

A Common
Minimum Program for
Economic Recovery

Many newly poor in Sri Lanka

- In 2019: 3 million individuals (14.3% of the population) living in poverty (spending less than Rs. 7000 per capita per month)
- Today: Many more likely to have fallen into poverty given record inflation, unemployment etc.
- UN OCHA estimates 5.7 million in need of assistance now – 2x those below poverty line in 2019

Social safety nets necessary, and can come in many forms

- Cash transfers to vulnerable groups
 - Conditional cash transfers (payment made if program objectives are met)
 - Unconditional cash transfers (payment made without imposing conditions)
- In-kind transfers for vulnerable groups
 - E.g. bags of food
- Vouchers
 - Usable in designated shops (to purchase allowed list of goods)
- Universal basic income
 - Everyone gets paid a flat amount, to enable living above poverty line

- Relatively simple to deploy
- Reduces opportunities for leakages if well implemented
- Gives households autonomy to prioritize expenses according to their needs

Cash transfers are proven to have improved food security, financial & psychological wellbeing



Country	Programme	Intervention	Impacts				
			Food security	Psychological wellbeing	Financial wellbeing		
					Savings	Entrepreneurship	Investment
Kenya	GiveDirectly	Provided eligible households with a series of three transfers totaling USD 1,000 delivered through the mobile money platform M-Pesa. The transfer amount was equivalent to 75 percent of recipient household's annual spending.	✓	✓		✓	✓
Niger	Zap	One-third of targeted villages received a monthly cash transfer of roughly USD 45 via a mobile money transfer system	✓				✓
Zambia	Child Grant Program (CGP)	Provided eligible households almost USD 12 per month (paid bimonthly) irrespective of household size and gives the money to the child's primary caregiver.	✓		✓	✓	
DR Congo	Concern Worldwide's social protection scheme	Households received an unconditional cash transfer of US\$130 over a seven-month period.	✓		✓		
Sri Lanka	Pilot Cash Transfer Project (CTPP)	The total transfer value amounted to 150 Sri Lankan rupees per beneficiary per week, or USD 1.5. The cash was distributed on a fortnightly basis to targeted households from randomly selected communities in Batticaloa, Galle, and Hambantota.	✓				✓
Ecuador	WFP cash transfer program	The value of the monthly transfer was USD 40 per month per household.	✓				

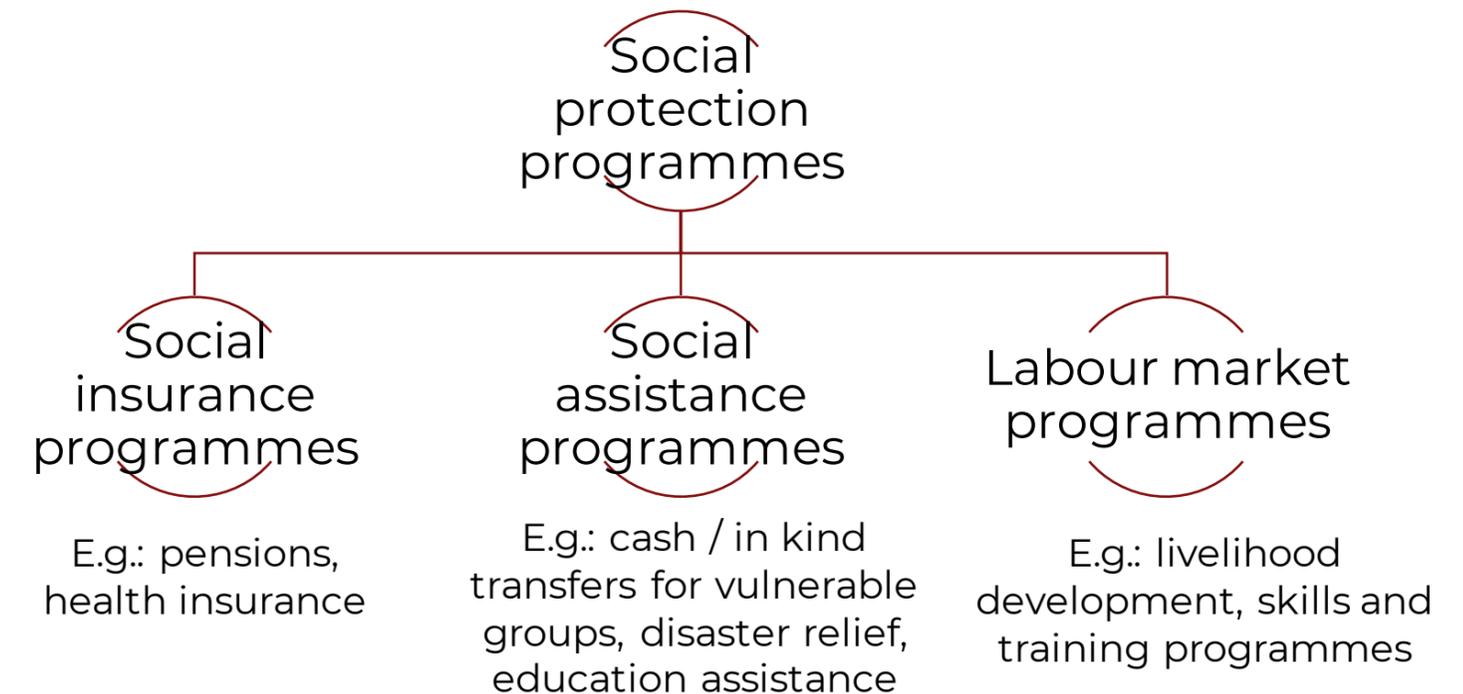
Sources: Zambia - Natali et al. (2016), Kenya - Haushofer and Shapiro (2016), Niger- Aker et al. (2016), Ecuador - Hidrobo et al. (2012), Sri Lanka - Sandström and Tchatchua (2010), DR Congo – Aker (2017)

