are relatively similar and, if a family at the 75th percentile were to suffer a loss of 30 per cent of their income, it would fall to around the 50th percentile of the pre-COVID-19 welfare distribution. This demonstrates the vulnerability of many households in Sri Lanka. Given that most adults in the bottom 75 per cent of the population in Sri Lanka are either working in the informal economy or are not participating in the labour market, this level of vulnerability is not surprising.⁸ If, as a result of a shock, they are unable to work or experience reduced incomes, they are unlikely to have sufficient savings to draw upon for more than a short period of time and will, therefore, be obliged to use potentially damaging coping strategies.

⁸ According to the World Bank, 66 per cent of those working outside agriculture are in informal economy jobs: <https://tradingeconomics.com/sri-lanka/informal-employment-percent-of-total-non-agricultural-employment-wb-data.html>

Figure 2: Per capita welfare distribution in Sri Lanka, showing the impact of a loss of 30 per cent of income on a family at the 75th percentile⁹



Source: Own calculations based on 2016 HIES.

The potential fragility of many households in Sri Lanka and the challenges they may face if hit by a shock is also reflected by other indicators. For example, on any given day 39 per cent of young children across Sri Lanka were unable to consume iron-rich foods;¹⁰ and, while in most high-income countries families spend, on average, less than 15 per cent of their incomes on food, in Sri Lanka among the bottom 70 per cent of households, average spending on food is above 40 per cent of total consumption, which demonstrates how incomes are squeezed.¹¹ Therefore, many families were not prepared to withstand an economic shock on the scale of COVID-19, with children, persons with disabilities, and older persons at particular risk. Most of those living on middle incomes across middle-income countries have the characteristics of what Guy Standing (2014) has referred to as the ‘precariat,’ a term reflecting the uncertain and precarious nature of their daily lives, a situation further compounded by the high level of informality across the labour force.

The crisis is having a significant impact on Sri Lanka’s economy, pushing the country into recession. At the same time, the majority of families are at risk of experiencing unprecedented levels of hardship. The crisis will be universal, affecting families across the welfare distribution, including those with breadwinners working in both the formal and informal economies. This unprecedented crisis requires unprecedented measures: a massive counter-cyclical fiscal and financial effort is urgently needed everywhere. This means, in effect, that, among other measures, governments need to inject cash into their economies through social protection transfers to their populations so that people continue to spend and keep markets functioning, an approach endorsed at global level by the United Nations, World Bank and IMF.¹² As Figure 3 sets out, a fiscal stimulus package should enable countries to lower the depth of recession and,

⁹ Note: This graph indicates the welfare distribution in Sri Lanka measured through per capita consumption. It shows that the majority of Sri Lankans live on similar incomes, as incomes only start to rise steeply among the top percentiles. Therefore, an income loss of 30 per cent would represent a significant income shock to the majority of families in Sri Lanka, indicating that anyone can easily drop down the welfare distribution as a result of COVID-19.

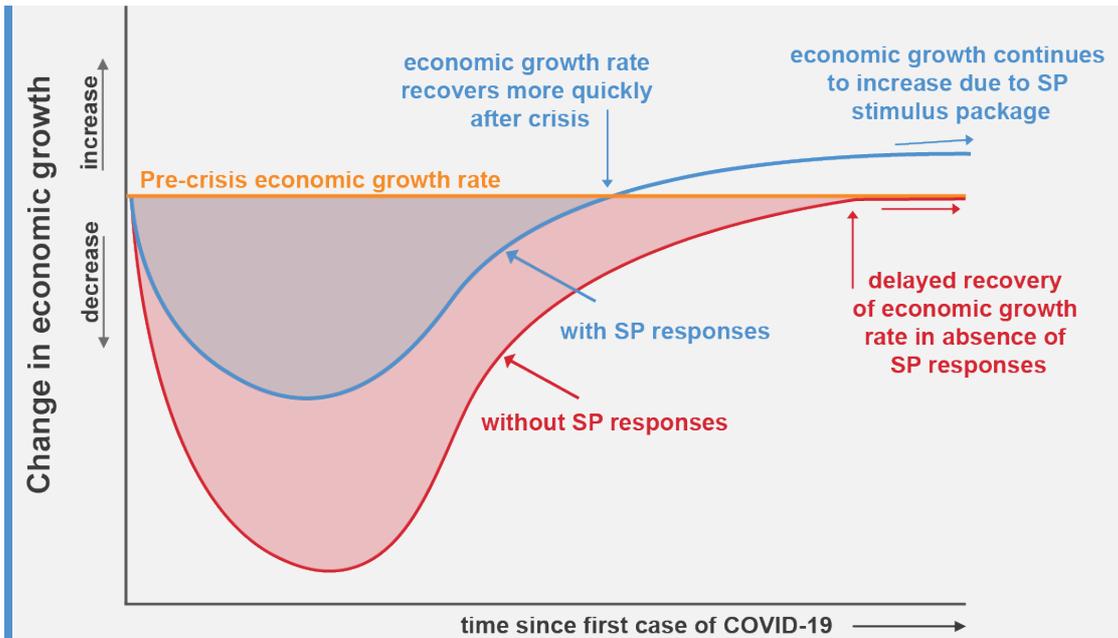
¹⁰ Demographic Health Survey (2016), Government of Sri Lanka Department of Census and Statistics

¹¹ Source of international figures: <https://ourworldindata.org/food-prices>. Information on Sri Lanka is taken from the 2016 Household Income and Expenditure survey.

¹² IMF (2020a); World Bank (2020).

importantly, recover more quickly. Indeed, international evidence would suggest that if the fiscal stimulus were to continue beyond the crisis, economic growth may well end up being higher than it was before the crisis.

Figure 3: Diagram outlining how a fiscal stimulus will reduce the depth of recession and enable a quicker recovery



Source: Authors' adaptation of a graph that appeared in World Bank (2020).

High-income countries are doing 'whatever it takes' to rescue their economies and families by establishing high cost fiscal stimulus packages, even when it means increasing already high levels of debt: for example, the Group of Seven major economies are spending an average of 5.9 per cent of GDP, mainly on existing or innovative social protection schemes. A growing number of middle-income countries are also responding. These countries understand that, although levels of debt will rise in the short-term, since the fiscal stimulus will result in stronger economies, they will be in a better position to reduce debt in the future.

The Government of Sri Lanka quickly recognised the need for both a health and fiscal response to the COVID-19 crisis. It put in place one of the world's most robust approaches to control the crisis which has meant that the COVID-19 virus has, so far, successfully been contained, with only 1,857 cases confirmed by June 8th 2020.¹³ It also quickly initiated a relatively large programme of financial support to families, which has reached the majority of the population and offered some level of fiscal stimulus.

¹³ Sri Lanka has imposed one of the most robust measures to contain the spread of COVID-19, as the Government Response Stringency Index was measured at 100 (the strictest), although measures have slightly eased since late April. Retrieved from: <https://www.bsg.ox.ac.uk/research/research-projects/coronavirus-government-response-tracker>

1 Introduction

However, the COVID-19 crisis is so severe that, despite Sri Lanka's impressive efforts so far, much more needs to be done. The aim of this paper, therefore, is to examine the depth of the crisis and the quality of Sri Lanka's fiscal response through cash transfers to date. It will set out a proposal to further strengthen Sri Lanka's response through an alternative – and easier to implement – fiscal stimulus package that will be more effective in protecting both the economy and families, especially the most vulnerable members of society. The proposal would cost 1.5 per cent of GDP over six months and would provide monthly transfers to all of Sri Lanka's children, older people and people with disabilities. It would be one component of a broader national response to the crisis that would safeguard people's health, protect jobs, maintain the viability of businesses and reduce the likelihood of instability.¹⁴

¹⁴ Other measures to support economic growth, employment, support to SMEs, as well as other fiscal and monetary measures must also be considered, as proposed in the United Nations' Advisory Paper on Socioeconomic Response to COVID-19.

2 Impacts of the COVID-19 crisis

The impacts of the COVID-19 crisis on Sri Lanka's economy are, as yet, unknown. The World Bank (2020) predicts that Sri Lanka is heading for a major recession, with the economy contracting by up to 3 per cent in 2020.¹⁵ Analysis using a General Equilibrium (CGE) model suggests that the economy may, in fact, contract by between 4.8 and 18.5 per cent, depending on the severity and length of the crisis. If the crisis continues for 6 months, the total incomes of citizens in Sri Lanka may experience a fall of up to LKR803 billion (LKR134 billion per month), representing around 5 per cent of 2019 GDP.

The human cost of the crisis will be significant. Simulations indicate that average incomes of households could fall by up to 27 per cent during the crisis. Figure 4 demonstrates the potential impacts on households across the welfare distribution during the period of crisis itself, based on simulations using the national household income and expenditure survey (HIES) for 2016.¹⁶ While the crisis is universal, the hardest hit – in terms of relative income loss – will be those on middle incomes, in other words those households with cash incomes between LKR5,000 and LKR21,000 per person per month. Although the poorest members of society prior to the crisis will be less affected – again, in terms of relative income loss – it is important to note they were already living on very little and the likely further average income loss of 10 per cent will hit them hard. However, the crisis is even affecting many of those who, prior to the crisis, felt themselves to be in a secure financial position. Box 1 sets out the story of one family who quickly fell from a secure middle class existence to insecurity and an inability to provide for their children.

Box 1: A story from one of Sri Lanka's many 'new poor'

Wasana is 39 years of age, married, with three children. She lives in Colombo and, with her husband Ramesh, runs a small import business. Prior to the COVID-19 crisis, she lived what she regarded as a relatively comfortable and secure life. To the outside world, she was a middle-class woman with a decent house, a car and a profitable family business. However, when the country went into curfew in March 2020, her life was dramatically changed. Their business could no longer operate as there was no air or sea freight and their income disappeared. On the 19th of April, Wasana withdrew her last LKR4,100 from her bank account. While she was helped by the Government giving some support on leases and loans, the family had to make cuts and, on many days, the family have had only two meals.

