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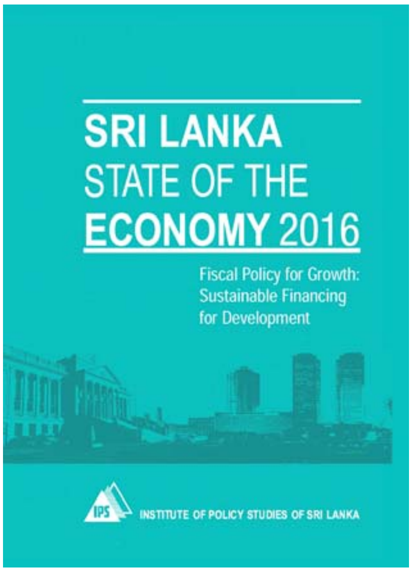
POLICYINSIGHTS

INSTITUTE OF POLICY STUDIES OF SRI LANKA

IMPROVING EFFICIENCY AND MOBILISING RESOURCES FOR POVERTY REDUCTION INITIATIVES IN SRI LANKA

From the IPS flagship publication 'Sri Lanka: State of the Economy 2016 Report'



Sri Lanka's performance in poverty reduction over the years has been commendable, with the poverty headcount ratio falling to 6.7% in 2012/13 and successfully achieving the MDG of halving poverty before the deadline. The reduction in poverty should ideally lead to a decrease in expenditure on the poor. However, this has not been the case for Sri Lanka. Government expenditure related to poverty and vulnerability has shown a remarkable increase in recent years. A closer inspection of the existing government poverty and vulnerability initiatives shows that there are many inherent inefficiencies leading to the ineffective implementation of programmes.

This policy insight focuses on possible improvement in cost-efficiency of current poverty reduction programmes -- primarily, the Divineguma programme as it is the single largest -- while lessening their fiscal burden and explores the potential of mobilizing private sector participation as a complementary measure of financing poverty reduction.

Expenditure Patterns for Poverty and Vulnerability

Expenditure related to poverty and vulnerability, in particular transfers and subsidy expenditure has shown a remarkable increase in recent years.

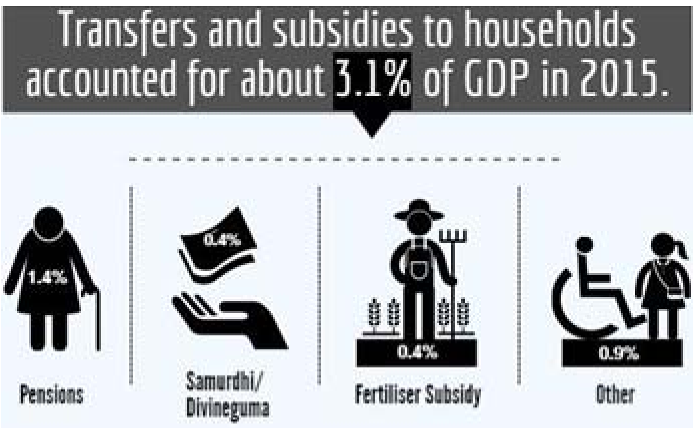
Pension expenditure accounts for nearly a half of total expenditure on transfers and subsidies to households. Expenditure on Samurdhi/Divineguma transfers - the largest transfer programme for the poor in Sri Lanka - has shown a significant increase from around Rs. 15 billion in 2014 to nearly Rs. 40 billion in 2015, accounting for about 0.4% of GDP - a substantial increase from 0.1% in 2014. The (estimated) budget of the Divineguma programme has increased in 2016 from its 2015 level, mainly due to the increase in the estimated cost of transfers under the welfare programme, and the cost of personal emoluments.

Divineguma Welfare Programme

The Divineguma (or Samurdhi) welfare programme comprises of monthly cash transfer, social security/insurance and housing assistance programmes for low income groups. It is the main component of the Divineguma programme in terms of its budgetary allocations, accounting to over 75% of the total Divineguma budget.