Cash transfers do not increase consumption of temptation goods (alcohol, tobacco), nor reduce the incentive to work

- Cash transfers are **not** used to purchase temptation goods
 - A systematic review with evidence from 19 countries in Asia, Africa and Latin America shows that cash transfers did not increase purchase of temptation goods such as alcohol and tobacco at a significant level. This is consistent across conditional and unconditional cash transfer programmes.
- Cash transfers do **not** reduce the incentive to work
 - Randomized controlled trials from 6 countries (Honduras, Morocco, Philippines, Mexico, Indonesia & Nicaragua) showed no evidence of cash transfer programs impacting either the propensity to work or the overall number of hours worked, for either men or women. This was true of conditional and unconditional cash transfer programmes.
 - Cash transfers could help households escape the classic poverty trap problem by allowing them to have a basic enough living standard to be productive workers.
 - An infusion of cash could reduce credit constraints to starting or growing a business.

Several cash transfer programmes in Sri Lanka; needs consolidation under Welfare Benefits Board

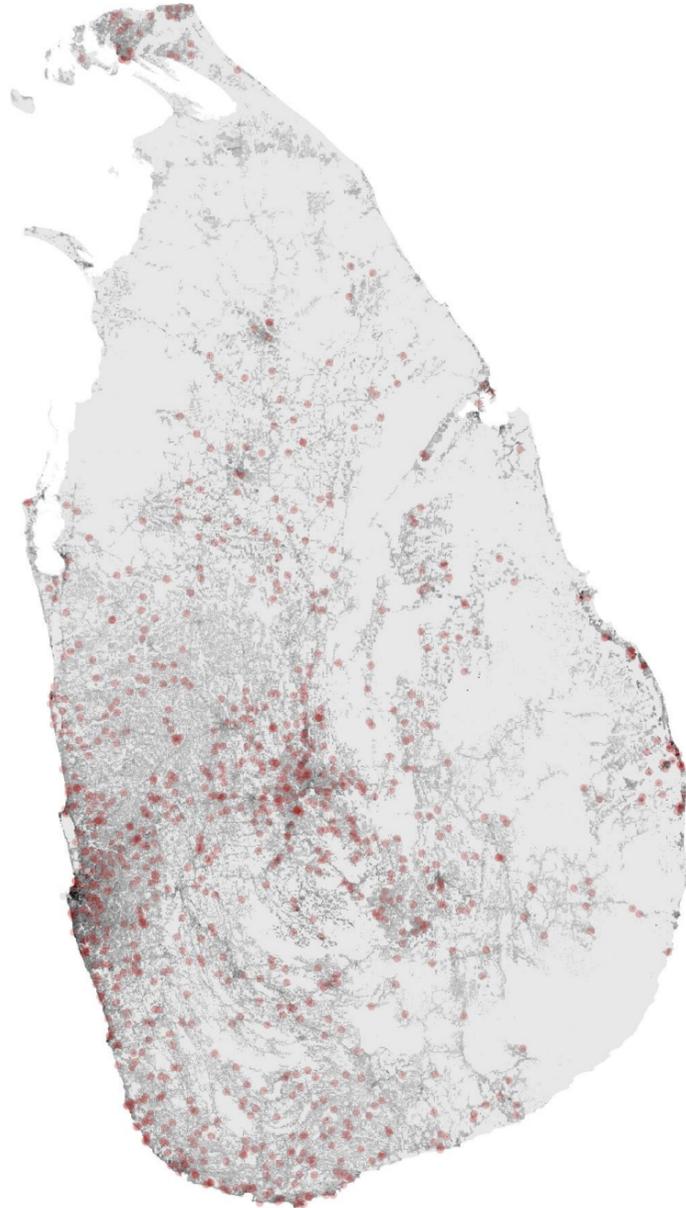
- Sri Lanka has over 30 different social protection programmes under 11 different ministries. These include social insurance, social assistance and labour market programmes.
- Monthly payments are made to beneficiaries of several programmes (Samurdhi, PAMA, Elders Assistance Programmes, Disability Assistance, Pensions etc.)
- Consolidate welfare schemes under Welfare Benefits Board and build unified beneficiary database