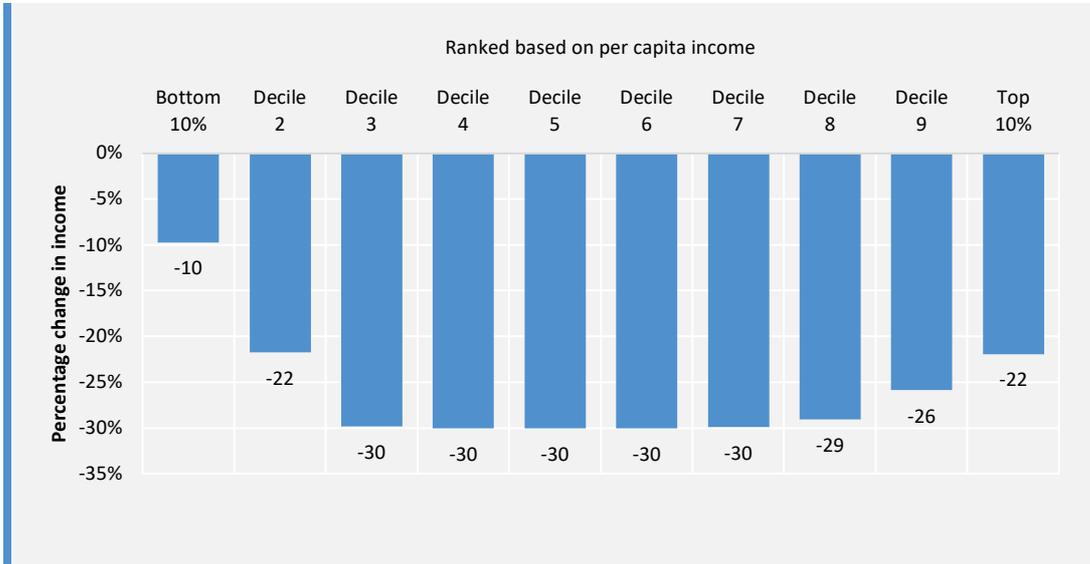
Wasana is now desperate. She has asked her bank for a loan of LKR10,000, but received no response. She turned to social media and, as a result, a friend luckily heard about her situation and offered to provide a loan, giving her LKR10,000 almost immediately. She rushed to purchase essential goods for her family. Fortunately, her mother-in-law, who lives in the same house, received LKR5,000 from the government but they found it was too little for a household of six people to survive on for a month. Wasana and her family continue to face an uncertain future and is desperately in need of further Government support. Her family is just one example of the many people in Sri Lanka who have suddenly fallen from security to absolute insecurity. They are the new poor.

This is a real story, but the names have been changed.

¹⁵ The IMF is currently predicting that the Sri Lankan economy will contract by 0.5 per cent in 2020, but it is expected that it will revise this forecast downward.

¹⁶ To undertake the analysis, the dataset was adjusted to reflect the situation in Sri Lanka in 2020.

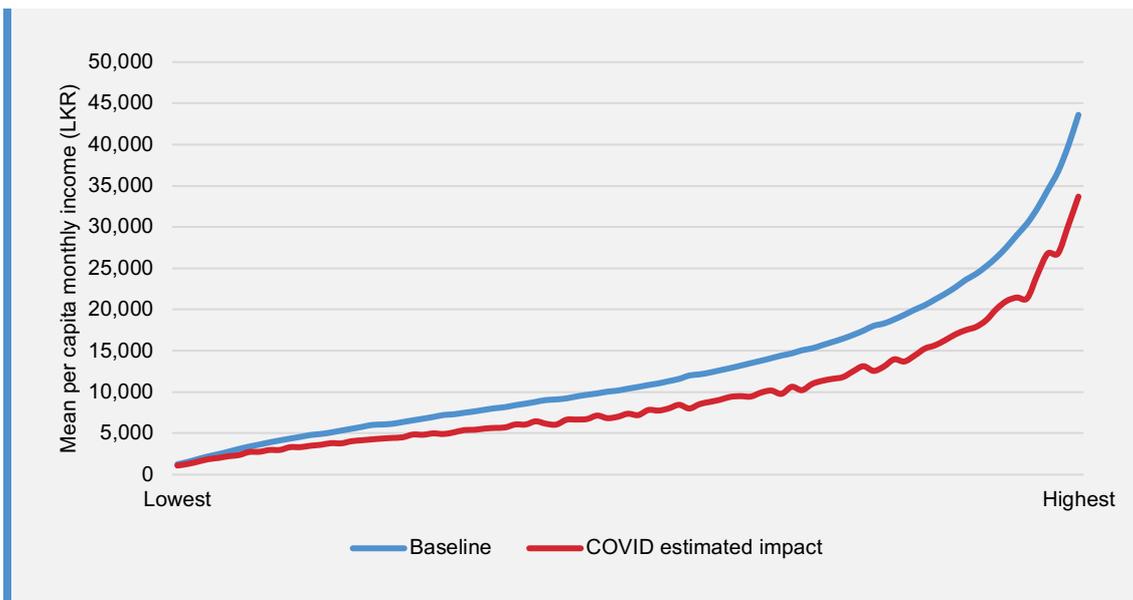
Figure 4: Potential reductions in monthly household incomes during the crisis, across the welfare distribution



Source: Own calculations based on 2016 HIES.

The reduction in incomes as a result of the COVID-19 crisis is further illustrated in Figure 5, which compares household incomes before COVID-19 to the estimated impacts of the crisis by the simulation. Across the welfare distribution, it shows that those on middle incomes will be significantly worse off as a result of the crisis.

Figure 5: Comparison between monthly household incomes before COVID-19 and the estimated impact of the crisis, across the welfare distribution



Source: Own calculations based on 2016 HIES.

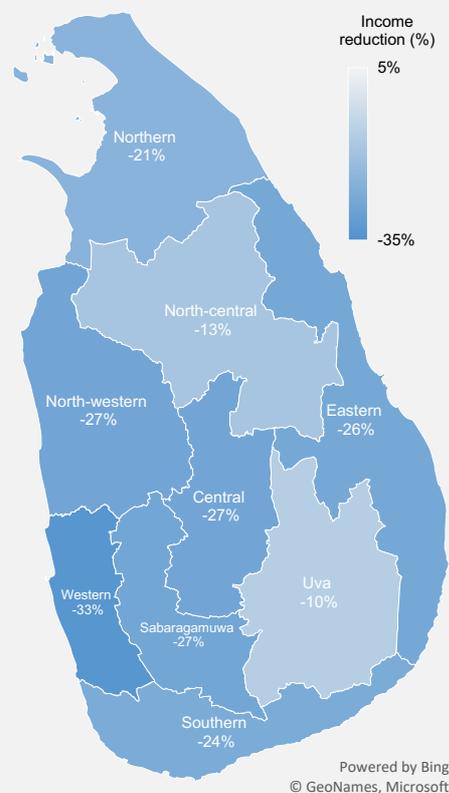
A telephone survey undertaken by UNICEF and UNDP at the beginning of May 2020 confirms the severity of the crisis on families.¹⁷ Overall, 39.4 per cent of respondents reported that they had lost all income while a further 31.6 per cent had lost some (although the amount is not known). Similar results have been found in a survey in April 2020 by World Vision Sri Lanka among families within their programme areas.¹⁸ They found that 93 per cent had been affected by the crisis, with 78 per cent either fully or severely affected. In addition, 44 per cent of respondents had lost their jobs, with average salaries falling from LKR24,400 per month to LKR6,800.

The crisis is affecting families with breadwinners employed in both the formal and informal economies. According to simulations based on the HIES 2016 data, the occupations most affected by the crisis are likely to be managers and those working in services, sales and factories, given that many businesses have effectively closed down: on average, they could lose over 40 per cent of their incomes. UNICEF/UNDP's telephone survey offers a somewhat different picture, indicating that crisis is having a greater impact on those paid on a daily basis: 65 per cent of daily wage workers who responded have lost their entire incomes while 31 per cent have experienced reduced incomes. In contrast, among those paid monthly, 19 per cent no longer have any income while 30 per cent are living on reduced incomes. Nonetheless, both sets of analysis paint a dire situation across workers in both the formal and informal economies.

As Figure 6 shows, there will be significant geographic variations in impacts on household incomes. The Western Province will be the hardest hit while, in rural areas, such as Uva and North-Central, the impacts will be lower, though still significant. Impacts will also be higher across towns and cities, with an average fall in incomes of up to 30 per cent compared to 25 per cent in rural areas.

Reduced incomes are forcing many families to adopt potentially damaging coping strategies. UNICEF/UNDP's telephone survey found that 57 per cent of respondents had begun to draw down on their savings, 35 per cent had taken out loans or borrowed from others while 21 per cent had pawned some of their possessions. By reducing their

Figure 6: Potential reductions in monthly household incomes across Sri Lanka's provinces during the crisis



Source: Own calculations based on 2016 HIES.

