Sri Lanka: The new poor normal

The pandemic's effects on the poverty line

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Reviving the pandemic-stricken country often seems like the job of those who have the ability to directly and considerably contribute to the national economy, and almost all programmes aimed at rebuilding the economy focus more on the economic aspects of this matter. But, whether economic revival is the only form of revival the country needs, and how we are going to address the plight of the populace and sectors that have been assigned little significance in the national economy, are questions that require attention.

A recent report focusing on how the pandemic affected various aspects of the country says that even though the ad hoc social security measures implemented by the Government to assist those of low-income and vulnerable groups have helped them survive the economic impact of the pandemic, it needs to be improved to a great extent with a focus on strengthening micro and macro economies.

The recent report, titled "Sri Lanka: State of the Economy 2021 – Pandemics and Policy: Protecting Health and Promoting Economic Recovery" and issued by the Institute of Policy Studies of Sri Lanka (IPS), based on a survey it had conducted on those who received government-provided social protection assistance, made the said recommendations. Under the Chapter "Social Protection for Vulnerable Groups during Pandemics" it analysed the effects of Covid-19 on vulnerable groups, and the effectiveness of the social protection measures introduced by Sri Lanka, with a focus on the first and second waves.

Worsening poverty during the pandemic: Global context

The IPS said that while the full extent of the impact of Covid-19 is yet unknown, it is evident that its impacts are distributed disproportionately, with vulnerable groups such as the poor, informal sector workers, and women having to absorb a higher chunk of the burden, and such groups of people being more likely to undergo higher rates of unemployment, income loss, and food insecurities, which in turn intensifies their vulnerabilities.

While some global studies, i.e. "Updated Estimates of the Impact of Covid-19 on Global Poverty: Looking Back at 2020 and the Outlook for 2021", have stated that the impact of the Covid-19 pandemic has pushed millions of people into poverty, leading to a reversal in the global movement towards poverty alleviation, some forecasts, such as "Empowering the Poorest Countries Towards a Resilient Recovery", suggest that the pandemic is likely to widen the existing inequalities and leave lasting impacts, causing more intense impacts on the poor and the vulnerable.

According to the IPS, while countries continue to battle the adverse effects of the pandemic, the necessity and importance of well-developed social protection systems are evident now more than ever. It added that the pandemic has put social protection in the centre stage as a shock response tool, and re-emphasised its importance in reducing poverty and inequality, and building resilience against crises.

“The ability to reach vulnerable groups within the shortest time possible is essential when providing assistance in the event of a crisis of this magnitude. Therefore, the experience of resilient social protection systems that are up to date and well equipped to respond swiftly, is necessary in order to ensure an all inclusive recovery,” the IPS added.

With regard to the global context, the report said that the pandemic is projected to push millions of people into poverty, thereby backsliding years of forward momentum on global poverty reduction. Based on the World Bank’s (WB) Global Economic Prospects, January 2021, the report said that progress towards poverty alleviation in low-income countries is predicted to suffer a setback by around five years with the number of people living in extreme poverty (less than $ 1.9 per day) rising by approximately 4% over 2020 and 2021.

This situation, the report said, will undoubtedly push countries further away from achieving the 2030 Agenda for Sustainable Development and dampen future growth prospects.

The population affected by Covid-19 induced poverty, classified as the “new poor”, is a mix of those who, under ordinary circumstances (in the absence of the pandemic), were likely to have exited poverty, but now continue to be poor, and those who are susceptible to fall into poverty due to the pandemic. According to the publication *The New Poor Are Different: Who They Are and Why It Matters*, the profiles of the new poor differ considerably from the existing poor who are typically more concentrated in rural areas, whereas approximately 30% of the new poor are likely to be from the urban population.

“In 2020 alone, between 119 and 124 million people have been forecasted to fall into extreme poverty (under the $ 1.9 poverty line) brought on by the pandemic. This documents an increase in global poverty for the first time since the Asian finance crisis of the late 1990s. Around 60% of this new poor are believed to be residing in the South Asian region, and estimates at the $ 3.2 poverty line are forecasted to be at least 228 million, with a larger share of the population emerging from South Asia yet again,” the report said, adding that according to “Updated Estimates of the Impact of Covid-19 on Global Poverty: Looking Back at 2020 and the Outlook for 2021”, initial projections for 2021 estimate the number of individuals in extreme poverty to be between 143 and 163 million.

According to WB statistics, the poverty rate ($ 3.2 per day poverty line) in the world had decreased from 11% in 2016 to 9.2% in 2019. However, after the pandemic broke out in late 2019 and early 2020, it had again increased to 11.7% by 2020.

Social security system during pandemic: Sri Lankan context

Meanwhile, the IPS said that the adverse effects of the pandemic on households, particularly those from low-income groups, were further confirmed by the findings of a rapid household survey conducted in 10 districts (covering all nine provinces) of Sri Lanka during April and May 2021. The survey had predominantly aimed at investigating the effects of the pandemic on households, income, and employment, especially to assess the effectiveness of social protection measures taken by the Government in response to the pandemic.

The IPS added that the findings of the survey had revealed that about 80% of the respondent households have experienced a reduction in their income during the first wave of the pandemic.

“While a reduction of household income was observed in both the first and second waves, the impact of the former appeared to be more severe than the latter (in the second wave, about 60% of the households indicated an income fall). This decrease in household income was primarily due to employment-related shocks such as permanent job losses, temporary job losses, and the lack of work and reductions in salaries and wages during the pandemic."