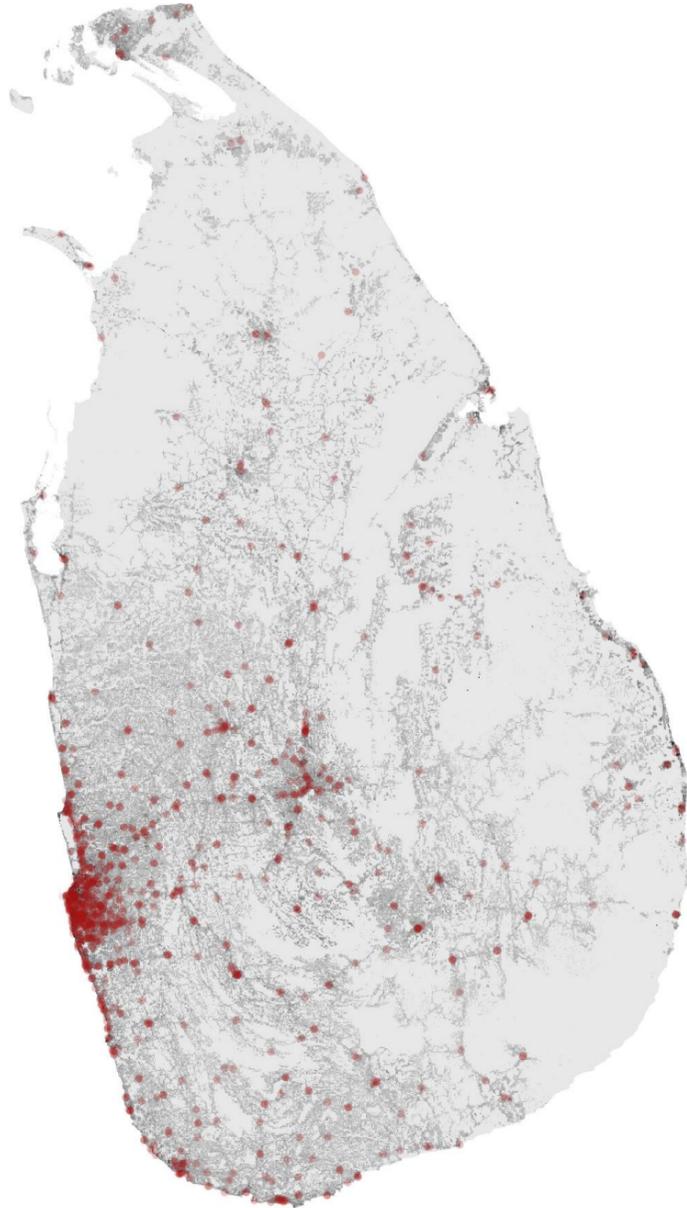
Monthly benefits for select social assistance programmes

Programme	Monthly Benefit (LKR)	
	Total amount	Net amount
Samurdhi programme		
2 or fewer family members	1500	1345
3 member families	2500	2245
4 or more member families	3500	3145
Public Assistance Monthly Allowance (PAMA)	250-500	
Elders Assistance Programme	2000	
Disability Assistance	3000	

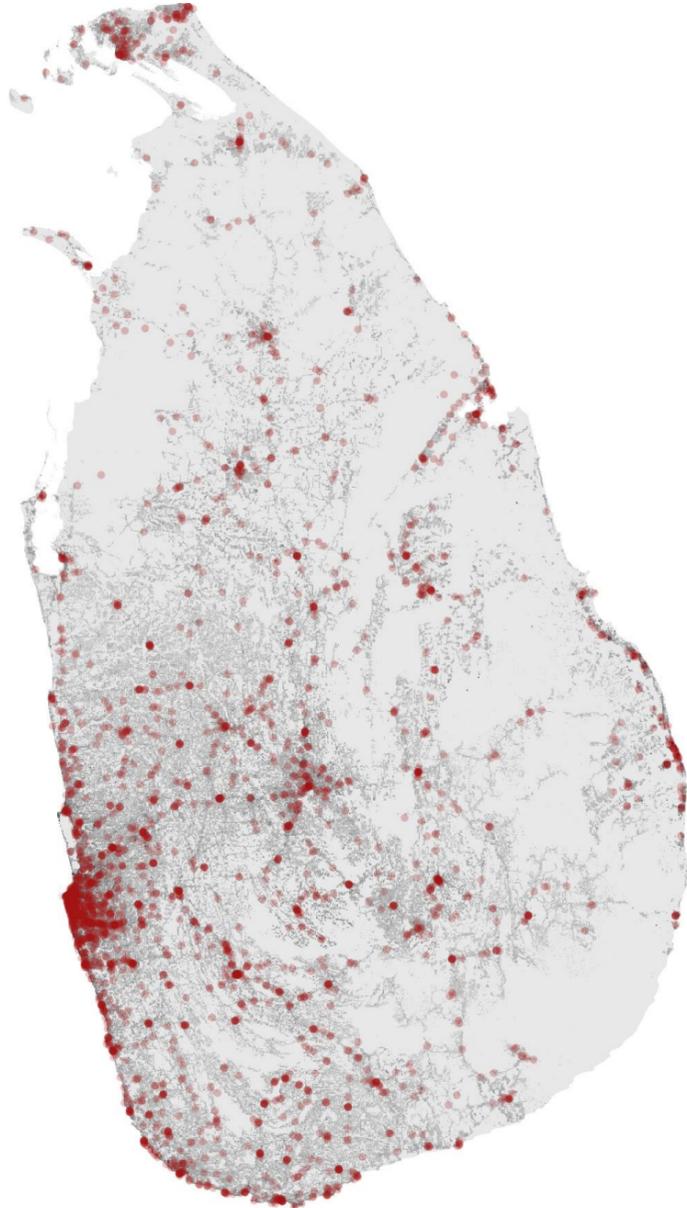
Transfer payments to banks; allow cash out at all ATM branches & mobile money outlets