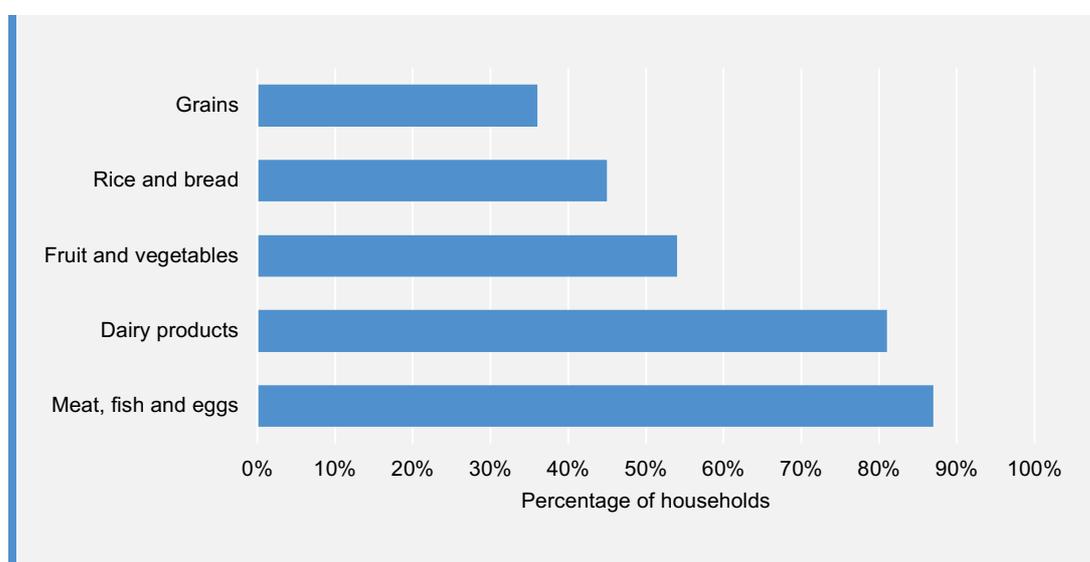
¹⁷ The purpose of this survey was to gather relevant information on the impact of the COVID-19 crisis on households in Sri Lanka. Data was collected from a nationally representative sample of households, using the proportionate to population size sampling approach. Stratification was done by district household population, based on the Department of Census and Statistics 2012 Census of Population Housing. Random selection was used to contact households from each district. The first round of data collection happened from May 1-6, 2020 and reached 2,067 households from across the country. The margin of error was +/- 2.25 at a 95% confidence interval.

¹⁸ *Impact of COVID-19: Health Emergency Rapid Assessment*, World Vision Sri Lanka; telephone survey conducted between April 17-20, 2020 (2,190 families surveyed in 15 districts).

assets and taking on debt, families will find it more challenging to recover from the crisis.

Food security will be threatened if families are forced to reduce their food consumption or purchase food of lower nutritional quality. UNICEF/UNDP's telephone survey indicates that, despite accessing other sources of income, including Government support, 30 per cent of respondents had, by early May, already reduced their food consumption. As shown by Figure 7, the biggest reductions in consumption were in more nutritious foods, such as dairy products, meat, fish and eggs, and, to a lesser extent, fruit and vegetables.

Figure 7: Type of food products for which households had reduced their food consumption, among respondents that had reduced overall food consumption



Source: Telephone survey undertaken by UNICEF and UNDP, Sri Lanka (May 1st -6th, 2020).

The reduction in nutritious foods will have further impacts on health. For example, the number of children unable to consume iron-rich foods – which, as indicated earlier, was already high – could increase, with potential impacts on their cognitive development. Stunting and wasting levels among children are also likely to rise (and, prior to the crisis, Sri Lanka had wasting rates that were the 9th highest in the world). Among older people and those with underlying health conditions, poor nutrition can enhance the risk of developing comorbidities that reduce their resistance to the COVID-19 virus and other illnesses.

Families will also have to cut back on normal expenditures. It will be more difficult to purchase books, toys and games, which play an important role in stimulating children. Electricity usage may be reduced, making it more difficult to study. School withdrawal, initially a transitory measure, may turn out to be a permanent situation for some, especially if children are asked or feel obliged to support their families through work. As families come under greater financial stress, the level of violence against women and children is on the increase, damaging the physical, emotional and mental wellbeing of both victims and other family members. The lack of livelihood opportunities may well be increasing the risk of people engaging in exploitative forms of labour.

If the crisis continues for many more months – which is likely given the size of the global economic downturn – the situation is likely to deteriorate further. The most vulnerable members of society, in particular children, could experience lasting damage

from which they may never recover. For example, a child who is stunted due to poor nutrition will experience, on average, a 26 per cent reduction in lifetime earnings.¹⁹ This, in turn, may well harm Sri Lanka's long-term economic prospects. More immediately, though, without support many businesses and jobs will disappear. In the absence of an adequate response, people will come under increasing financial pressures and, as warned by the IMF (2020b), there is a danger that they will react in ways that threaten social cohesion and require the Government to implement public order measures.

It is clear that, if people and the economy are to be protected, a large-scale fiscal rescue package is required with the aims of: providing a fiscal stimulus that generates greater consumption and demand and helps maintain markets across the economy; supporting and protecting businesses, large and small, so that they are in a position to bounce back, once the crisis retreats, enabling as many jobs as possible to be secured; offering every member of society a minimum level of income security; and, helping maintain stability and social cohesion.

¹⁹ Richter et al. (2017).

3 The Government's cash transfer response to the economic crisis

The Government of Sri Lanka quickly recognised the need to protect families during the crisis and provide the economy with a fiscal stimulus. It designed a programme that, in April, delivered almost 5.4 million cash transfers of, mainly, LKR5,000 each to households across Sri Lanka. It was repeated for a second time in May, expanding the number to around 5.7 million transfers following appeals from households who had been excluded. The total cost of this support has been around LKR55 billion, or 0.33 per cent of GDP. The response was impressive given that it was announced a mere 10 days after the imposition of the curfew and reached an estimated 66 per cent of Sri Lankan households.

The Government's emergency support has comprised two main components: expanding existing social assistance schemes and developing a parallel innovative programme of emergency support. Recipients of the country's main social assistance scheme – *Samurdhi* – were given an extra LKR5,000 to their monthly benefit, while recipients of the Senior Citizens' Allowance were given an extra LKR3,000 to their monthly benefit of LKR 2,000. In addition, those on the schemes' waiting lists – as well as those on the waiting lists of the Disability and Chronic Illness Allowances – were given LKR5,000 per month, as were pensioners on the Farmers' and Fishermen's pension schemes. The main new scheme established was a temporary cash transfer to all self-employed workers affected by the crisis (LKR 5,000). An overview of the support provided can be found in Table 1.

Table 1: Emergency cash transfer measures introduced by the Government of Sri Lanka in response to the impacts of COVID-19²⁰

Name of scheme	Number of recipients (April 2020)	Number of recipients (May 2020)	Total expenditure (million LKR)
Existing social protection schemes			
<i>Samurdhi</i>	2,602,168	2,525,528	25,638
Senior Citizens' Allowance	559,059	559,059	3,924
Disability Allowance ²¹	38,791	38,791	388
Farmers' Pension	160,675	160,675	1,607
Fisherman's Pension	4,600	4,600	46
Chronic illness allowances (kidney disease)	13,850	13,850	139
New measures			
Unemployed Graduates ²²	40,000	40,000	1,600
Self-employed workers	1,924,967	2,357,077	21,410
Pre School Teachers	39,784	39,784	398
Total	5,383,894	5,739,364	55,149

Source: Administrative data shared by the Government of Sri Lanka.

²⁰ It is assumed that the number of recipients of support remained the same for all schemes apart from *Samurdhi* and Self-employed workers, as government data for the other programmes for May is not available.

²¹ For the Disability and Chronic Illness Allowances, the current recipients have not been included as they will not receive any additional payment for COVID-19, over and above their normal transfer of LKR5,000 per month.

²² Unemployed graduates received LKR20,000 per month, instead of LKR5,000.

Sri Lanka's fiscal stimulus through cash transfers compares favourably with the social protection responses of other middle-income countries in Asia. It is on a par with the response of Indonesia, Iran, Pakistan and the Philippines, around two-thirds the size of Vietnam's, about half that of Malaysia's and a third of India's. Other countries have done very little – for example, the responses by Bangladesh and Thailand are small, at less than 0.1 per cent of GDP – while some have not yet implemented anything.²³ Timor Leste, however, plans a more ambitious response as it aims to provide almost every household in the country with a transfer for three months, which will cost around 2 per cent of GDP. Mongolia is also investing around 1.4 per cent of GDP in its fiscal response, by increasing the transfer value of its child benefit, which reaches 80 per cent of children, as well as its smaller tax-financed old age and disability pensions.²⁴

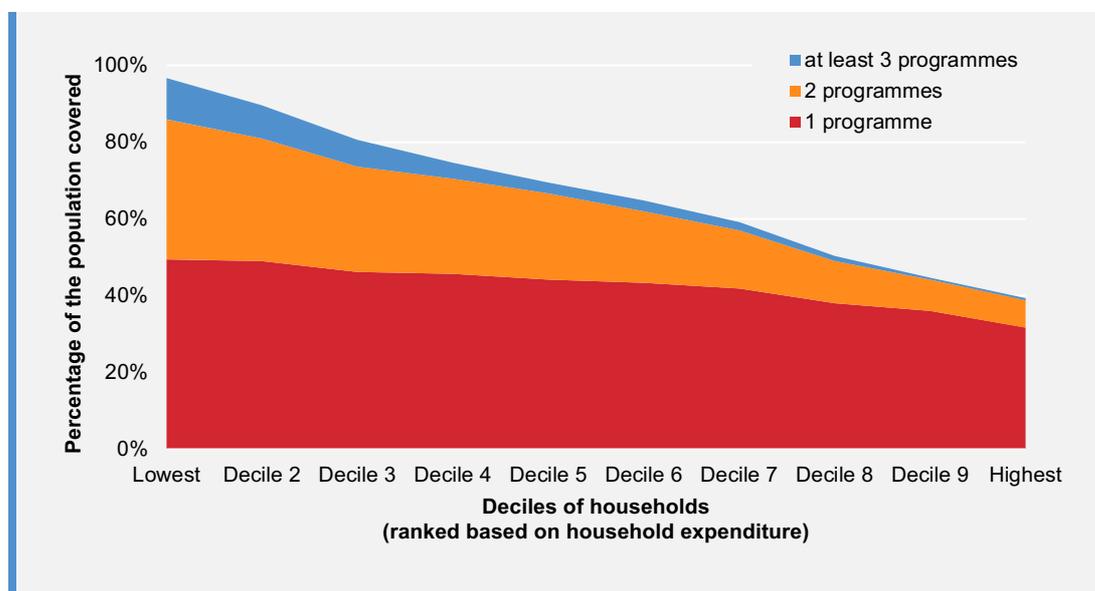
The speed at which Sri Lanka managed to register new recipients and make payments has been remarkable, in particular given the absence of strong operational and management information systems. Local government officers were rapidly mobilised to register the self-employed while payments were initially made to new recipients, as well as those who were normally paid via the Post Office, at their homes. The low number of COVID-19 infections nationwide indicates that registration and payments have been undertaken without further spreading the disease.