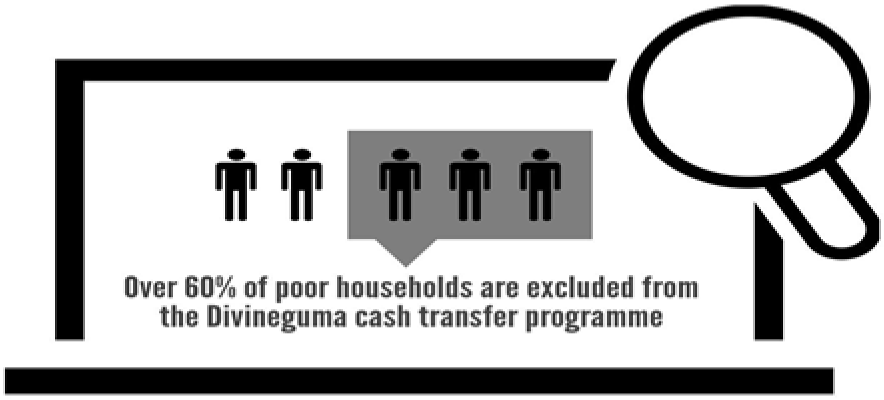
The cost of the welfare programme increased substantially in 2015 with an increase granted in the monthly benefits to families. As at December 2015, there were 1,453,078 beneficiary families. However, the Divineguma cash transfer programme, has many shortcomings; inefficiencies of the targeting mechanism; lack of clearly defined eligibility criteria and entry and exit mechanisms; issues related to the quality of benefits; and the politicization of the programme.

Estimates based on Household Income and Expenditure Survey 2012/13 data shows that 16.4% of households in the



"The rising cost of Divineguma requires a detailed analysis to identify issues and weaknesses in order to improve efficiency and reduce the fiscal burden."

country are receiving Samurdhi cash transfers although the percentage of poor households is 5.3%. However, more than 80% of the Samurdhi recipient households are non-poor while over 60% of poor households are excluded from the programme. These targeting errors are partly due to the lack of clearly defined criteria for beneficiary selection, and lack of systematic entry and exit mechanisms. A systematic selection mechanism can help minimize targeting errors of the Divineguma transfer programme, which would in turn help improve the quality of the benefits provided.



Divineguma Livelihood Programme

The livelihood development programme component of Divineguma aims at addressing poverty by improving the income generating capacity of low-income families. Since its introduction in 2014, there has been a trend towards increasing the beneficiary contribution (compared to the government contribution) to the projects supported under the programme. This can be considered as a progressive step to better ensure beneficiary commitment and reduce dependence on government hand-outs. The stance taken since 2016 to provide financial assistance to execute selected business plans can also be considered as an improvement in the strategy.

The programme could be further improved by taking an Asset Based Community Development (ABCD) approach where particular attention is paid to linking micro-assets of the community to the macro-environment of the community through an endogenous mechanism, instead of the current, apparently ad-hoc nature of livelihood assistance based on beneficiary requests financed by injecting external resources to communities.

Divineguma Microfinance Programme

The Divineguma microfinance programme aims at promoting savings among low-income families and providing them access to loan facilities. This programme is implemented through the Divineguma banks, which play an important role in the overall Divineguma programme.

The main source of funding is savings. These banks play an important role in improving access to financial services among low-income groups. Nevertheless, the Divineguma banking system has a number of issues and weaknesses that need to be addressed to ensure sustainability, protect its clients and ensure sustainable access to financial services among low income groups. Among these issues are: inadequate regulation and supervision; low and declining lending rates; introduction of ad-hoc loan schemes by the government; inadequate use of new technology; inadequate training for bank staff and field officers.

Beyond Government Initiatives - CSR Initiatives for Poverty Reduction

While improving the efficiency of government poverty reduction programmes, it is also important to explore complementary sources of financing for poverty reduction and reaching pockets of poverty in the country. One such viable option is to mobilize private sector participation in poverty reduction through encouraging and directing their Corporate Social Responsibility (CSR) related activities.

There is great untapped potential in using CSR expenditure as a means of financing poverty reduction in Sri Lanka. According to 2012 estimates, Rs. 4 billion are spent annually on CSR, but this money is spent on ad-hoc projects carried out by various organizations, prioritized at the discretion of individual companies. Currently, the CSR related activities of the private sector are not aligned with national priorities nor are they particularly encouraged by the Sri Lankan government. These issues need to be addressed in order to fully utilize the potential of CSR activities in poverty reduction.

"It is important to explore the potential of mobilizing private sector participation in poverty reduction."

There is much that could be done to improve the existing government initiatives for poverty reduction. It is pivotal to revisit the Divineguma programme to assess the right balance between its key components and to improve their efficiency. While improving the government programmes, it is important to ensure that the private sector initiatives are better aligned with the national priorities to fully utilize the potential of the private sectors to reduce country's poverty and vulnerability.

This Policy Insight is based on the comprehensive chapter on "Improving Efficiency and Mobilising Resources for Poverty Reduction Initiatives in Sri Lanka" in the 'Sri Lanka: State of the Economy 2016 Report' - the flagship publication of the Institute of Policy Studies of Sri Lanka (IPS). The complete report can be purchased from the publications section of the IPS, located at 100/20, Independence Avenue, Colombo 7. For more information, contact the Publications Unit on 0112143107/0112143100.

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