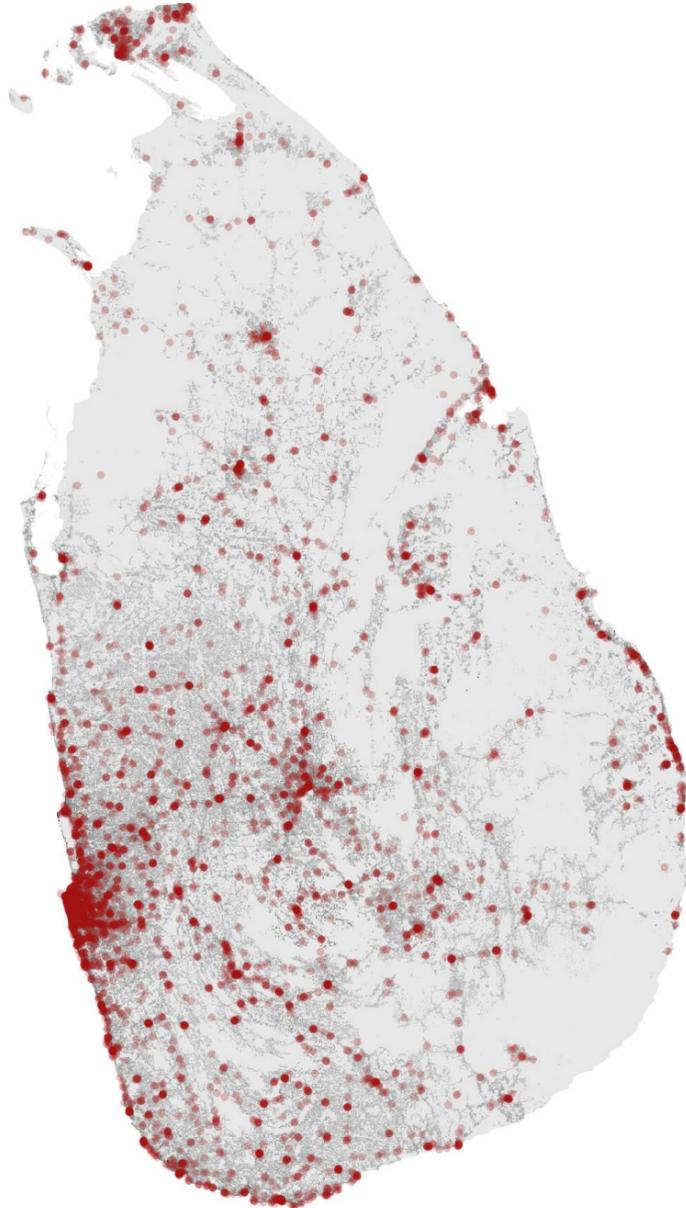
Samurdhi programme



Modern trade outlets



Mobile money

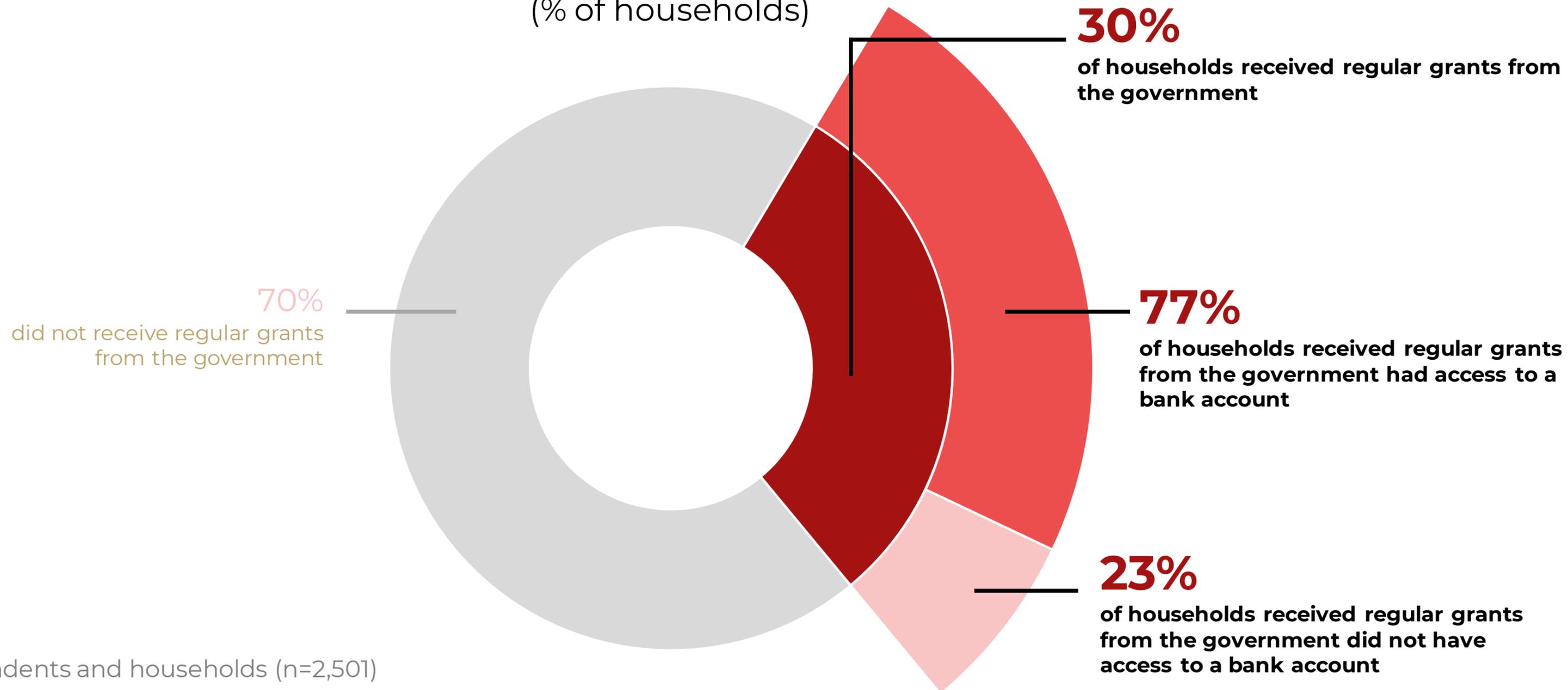


Mobile money (with expansion)

Source: LIRNEasia estimates

77% of regular welfare beneficiaries have a (non-Samurdhi) bank account