The Government's response has not been without its challenges, though, which is unsurprising given the speed with which it was implemented. Despite the Government's aim to reach almost all affected households with support, simulations set out in Figure 8 indicate a risk that 34 per cent of households nationally may have been excluded from support in April – many of whom will have been affected by the crisis – while 38 per cent may have received more than one transfer. The telephone survey undertaken by UNICEF/UNDP in early May indicates that 31 per cent of respondents, in fact, had not received support, confirming earlier simulations. Nearly a third of children and over-70s, and around half of all single parents/caregivers, are likely to have missed out. There were also significant variations across the labour force: only 51 per cent of daily wage workers accessed support while, among those receiving monthly wages the proportion was 83 per cent, suggesting that those working in the informal economy – the vast majority of the labour force – were more likely to be excluded from support. The fact that around 600,000 households successfully appealed their exclusion from the April payment also indicates challenges in identifying and registering recipients.

²³ Kidd et al (2020b).

²⁴ As with many high-income countries, in Mongolia older people and people with disabilities access higher value contributory pensions and, therefore, are in much less need of additional financial support during the COVID-19 crisis. Consequently, the focus has been on supporting the minority of older people and people with disabilities who receive lower value tax-financed pensions.

Figure 8: Distribution and number of COVID-19 transfers that were likely to be received by households across the wealth distribution



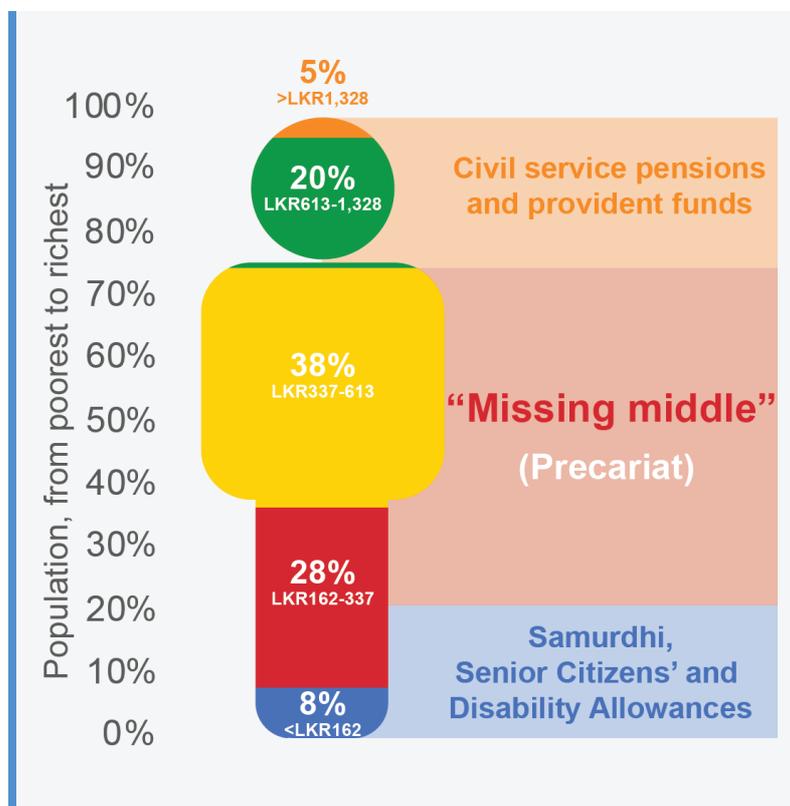
Source: Own calculations based on 2016 HIES.

There are also concerns about the size of the payment. LKR5,000 is a relatively small monthly payment for a household, in particular if it has no other source of income. It represents only 12.8 per cent of the normal monthly expenditure of an average household. Further, the flat payment of LKR5,000 per household means that the effective value of the transfer *per person* varies across different sizes of household. So, while a one-person household will receive an effective transfer of LKR5,000 per person, across a five person household, it will be only LKR1,000 per person. Yet, larger households are more likely to be living on low incomes.

One of the reasons for many people missing out on support has been the current design of Sri Lanka's social protection system. As Figure 9 illustrates, to a large extent, Sri Lanka has a bifurcated system offering those in the formal economy access to civil service pensions or retirement benefits from Provident Funds, while the poorest members of society are offered poverty-targeted social assistance programmes.²⁵ The precariat who are living on middle – but still limited and insecure – incomes are, by design, largely excluded from the national social protection system (apart from some small contributory pension schemes for a minority of those working in the informal economy). This middle income group is often known as the 'missing middle,' since they have been omitted from being able to access social protection. Consequently, as the COVID-19 crisis struck, there were no social protection schemes that the Government could use as a means of channelling support to the 'missing middle' (apart from support to the 165,000 pensioners who are members of the Farmers' and Fishermen's pensions).

²⁵ In reality, the Provident Funds should be considered as savings schemes, since they do not offer social protection in old age, in other words a pension. Rather, members are given one-off lump sum payments. Therefore, it could be argued that most of the workers in the formal economy are also excluded from social protection.

Figure 9: Representation of Sri Lanka's social protection system



Source: Authors' elaboration. LKR amounts refer to per capita consumption per day.

In effect, Sri Lanka has not yet established a Social Protection Floor that guarantees all members of society with access to a basic level of income security across the lifecycle, in line with the International Labour Organisation's (ILO) Social Protection Floors Recommendation, 2012 (No. 202). Countries with well-established social protection systems usually offer universal access to social protection benefits that address risks associated with, for example, childhood, unemployment, maternity/paternity, sickness, injury, loss of a breadwinner, disability and old age, complemented by small social assistance programmes that offer additional support to those still living in poverty. When countries do not build an effective lifecycle system and, instead, focus on providing poverty-targeted social assistance only, those living on middle incomes tend to be excluded from support while countries themselves are much less able to respond to large crises like COVID-19. Although Sri Lanka has agreed to the ILO's Recommendation 202 on Social Protection Floors, it has, as yet, made limited progress in implementing it.

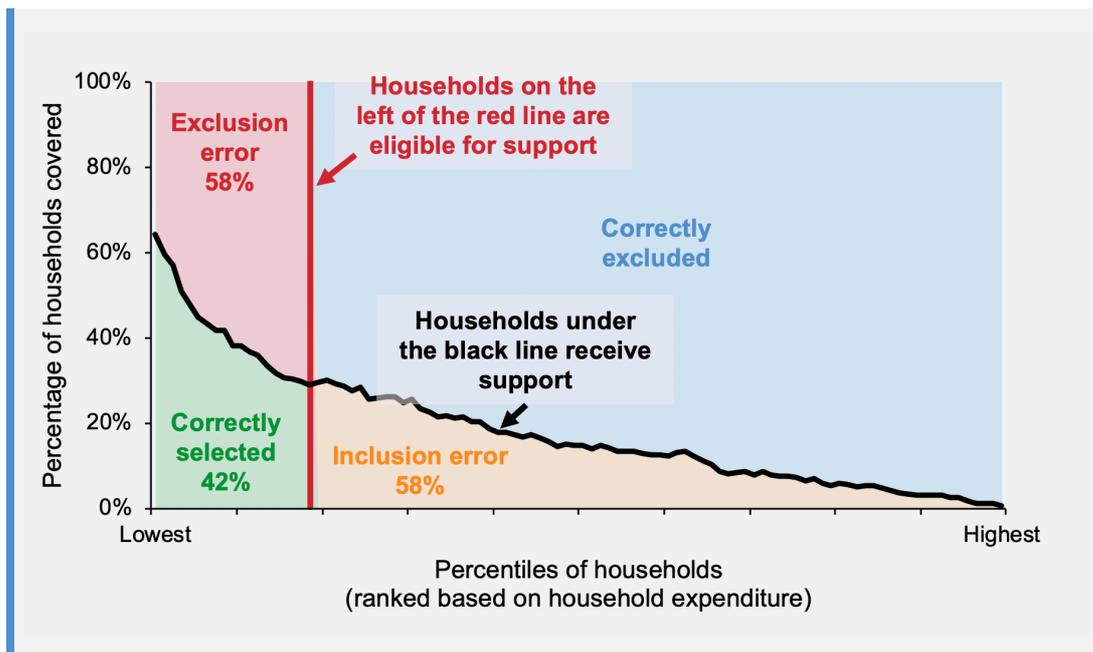
There are also challenges with the implementation of Sri Lanka's main social assistance schemes: Samurdhi and the Senior Citizens' and Disability Allowances. Although they are targeted at the poorest members of society, their targeting is not effective and a high proportion of intended recipients are excluded. For example, a recent study by UNICEF has estimated that around 58 per cent of households who were meant to receive *Samurdhi* were excluded by the programme²⁶ (see Figure 10). A similar exclusion error has been found for the Senior Citizens' Allowance.²⁷ By using

²⁶ Kidd, Moreira Daniels et al. (2020).

²⁷ Kidd and Athias (2020).

social assistance schemes with such large targeting errors to respond to the COVID-19 crisis, it is inevitable that a high proportion of people will be excluded, despite the Government's best intentions. It demonstrates the need for Sri Lanka to establish a modern social protection system based on the right and ability of everyone to access social protection as required, similar to the systems found in high-income countries, which have been a core component of their successful economic growth.

Figure 10: Targeting effectiveness of the Samurdhi programme across all households



Source: Kidd, Moreira Daniels et al. (2020).

A further concern with the Government's response to date is that there is currently no guarantee that it will continue beyond May 2020. If only two payments are provided, the total value of the support, at 0.33 per cent of GDP, is almost certainly too small to provide an effective fiscal stimulus, meaning that the 2020 recession will be larger than it need be (see Section 4.4). Many business and jobs are already at risk and more could be lost. Further, given that the crisis will continue for much longer, families will find themselves bereft of support, with significant negative consequences for their wellbeing, and that of their children. It is, therefore, essential that the fiscal stimulus continues for at least a further six months.

4 A further cash transfers fiscal stimulus to protect the economy and Sri Lankan families

The appropriate size of a fiscal stimulus for Sri Lanka is not known; but it is imperative that actions are taken to save the economy and livelihoods. Martin Ravallion – a former World Bank Chief Economist – offers some guidance on the minimum level of response: “As a rough rule of thumb.... a near-term fiscal injection of transfers less than 2% of GDP should be judged as inadequate.”²⁸ Therefore, it would benefit Sri Lanka to consider a boost to the economy, and to families, that is significantly larger than the level of fiscal response to date. Timor Leste is the only middle-income country in Asia that has managed a fiscal response on a par with the minimum level recommended by Ravallion. Other Asian countries will need to follow suit if they wish to save their economies and bounce back strongly. Sri Lanka must be among them.

Sri Lanka’s initial response deserves praise, and lessons need to be learnt from its implementation. There is a growing international recognition that middle-income countries with weak social protection systems – such as Sri Lanka – should implement a universal response: the IMF has proposed the use of universal transfers, such as lifecycle social protection schemes, in South Asia;²⁹ the Global Director of Social Protection at the World Bank argues that countries need to consider universal social protection entitlements that reach those on middle incomes;³⁰ and, the United Nations has called for universal social protection—which is not only a right expressly recognised in many human rights instruments,³¹ but an integral part of the SDG Agenda³²—as a response.

A proposed feasible option for Sri Lanka would be to establish a system of **emergency, lifecycle universal transfers for children, older people and people with disabilities for at least 6 months**. This would be an administratively simple and effective means of providing support to the vast majority of households across Sri Lanka. As outlined in Table 2, families would receive LKR3,000 per child per month (provided to the female caregiver where present) while older people and people with disabilities would be given LKR7,000 per month. The cost would be 0.25 per cent of annual GDP per month, or around LKR233 billion (1.5 per cent of GDP) over 6 months. The following sections examine the effectiveness of the proposed lifecycle support.

²⁸ Ravallion (2020).

²⁹ IMF (2020b).

³⁰ Rutkowski (2020).

³¹ The right to social protection applies to everyone at every stage of life, and is clearly spelled out in many human rights instruments, including the Universal Declaration of Human Rights, ILO Conventions and Recommendations, the Convention on the Rights of the Child, and many others.

³² Achieving universal social protection is front-and-centre in the Sustainable Development Agenda, as part of SDG 1 (End poverty in all its forms everywhere), and specifically Target 1.3: Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable, which, as demonstrated by international evidence, can only be achieved through universal transfers (Kidd and Athias 2019). Universal social protection is furthermore recognized as a key catalyzer of many other SDGs.

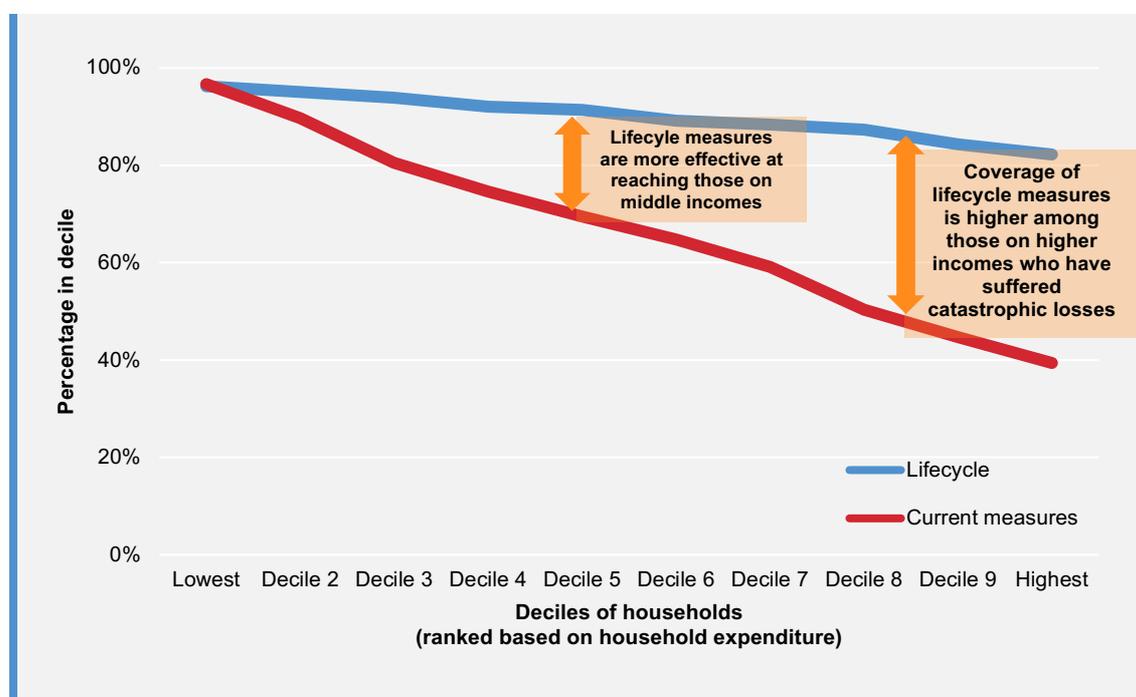
Table 2: Alternative proposal for an inclusive emergency lifecycle social protection response to the COVID-19 crisis

Scheme	Age of eligibility	Transfer value (LKR) per month	Transfer value (% of 2019 GDP per capita)	Cost (% of 2019 GDP)
Child benefit	0-17 years	LKR3,000	5%	0.71%
Disability benefit	0-64 years	LKR7,000	12%	0.15%
Old age pension	65+ years	LKR7,000	12%	0.65%
Total				1.51%

4.1 Coverage of the emergency lifecycle schemes

The proposed lifecycle schemes would reach 86 per cent of the population, either directly or indirectly as members of recipient households. As Figure 11 shows, across the welfare distribution, coverage would be high, in particular among the poorest. Importantly, a lifecycle approach would perform much better than the current response in reaching households on middle and high incomes, many of whom have been deeply affected by the crisis. All children, older people, persons with disabilities and single parent households would receive support. The households missing out would comprise those with only working age adults without disabilities, who are likely to be less vulnerable.

Figure 11: Recipient households of current Government response for COVID-19 support compared to a lifecycle approach, across the welfare distribution



Source: Own calculations based on 2016 HIES.

Coverage would be relatively even across occupations in both the formal and informal economies, with around 80 per cent coverage among those most affected by the crisis (i.e. managers and workers in sales, services and factories). The coverage of the population across provinces as well as rural and urban areas would be almost equal.

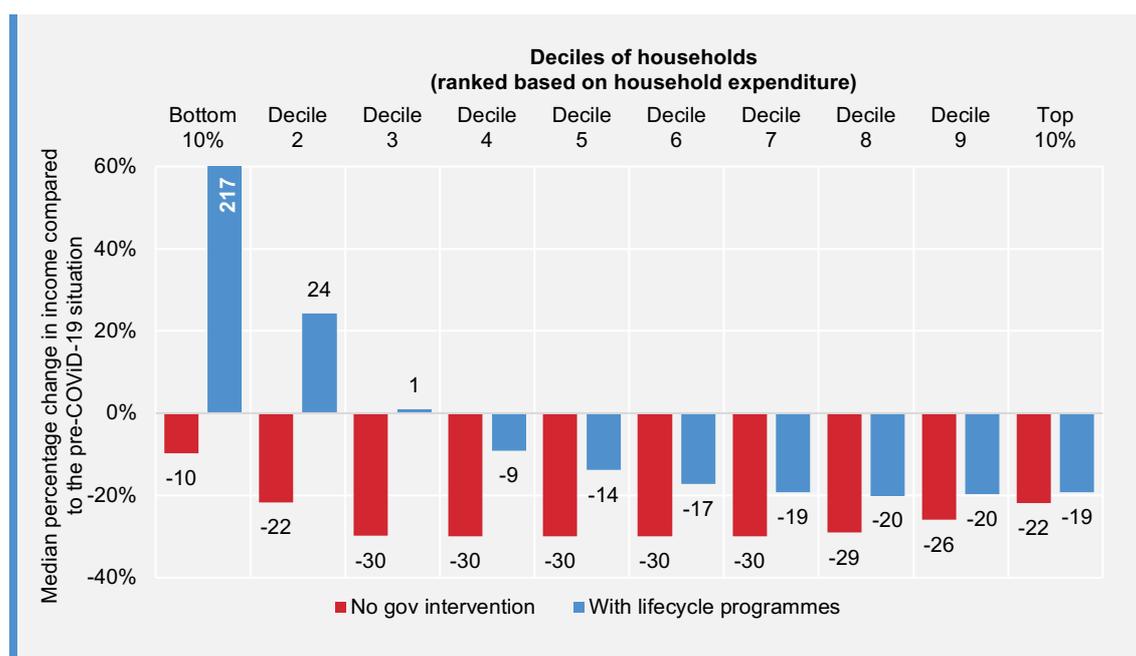
4.2 Value of lifecycle transfers received by households

The average value of the transfer received by households would be LKR8,630 per month, or 73 per cent higher than the LKR5,000 current provided. It would represent around 20 per cent of the average household’s pre-COVID-19 expenditures. Importantly, the transfers would adapt to the size of households so that larger households and those with more children, older people and people with disabilities would receive higher overall transfers.

4.3 Impacts of the proposed emergency lifecycle schemes on households

The impacts of the proposed emergency lifecycle schemes would be significant. Figure 12 looks across the welfare distribution and shows the likely impacts of the schemes on household incomes. Those in the bottom three deciles would, on average, be in a better position than before the crisis, indicating that the lifecycle schemes would be strongly pro-poor. Indeed, among the poorest decile of the population, incomes would be almost 4 times *higher* than before the crisis. Importantly, there would be a significant reduction in income losses across those on middle incomes, who have been particularly hard hit by the crisis (in terms of income loss).