Households that received social grants or benefits from the state (% of households)



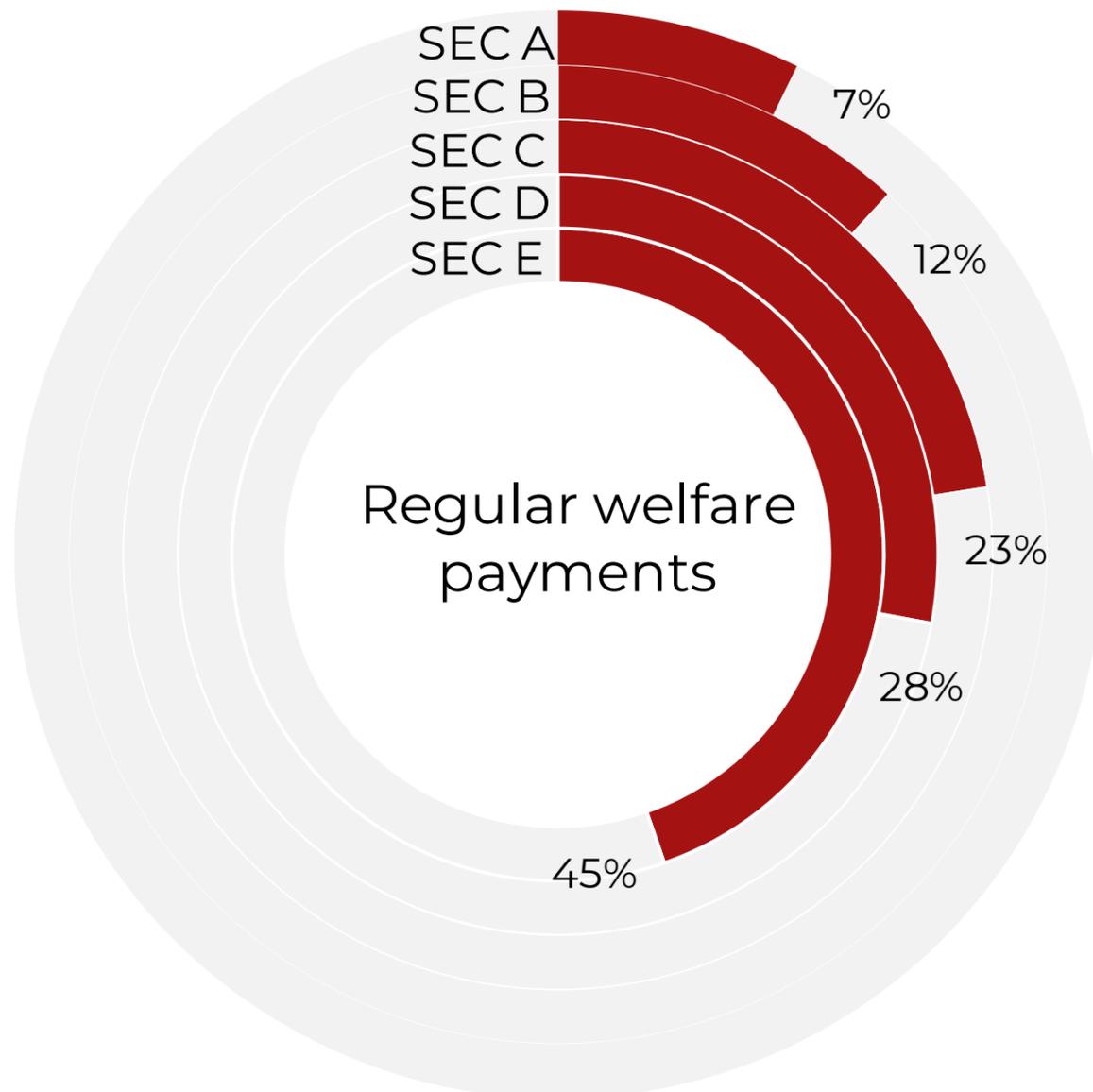
Base: All respondents and households (n=2,501)

Q: How many people in this household receive regular social grants or benefit (welfare) from the state (eg. disability, unemployment, veteran, child support, scholarship, Samurdhi)?