Figure 12: Impacts of the lifecycle transfers on incomes of households across the welfare distribution, post-COVID-19

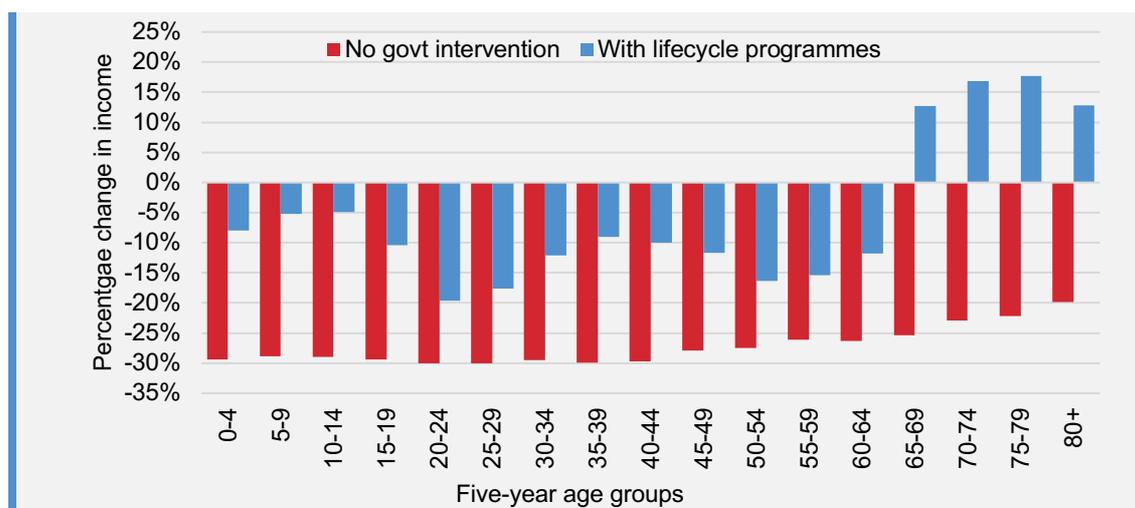


Source: Own calculations based on 2016 HIES.

4 A further cash transfers fiscal stimulus to protect the economy and Sri Lankan families

Across age groups, Figure 13 shows that those over 65 years of age would, on average, be better-off than before the crisis. While children would not fully recover their pre-crisis position, they would find their income losses – measured as their share of income within households – reduced by 79 per cent on average. People with disabilities would also be in a better position than prior to the crisis, with median incomes 18 per cent higher.

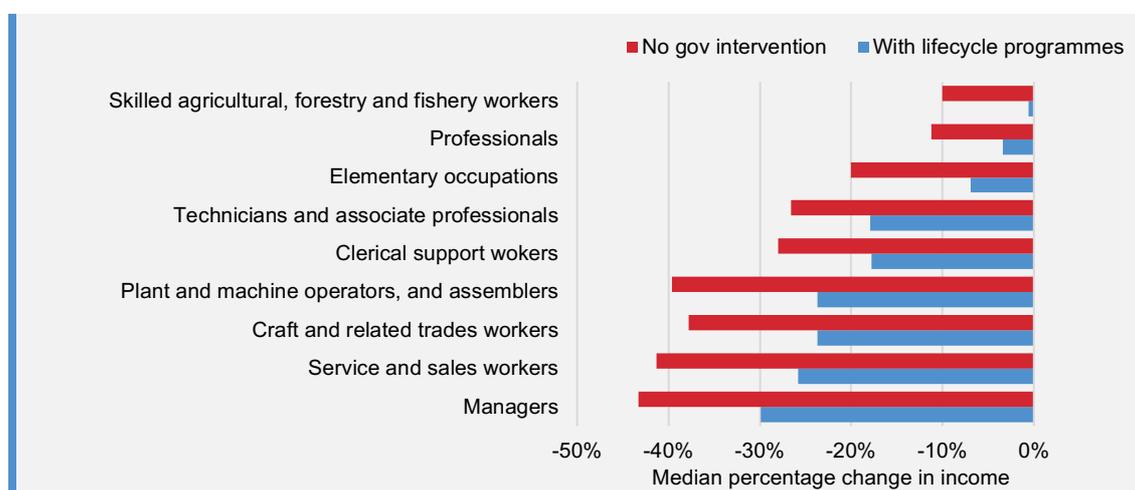
Figure 13: Impacts of the proposed lifecycle schemes on per capita incomes of age groups



Source: Own calculations based on 2016 HIES.

The lifecycle schemes would mitigate income losses across all types of occupations, in both the formal and informal economies, as shown by Figure 14. The occupations that would be in the best position relative to their pre-COVID-19 status would be so-called elementary occupations, professionals and skilled farmers and fisherman. Among those most affected by the crisis in terms of relative income loss – managers and those working in sales, services and factories – the lifecycle schemes would restore, on average, between 31 and 38 per cent of their lost income.

Figure 14: Impacts of lifecycle transfers on incomes of workers across different occupations



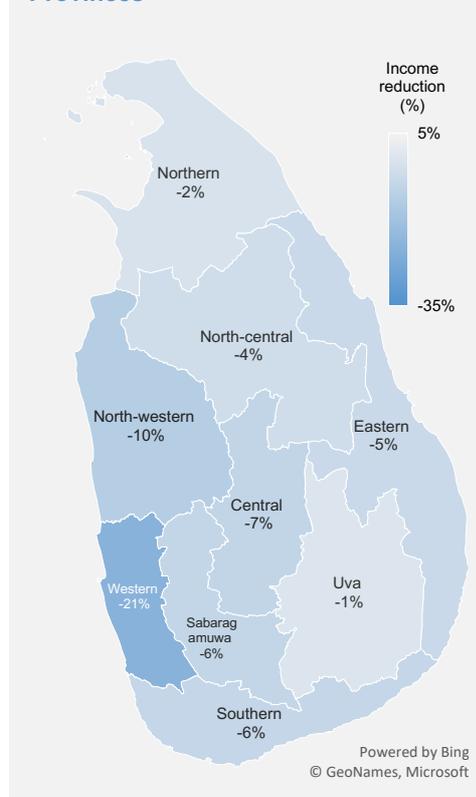
Source: Own calculations based on 2016 HIES.

In urban areas, the lifecycle schemes would replace an average of 42 per cent of the income lost due to the crisis and 65 per cent in rural areas. They would also be effective in mitigating income losses across all provinces (see Figure 15). Despite some variability, even in the hardest hit province, the Western Province, the average income loss would fall from 33 per cent to 21 per cent while some provinces – such as Uva and the Northern Province – would only experience minor reductions in income.

The emergency lifecycle transfers would, therefore, guarantee families across Sri Lanka a minimum level of monthly income. **The majority of the poorest families are likely to be in a better financial position than they were before the crisis, while the income loss for those who, prior to the crisis, were on middle and high incomes, will be significantly mitigated.** As a result, the

nutrition of the most vulnerable members of society – in particular children, older people, people with disabilities and the sick – can be better protected. The risk of domestic violence should reduce,³³ while households will be less likely to draw down on their assets or take loans, thereby enabling them to recover more quickly from the crisis. Importantly, the support will be provided on a transparent and equal basis, with priority given to children, people with disabilities and older people. The transfers will also help stimulate economic growth, which is discussed in the next section.

Figure 15: Potential impacts of alternative stimulus packages across Provinces



4.4 Impacts of the lifecycle transfers on the economy

As explained earlier, a key aim of injecting cash into the economy through social protection is to encourage families to increase their spending so that national consumption is higher and contributes towards markets continuing to function. This rationale is being followed by countries across the globe as they seek to stimulate their economies, minimise the severity of the recessions they face and enable their economies to recover more quickly.³⁴

The analysis using a General Equilibrium (CGE) model demonstrates that, if Sri Lanka adopts a policy of lifecycle transfers, it will both minimise the depth of the recession in 2020 and enable a more rapid economic recovery. Figure 16 shows the simulated impacts of social protection transfers under a situation in which the crisis lasts for three months. It shows what would happen under three scenarios: 1) no Government support; 2) the Government's current response provided for 2 months only; and, 3)

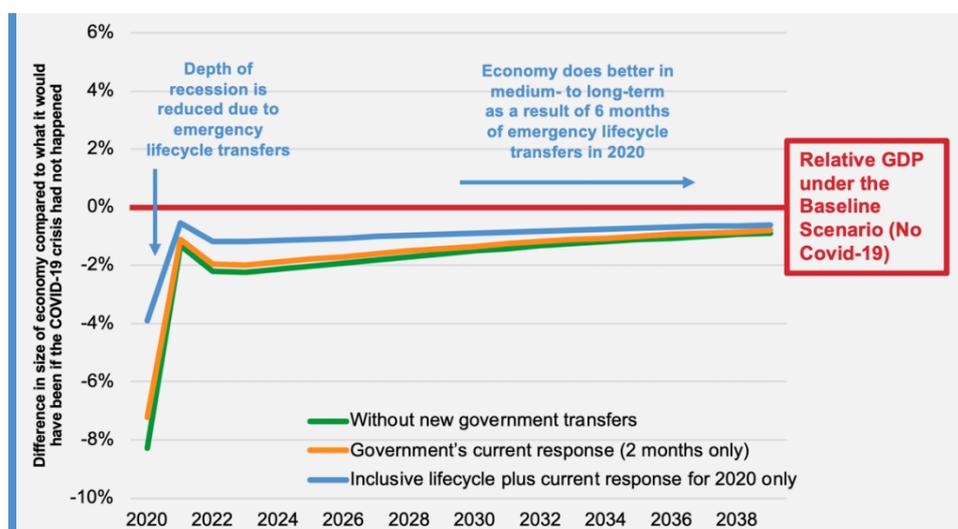
³³ A number of studies have indicated that women may be less likely to be subjected to domestic violence if they are recipients of a cash benefit. See Angelucci (2008); Handa et al. (2009); Hidrobo & Fernald (2013); Bastagli et al. (2016) and Baranov et al (2020). There is also good evidence that higher incomes and social security benefits reduce domestic violence. See WHO (2002).

³⁴ 124 countries are using cash transfers to respond to COVID-19. See Gentilini et al (May 22 2020).