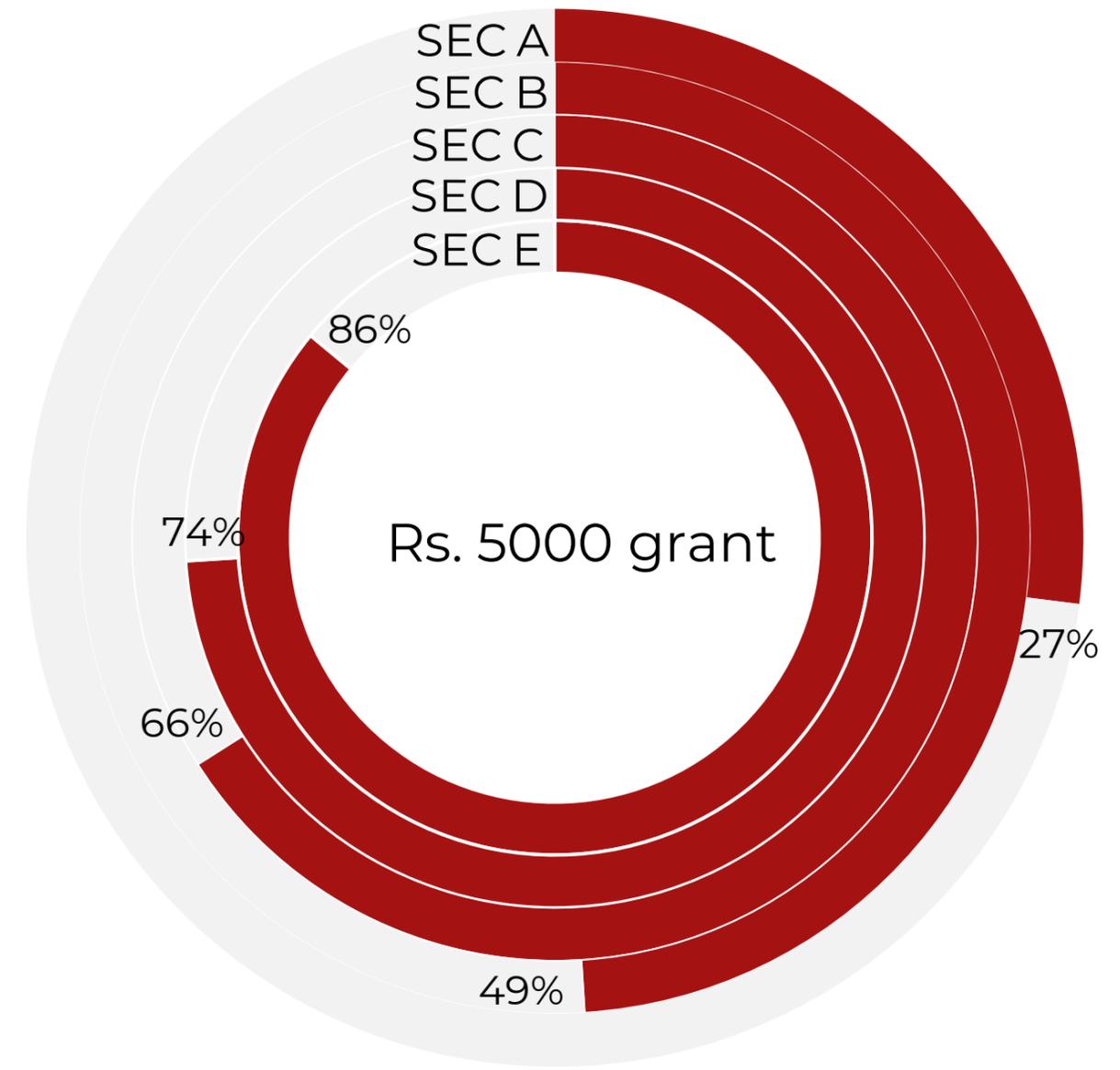
Source: LIRNEasia COVID impact survey, 2021. Representative of all households and age 15 and above population in Sri Lanka with a +/- 2.8% margin of error at 95% confidence interval.

Poor targeting evident in the past, with inclusion and exclusion errors

Households that received regular social grants or benefits from the state (% of households)



Receipt of Rs.5,000 grant from government during the lockdown (% of households)



* Socio economic classification is a proxy for household income based on the education and occupation of the household head.

Base: All households (n=2,501)

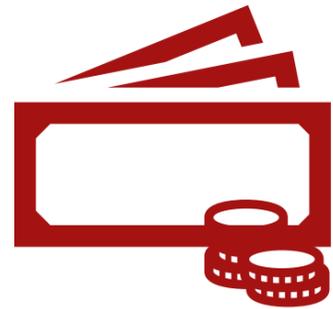
Source: LIRNEasia COVID impact survey, 2021. Representative of all households and age 15 and above population in Sri Lanka with a +/- 2.8% margin of error at 95% confidence interval.

Q: How many people in this household receive regular social grants or benefit (welfare) from the state (eg. disability, unemployment, veteran, child support, scholarship, Samurdhi)? Q: Did any member of this household receive the Rs. 5,000 grants from the government during the COVID-19 lockdown?