4 A further cash transfers fiscal stimulus to protect the economy and Sri Lankan families

emergency lifecycle transfers offered at the level proposed in Table 2 for 6 months, in addition to the emergency transfers provided by the Government in April and May. The Government's current response would reduce the severity of the recession in 2020 from 8.3 to 7.2 per cent, while the lifecycle transfers would reduce it by much more, to 3.9 per cent. In future years, the economy will, for at least the next 20 years, always be in a stronger position if the lifecycle transfers are provided for 6 months, although it will not recover to where it would have been if the COVID-19 crisis had not happened.

Figure 16: Simulated impacts of social protection transfers (both current Government measures and 6 months of emergency lifecycle transfers), under a situation when the COVID-19 crisis lasts for 3 months



Source: Own elaboration based on a Social Accounting Matrix model for Sri Lanka

The world's most successful economies recognise that social protection is a core component of an economic growth strategy and, for this reason, rich countries invest an average of 12 per cent of GDP in their national social protection systems. It would benefit Sri Lanka to follow the same path and build a modern, social protection system as part of its economic growth strategy. Figure 17 shows the minimum impacts on economic growth if the Government were to continue investing LKR250 billion per year in social protection – just over 1.5 per cent of GDP in 2019 – adjusted to March 2020 values (see Box 2 for an example of what this might mean in practice). The CGE modelling predicts that the **continuing investment in lifecycle social protection**

Box 2: Potential options for a lifecycle social protection system in 2021

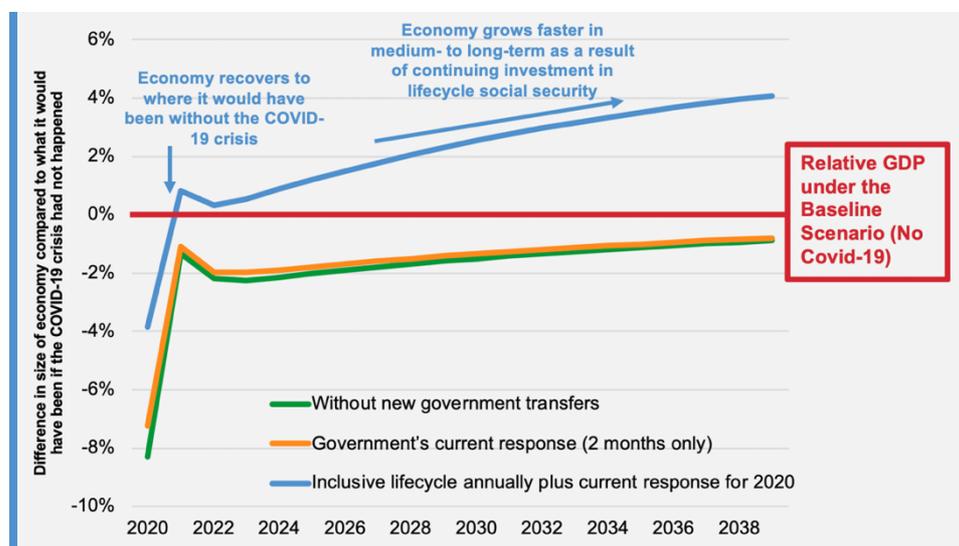
If the Government of Sri Lanka were committed to investing around LKR250 billion in a universal lifecycle social protection system in 2021, one option would comprise:

- A child benefit of LKR2,500 per month for all 0-8 year olds
- A disability benefit of LKR5,800 per month for every disabled person aged 0-69 years.
- An old age pension of LKR5,800 per month for everyone aged 70 years and above.

While the simulations assume that the social protection system with these characteristics will continue indefinitely, of course the Government could choose to expand the system further in future years, gaining further economic, social and political benefits. For example, a recent UNICEF paper shows how a universal child benefit could grow over time, starting with children 0-5 or 0-10 years, to eventually reach all children aged 0-17 years (Kidd, Moreira Daniels et al 2020). And, of course, other components of a lifecycle system could be gradually introduced, such as unemployment, maternity and sickness benefits.

would result in the economy recovering to where it would have been without the COVID-19 crisis by 2021. By 2030, the economy will be 3.9 per cent larger than if no further fiscal stimulus is implemented by the Government. In reality, the impacts on economic growth are likely to be higher, since the CGE model only examines the effect of greater consumption and demand. Yet, there is good international evidence that well-designed social protection impacts on economic growth in a range of other ways such as by strengthening the development of a nation's human capital, encouraging entrepreneurs to take more risks, facilitating higher employment and building a more attractive investment climate.

Figure 17: Simulated impacts of social protection transfers (both current Government response and 6 months of emergency lifecycle transfers and a continuing annual programme of investment in lifecycle social protection), under a situation when the COVID-19 crisis lasts for 3 months



Source: Own elaboration based on Sri Lanka Social Accounting Matrix model.

Reforming Sri Lanka's current national social protection system – which, as noted earlier, is based on handouts for those living in poverty – with a modern, rights-based, lifecycle social protection system which, as a *de facto* investment in Sri Lanka's economy and future, merits serious consideration. Such a system would be able to more effectively reach those on middle – but still low and insecure – incomes. And, importantly, it will provide a sound basis for recovery from the COVID-19 crisis and the foundations of stronger future economic growth. It will also establish a more shock-responsive social protection system so that, if another major crisis hits Sri Lanka in the future, the country could easily provide large-scale emergency support by increasing the value of the transfers paid to existing recipients of schemes, just as Mongolia has been able to do through its existing child, old age and disability benefits.

It should be borne in mind that the scenarios in Figure 16 and Figure 17 are based on a relatively short economic crisis. If the crisis continues, its impact on economic growth will be even greater and, similarly, the imperative for a large-scale fiscal response will be enhanced (potentially, larger than the one described in this paper). While a deeper recession will mean that the economic recovery will take longer, it will always be faster with an effective fiscal response and the development of a modern, lifecycle social protection system.

5 Financing social protection measures to address the impacts of COVID-19

Investments in social protection as a stimulus package during the COVID-19 crisis inevitably raise the question of how it will be paid for. Given the current state of Sri Lanka's national finances, funding a fiscal stimulus will not be easy. Nonetheless, the imperative to minimise the current recession and facilitate a rapid economic recovery means that Sri Lanka cannot afford not to expand its fiscal response to the crisis. Potential options to be explored include, but are not limited to:³⁵

- **Quantitative easing** – or, in other words, “creating new money” – over a short period of time could be attempted. The extent to which Sri Lanka can do this will need to be carefully assessed since it may trigger a fall in the value of the Rupee on the international exchange markets and provoke inflation that is too high. However, the risk of higher inflation, initially, is minimal given the overall fall in prices of consumer goods as a result of COVID-19. Nonetheless, if it is adopted, there would need to be careful macro-surveillance of its impacts.
- **Re-allocating government spending** from inefficient areas to the stimulus package should be a high priority. An examination of each budget item should be undertaken to determine whether it is delivering value for money in the current context.
- There have been significant falls in the price of oil so Sri Lanka could examine whether eliminating the **fuel subsidy** – which tends to disproportionately benefit the wealthy³⁶ – is viable. If so, savings should be re-allocated to a more equitable form of social protection, such as the lifecycle schemes proposed in this paper, which should strengthen popular support for such a move. Further, given the challenges of climate change, Sri Lanka may wish to consider moving to a position of taxing fuel to create appropriate incentives to reduce its use and replace it with more sustainable forms of energy creation.
- Sri Lanka could consider **reversing the income tax cuts** from December 2020 – which were implemented at a time this crisis could not have been foreseen – or examining higher income taxes for the wealthiest members of society who are still in work. The vast majority of the population do not earn enough to be affected by income tax rises, which should be targeted at those who can afford to pay them. This is in line with proposals from both the IMF (2020) and OECD (2020) which have argued that higher income taxes should be understood as ‘solidarity surcharges.’ Since income taxes would only affect those who still have jobs, it would be a means of asking those suffering the least from the crisis to help those suffering the most. Further, if income tax increases are used to invest in lifecycle benefits, the vast majority of the population is likely to end up as net beneficiaries. So, while increases in income tax may provoke a negative reaction among some, this would be mitigated if, at the same time, the Government introduces a range of universal lifecycle benefits, as proposed in this paper. Indeed, across the majority of the population, it could well be a very popular move, as long as they can clearly see that they benefit in the form of a cash transfer.

³⁵ These are not yet concrete proposals, but rather some ideas that might be worth exploring within the Sri Lankan context.

³⁶ Economynext (2017).

- A **one-off wealth tax or permanent increase on the tax on property ownership** could also be considered so that those with the broadest shoulders are given the opportunity to support the majority of the population at a time of great need. Again, the IMF (2020c) and OECD (2020) have argued in favour of such taxes as ‘solidarity surcharges.’ If this helps maintain stability, those who pay the tax will find that it is money well-spent.
- **New tax revenue options** could be explored, such as on the digital economy, inheritance taxes as well as expanding so-called ‘sin taxes’ on tobacco and alcohol. And, could to be done to **stop illicit financial flows overseas** while enhancing the capacity of the tax system to seek out hidden wealth.
- The Government could seek a short term **debt moratorium followed by medium to long term debt restructuring/re-scheduling** that would free fiscal space to invest in protecting the population through social protection. As Nobel laureate economist Joseph Stiglitz argues, this should include a grace period for growth, lower interest rates, a change in the maturity and a reduction in the principal.³⁷ If Sri Lanka were to use its savings by expanding its social protection fiscal stimulus, it would be easier for the country to repay its debts in the medium- to long-term (see below). Sri Lanka’s total debt service (not interest) currently comprises half of expenditure while, in 2019, total debt service was more than the Government’s total revenue. These figures underscore the challenges of Sri Lanka’s national finances. A deferral of 6 months on half the national debt, for example, could potentially generate 1.5 per cent of GDP of fiscal space, which would be sufficient to pay for 6 months of lifecycle transfers.
- The options for further **loans from international financial agencies** such as the International Monetary Fund (beyond the Rapid Financing Instrument), Asian Development Bank, World Bank and bilateral donors could be examined. Indeed, if, as a result of the COVID-19 crisis, Sri Lanka slips back to lower middle-income status, further concessional finance may become available. The availability of grants from bilateral donors is likely to be limited.

As the economy – and, therefore, Government revenues – shrink, an increase in the national gross debt is inevitable, even if further loans to pay for the stimulus package are not taken. In the medium- to long-term, of course, the best means of reducing the debt is through economic growth. Therefore, by investing in an effective fiscal stimulus now, there will be a faster recovery of government revenues, which should enable the Government to reduce its gross debt more quickly. Indeed, as explained in Section 4.4., by expanding the national social protection system beyond the crisis – in effect, to move towards building a national Social Protection Floor and achieving SDG 1 – economic growth will be higher which should generate even more tax revenues.

Indeed, a social protection system that offers high quality, universal lifecycle transfers is likely to be highly popular and should strengthen the national social contract, thereby encouraging citizens to pay higher taxes, in return for these higher quality services.³⁸ This was a key component of Europe’s economic and social success, following the shock of the 2nd World War, when most European countries were poorer than Sri Lanka is at present.³⁹ By investing in high quality universal services, including social

³⁷ Stiglitz (2020).

³⁸ See Kidd (2015) for a more in-depth explanation.

³⁹ Sri Lanka’s GDP per capita in constant terms was estimated to be US\$12,300 (PPP). This compares to the similarly measured GDPs of the highly successful Nordic countries in 1946: Denmark’s was US\$12,050, Finland’s US\$6,230, Norway’s US\$9,070 and Sweden’s US\$9,985.

protection, the social contract in Europe was strengthened and tax revenues increased significantly, which, in turn, enabled further investments in high quality public services, creating a virtuous circle of ever-improving public services and higher government revenues, alongside a successful economy. It may be no coincidence that Nepal is the only country in the Indian sub-continent to provide universal social protection and also the only country in the region to have enjoyed a significant increase in government revenues, which have doubled in the past 20 years, despite Nepal also being the poorest country in the region.⁴⁰ If Sri Lanka were to enjoy higher government revenues as a result of investing in universal social protection and strengthening the social contract, this would make it even easier to pay off the gross national debt and, over time, further enhance the quality of all public services, with the nation creating its own virtuous circle.

⁴⁰ Nepal invests around 1.6 per cent of GDP in its tax-financed social protection transfers, including universal benefits for older people, widows and people with disabilities. It is currently rolling-out a universal child benefit for young children. This compares with Sri Lanka's investment in its poverty-targeted social assistance schemes of less than 0.5 per cent of GDP.

6 Conclusion

The COVID-19 crisis highlights the importance of ensuring adequate social protection coverage for all, which can be accessed whenever people are vulnerable such as during childhood, old age, sickness, disability or employment (including through adequate labour standards). There is a real risk that COVID-19 will set back the Sri Lankan economy and cause higher unemployment, poverty and deprivation, with households that have children, older people and persons with disabilities as members being particularly vulnerable. The risk of a weakening of national social cohesion could be high, unless a fair, transparent, and easily understood fiscal stimulus that is capable of reaching the majority of the population and kickstart an economic recovery is put in place.

In line with current global thinking across the IMF, World Bank and United Nations, there is a proposed solution: offering a package of universal lifecycle benefits to children, older people and people with disabilities as part of a set of broader support mechanisms that also address unemployment, support businesses (particularly SMEs) and protect health. Due to the simplicity of their eligibility criteria, the lifecycle schemes would be relatively easy to implement. They would be opt-in so, if families do not need them, they could choose not to apply. The benefits of the schemes would be significant. They would:

- Provide a **major stimulus to the economy**, reducing the severity of the forthcoming recession while many businesses and producers would continue to find markets for their goods;
- Protect **human rights** and development which, in the long-term, will minimise losses in human capital and enable Sri Lanka to continue building a labour force with the skills to compete in international markets;
- **Reduce the risk of domestic violence** by decreasing stress levels and safeguarding the mental health of parents, children and other household members;
- Help keep individuals **food-secure and well-nourished**, so that they are less likely to suffer from ill-health, including from the COVID-19 virus itself; and,
- **Strengthen trust in government and social cohesion** since citizens will be able to clearly see that the government is caring for them in an inclusive, easily understood, non-controversial, popular and transparent manner.

While the crisis brings real risk, a solution is possible. Bold, ambitious and creative thinking is required. While it may be challenging to find the funds for an effective fiscal stimulus, the cost of not doing so in terms of the damage to the economy and families will be high. An ambitious fiscal stimulus based on universal, lifecycle transfers – as a first step in building a national Social Protection Floor – is an absolute necessity. The decisions made now will have long-lasting impact; therefore, leadership to do what it takes to defeat the COVID-19 crisis, and to leave a legacy for the nation, is essential.

Bibliography

- Angelucci, M. (2008). Love on the rocks: Domestic violence and alcohol abuse in rural Mexico. *The B.E. Journal of Economic Analysis & Policy* 8(1).
- Bastagli, F., Hagen-Zanker, J., Harman, L., Barca, V., Sturge, G., Schmidt, T. & Pellerano, L. (2016). Cash transfers: What does the evidence say? A rigorous review of programme impact and of the role of design and implementation features. Overseas Development Institute. London.
- Baranov, V., Cameron, L., Contreras Suarez, D., & Thibout, C., (2020). Theoretical Underpinnings and Meta-analysis of the Effects of Cash Transfers on Intimate Partner Violence in Low- and Middle-Income Countries. *The Journal of Development Studies*.
- Economynext. (2017). Sri Lanka fuel subsidies consumed by the richest 30-pct. Economynext: An echelon Media Company. Retrieved from: <https://economynext.com/sri-lanka-fuel-subsidies-consumed-by-the-richest-30-pct-8707/>
- Gentilini, U., Almenfi, M., Dale, P., Demarco, G., & Santos, I. (2020). Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures. World Bank. Washington, D.C. Accessed on 22 May 2020.
- Handa, S., Peterman, A., Davis, B. & Stampini, M. (2009). Opening up Pandora's box: The effect of gender targeting and conditionality on household spending behavior in Mexico's Progresa Program. *World Development* 37(6): 1129–1142.
- Hidrobo, M. & Fernald, L. (2013). Cash transfers and domestic violence. *Journal of Health Economics* 32(1): 304-319
- IMF (2020a). Fiscal monitor: Policies to support people during the COVID-19 crisis. International Monetary Fund. Washington, D.C.
- IMF (2020b). Managing the Impact on Households: Assessing Universal Transfers (UT). *Special Series on Fiscal Policies to Respond to COVID-19*. International Monetary Fund. Washington, D.C.
- IMF (2020c). Tax Issues: An Overview. Special Series on Fiscal Policies to Respond to COVID-19. Fiscal Affairs. International Monetary Fund. Washington, D.C.
- Kidd, S. (2015). The Political Economy of “Targeting” of Social protection Schemes. *Pathways' Perspectives on Social Policy in International Development*, 19.
- Kidd, S., Athias, D. & Tran, A. (2020). Addressing the COVID-19 Economic Crisis in Asia through Social Protection. Paper prepared with UNDP's Asia-Pacific Economist Network.
- Kidd, S., Moreira Daniels, L.M., Gelders, B., Athias, D. & Cretney, M. (2020). Investing in the future: A universal benefit for Sri Lanka's children. *UNICEF Sri Lanka Working Paper*. Colombo.
- Kidd, S. & Athias, D. (2020). Hit and Miss: An Assessment of Targeting Effectiveness in Social Protection. *Working Paper*. Paper re-published in 2020 by Development Pathways. London.

Bibliography

- OECD. (2020). Tax and Fiscal Policy in Response to the Coronavirus Crisis: Strengthening Confidence and Resilience. Tax and Fiscal Policy in Response to the Coronavirus Crisis. OECD. Paris.
- Ravallion, M. (2020). "On the virus and poor people in the world," April 2, 2020. Retrieved from: <https://economicsandpoverty.com/posts/>
- Richter, L. M., Daelmans, B., Lombardi, J., Heymann, J., Boo, F. L., Behrman, J. R., Lu, C., Lucas, J. E., Perez-Escamilla, R., Dua, T., Bhutta, Z. A., Stenberg, K., Gertler, P., & Darmstadt, G. L. (2017). Investing in the foundation of sustainable development: Pathways to scale up for early childhood development. *The Lancet*, 389(10064), 103–118.
- Rutkowski, M. (2020). COVID-19 reinforces the case for fundamental reform of our social protection systems. Retrieved from: <https://blogs.worldbank.org/jobs/covid-19-reinforces-case-fundamental-reform-our-social-protection-systems>
- Standing, G. (2014). *The Precariat: The New Dangerous Class*. London: Bloomsbury.
- Stiglitz, J.E. (2020). Argentina's default may be a harbinger for other countries in debt. *Boston Globe*. Retrieved from: <https://www.bostonglobe.com/2020/05/27/opinion/argentinas-default-may-be-harbinger-other-countries-debt/>
- UNESCAP. (2020). *The Impact and Policy Responses for COVID-19 in Asia and the Pacific*. United Nations Economic and Social Commission for Asia and the Pacific.
- United Nations (2020). *A UN framework for the immediate socio-economic response to COVID-19*.
- World Bank. (2020). *South Asia Economic Focus, Spring 2020: The Cursed Blessing of Public Banks*. World Bank. Washington, D.C.
- World Health Organization. (2002). *World report on violence and health*. Geneva: World Health Organization. Retrieved from: https://www.who.int/violence_injury_prevention/violence/world_report/chapters/en/ Accessed on 6 February 2020.

For further information, please contact:

UNICEF Sri Lanka
colombo@unicef.org

United Nations Children's Fund
No 3/1, Rajakeeya Mawatha,
Colombo 07, Sri Lanka
Tel: +94 112 677550
Fax: +94 11 2677110
www.unicef.org/srilanka

 UNICEFSriLanka
 unicef_srilanka
 UNICEF_SriLanka

unicef 

for every child