Need new methods to identify those in need of assistance

Current

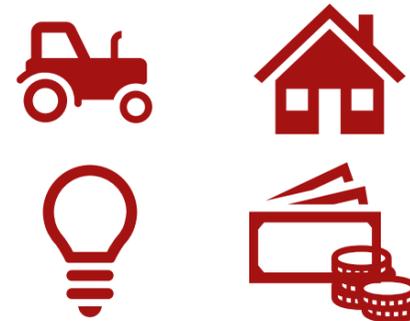
E.g.: Samurdhi



Last update:
Households those
earning less than Rs.
6000 eligible (means
testing)

Proposed

2019 Gazette – Ministry of Finance



Asset ownership,
household
characteristics, income
& expenditure
considered (means +
proxy means testing)

More options?



Explore new data
streams to augment
proposed method,
differentiated
indicators for different
geographies etc.

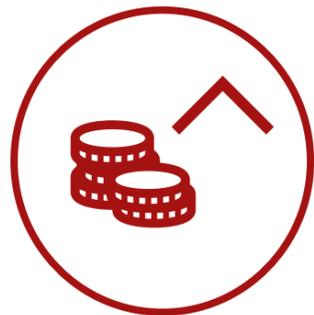
Funds required for sustenance has increased given high inflation

Metric	Poverty line threshold		Emergency cash transfer
	(per capita)	(per household*)	(per household/capita depending on entry criteria)
Original	Rs. 7000 (2019)	Rs. 28,000 (2019)	Rs. 5000 (April 2020)
Adjusted by headline inflation level (NCPI, M-o-M, upto May 2022)	Rs. 11,216	Rs. 44,864	Rs. 7740
Adjusted by food & non-food inflation levels, as per food-non food ratio of those below poverty line (NCPI, M-o-M, upto May 2022)	Rs. 11,879	Rs. 47,516	Rs. 7892

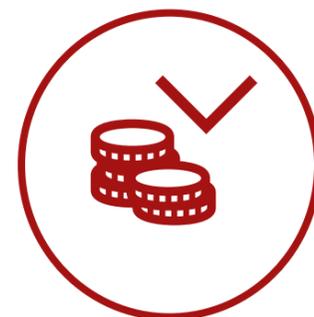
*average household size in bottom 2 deciles: 4

Source: Calculated by author based on data from Department of Census and Statistics (2022 [a](#); [b](#))

Need a system that allows for easily adjustable payment amounts



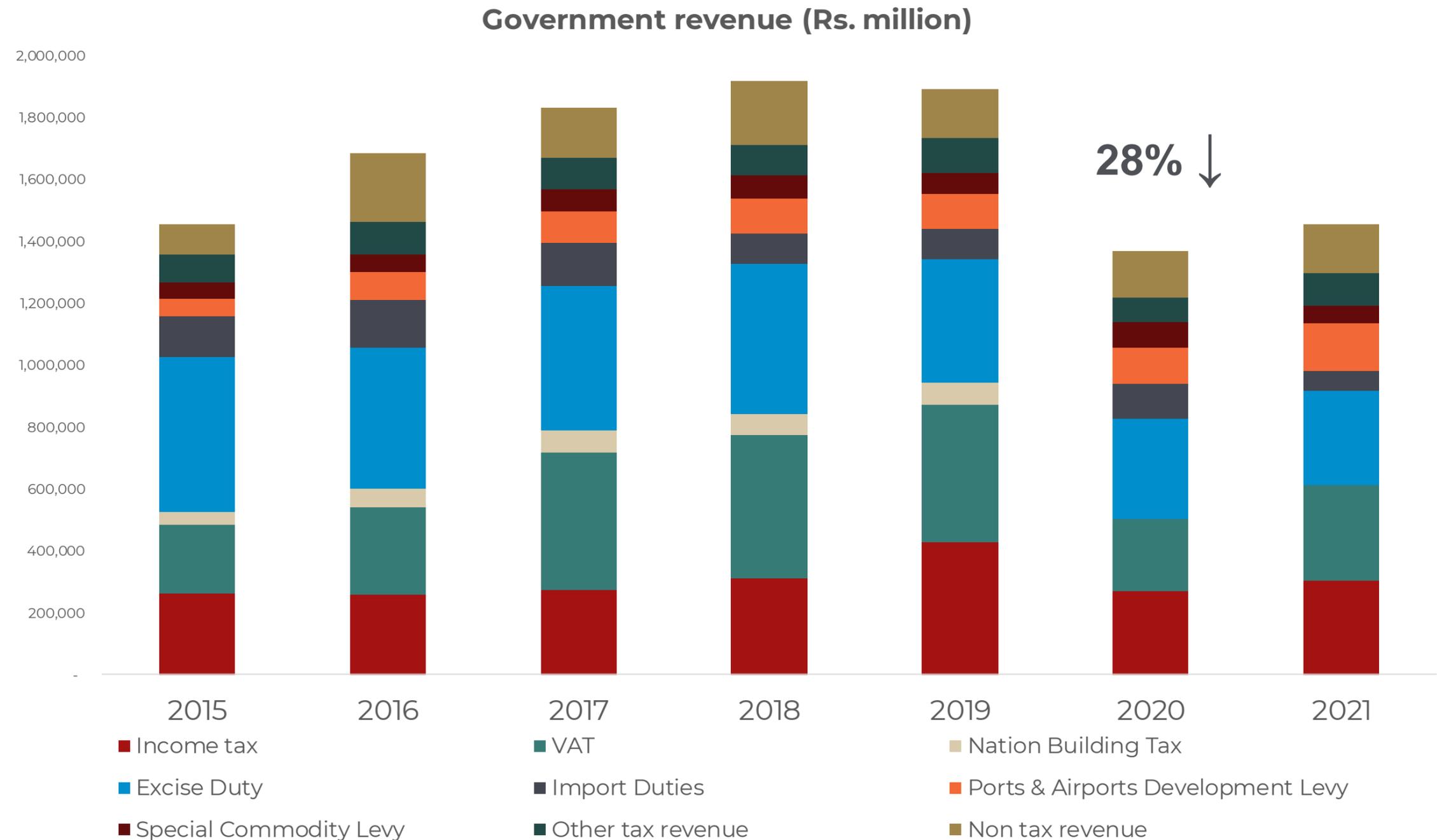
If high inflation continues, payment amounts can be increased further to allow for citizens to continue to access basic necessities



If the need reduces (through deflation, or commencement of another programme such as an in-kind programme which reduces the need for the same payment amount), payment amounts can also be decreased

Increase tax and non-tax revenue to facilitate recovery

- Twin deficits (fiscal, and balance of payment) at heart of economic crisis
- 2020 saw major shift in tax policy - lower VAT, higher thresholds for PAYE (APIT)
- Government revenue declined by 28% from 2019 (> Rs. 500 bn)



Source: Ministry of Finance (2022),

Major tax policy changes announced in early June -- first step towards bridging deficit

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Annexure

Tax Reforms to be introduced in the immediate and near term

Immediate Measures

1. To be implemented with immediate effect

	Proposal	Method of implementation	Estimated Additional Revenue for 2022 (Rs. Bn)	Estimated Additional Revenue for a year (Rs. Bn)
VAT Rate				
1.	Increase VAT rate from 8 percent to 12 percent	Issue of Gazette Notification subject to the approval of the Parliament	91	156
Telecommunication Levy				
2.	Increase Telecommunication Levy from 11.25 percent to 15 percent	Issue of a letter by the Telecommunications Regulatory Commission subject to Act Amendment	3	5
Additional Tax Revenue from Immediate measures (i)			94	161

2. To be implemented effective from October 1, 2022

	Proposal	Method of Implementation	Estimated Additional Revenue for 2022 (Rs. Bn)	Estimated Additional Revenue a year (Rs. Bn)
Income Tax				
	Personal Income Tax (PIT)			

Government expects the revised taxes to generate an additional Rs. 125 bn for the rest of 2022; if adjusted to a year, Rs. 292 bn

Similar calls in CMP, along with other long term targets such as the need to improve tax collection mechanisms

A Common
Minimum Program for
Economic Recovery

Common Minimum Programme covers 8 areas

Macroeconomic
stability

Revenue
consolidation

Primary
expenditure
control

Public sector
and SOE
management

Social safety net

Energy &
utilities

Trade and
industry

Specialized
legislation
critical to
recovery

Starting point: 8 policy documents from political parties, professional groups and institutes

In alphabetical order

- Advocata
- Bar Association of Sri Lanka (BASL)
- Elle Gunawansa Thero (EGT)
- Independent Economists (IE)
- National Movement for Social Justice (NMSJ)
- National People's Power (NPP)
- Samagi Jana Balawegaya (SJB)
- 43 Brigade

- Not an exhaustive of proposals released – but a starting point for discussion
- Proposals may not capture all the views of the group – SJB's was pulled from a Twitter Thread

Looked for consensus in proposals put forth according to primary framework; broad consensus on the need for reform across many areas

<i>Theme</i>	<i>Advocata</i>	<i>BASL</i>	<i>EGT</i>	<i>IE</i>	<i>NMSJ</i>	<i>NPP</i>	<i>SJB</i>	<i>43 Brigade</i>
Expenditure control	✓	✓	✓	✓	✓	✓	✓	✓
Social safety nets	✓		✓	✓	✓	✓	✓	✓
Debt management	✓	✓	✓	✓	✓	✓	✓	✓
Monetary & exchange rate policy	✓	✓	✓	✓	✓	✓		✓
Revenue consolidation	✓			✓	✓		✓	✓
Trade	✓		✓		✓	✓		✓
Industries	✓	✓	✓			✓		✓
Energy and utilities				✓	✓			✓

Proposals refined following consultations with economists and business community

Participants at session with economists

Senior economists

- Dr. Sarath Rajapathirana
- Prof. Sirimal Abeyrathne
- Murtaza Jafferjee

Young Economists

- Rehana Thowfeek
- Chayu Damsinghe
- Umesh Moramudali
- Naqiya Shiraz
- K.D Vimanga
- Anushka Wijesinha
- Gayani Hurulle

Other

- Hon Karu Jayasuriya
- Prof.Rohan Samarajiva
- Dhananath Fernando

Participants at session with business leaders

- Krishan Balendra
- Rohan Pallewatta
- Sanjiva Weerawarana
- Hanif Yusoof
- Mangala Boyagoda
- Samantha Ranatunga
- Deva Rodrigo
- R. Manivannan
- Sujana Wijewardene

- **Other**
- Hon. Karu Jayasuriya
- Prof. Rohan Samarajiva
- Gayani Hurulle
- Dhananath Fernando
- Harindra Dassanayake