The findings had revealed that around 88% of those employed in the pre-Covid-19 period had experienced an impact on their employment during the first wave. The most widely cited impact on employment was a temporary job loss or the lack of work during this time, which, according to the IPS, had been experienced by more than 50% of those whose employment had been affected during the first wave.

"Moreover, about 40% of those employed in the pre-Covid-19 period faced temporary salary or wage reductions, while a smaller share lost their jobs permanently during the first wave. On the contrary, a small minority have found new jobs during this period," the report said, based on the findings of the study.

However, a somewhat similar pattern had been observed in the second wave as well, even though the share of impacted employees was lower than what was reported in the first wave, which was 76%. The IPS said that by contrast, more individuals appeared to have found new jobs in the second wave with nearly 3% reporting to have found permanent new employment during this time.

Notably, the survey results had shown the effects of the pandemic across all employment categories, but in varying degrees. While 95% to 97% of daily wage earners, self-employed workers, and private sector employees (in the sample) had faced employment shocks in the first wave, these percentages had been reported to be a little less in the second wave (82% to 86%).

However, the report says that the share of government employees or public sector employees who experienced any impacts on employment due to the pandemic was relatively low – only 31% in the first wave, and 21% in the second wave – which the IPS said indicates relatively higher job and income security in general within the government (public) sector.

Furthermore, the report said: "Over half of those who had experienced permanent job losses in the first wave were daily wage earners, followed by private sector employees who accounted for about 28% of permanent job losses, and self-employed persons. A similar trend was present in the second wave where the majority of permanent job losses were amongst daily wage earners, followed by private sector employees and self-employed persons, respectively."

It also added that a larger share of daily wage earners (over 65%) experienced temporary job losses or an absence of work during the first wave, while around 26% of the daily wage earners experienced a temporary wage cut. A similar pattern had been observed among self-employed workers (in the sample), where about 56% had experienced temporary job losses or no work, while another 6% had lost their jobs permanently.

Based on the findings of the survey, the IPS said that nearly 60% of private sector workers, who faced an employment shock in the first wave, experienced a salary or wage cut, while those who lost jobs temporarily or faced a shortage of work was about 36%, adding, however, that about 5% of these private sector workers have lost their jobs permanently.

With regard to the household income, the IPS said that a reduction of household income was observed across all income groups, in both the first and the second waves of the pandemic, with the impact being more severe in the former than the latter.

It explained: "During the first wave, nearly 90% of households in the bottom income group of the survey sample (those having a monthly income of Rs. 25,000 or less) experienced a fall in household income. About 60% of the households in the middle-income groups (those having a monthly income of Rs. 25,000 to Rs. 49,000, and Rs. 50,000 to Rs. 79,000) also underwent a reduction in their earning during this period. Although a decrease in household income is observed among a notable share of households in the higher income groups with over Rs. 80,000 monthly income, this would have to be interpreted with caution given the relatively smaller sample size in this category."

The survey had also observed a shift in income classes owing to the pandemic. It said that about two-thirds of households in the Rs. 25,000-49,000 income category in the pre-Covid-19 period had fallen into the bottom income group of less than Rs. 25,000 during the first wave, while nearly two-thirds of households in the Rs. 50,000-79,000 income group had fallen into lower income categories with a considerable share of them falling into the "less than Rs. 25,000" income category.

To manage the impact on the household economy, around 48% of the respondent households had, during the first wave, taken several measures such as borrowing from informal and formal sources, pawning, mortgaging or selling their assets, and reducing consumption-related expenditure. The survey had found that even though similar steps were observed during the second wave as well, the percentage of households that took such measures were less (around 28%).

The report highlighted the need for effective social protection measures in this context, and also analysed such measures Sri Lanka has implemented during the first and second waves including the monetary assistance of Rs. 5,000 and dry ration packs (total worth Rs. 10,000) distributed among those in need.

By 31 December last year, the Government had provided dry ration packs for a total of 417,427 persons, and Rs. 5,000 monetary assistance to 1,338,422 persons.

The report said that the Government had incurred an expenditure of over Rs. 9.5 billion in order to provide assistance during the second wave. While more than Rs. 2.8 billion had been spent to provide food packs, nearly Rs. 6.7 billion had been spent to provide monetary assistance.

With regard to vulnerable groups, the report also noted that in April this year, the Government extended the provision of the Rs. 5,000 allowance to vulnerable groups such as those receiving Samurdhi, elders assistance, disability assistance, and support for kidney diseases, as a one-off payment, in addition to their monthly allowance under the said programmes. This assistance was also received by households that had been previously identified and approved by rural committees as low-income families.

With regard to the effectiveness of these social protection measures, the report said that various implementation gaps were observed in some areas of the country. The IPS recommended that a detailed examination of these social protection measures in the first and second waves is vital to determine their effectiveness and usefulness to recipient households.

Of the 300 households that were respondents of the aforementioned survey, 76.5% during the first wave and 71.4% during the second wave, had received the government-provided monetary assistance, and the recipients of this payment were in all the aforementioned income groups. However, the two top income groups among the identified groups constituted only a small segment of recipients during both the waves – Rs. 50,000-79,000 (3.2% and 1.2% during the first and second waves, respectively) and Rs. 80,000 or more (3.6% during the second wave).

The report said that around half of Covid-19 assistance recipients in the second wave were beneficiaries of regular assistance programmes, with a majority of them being Samurdhi beneficiary households.

The survey also looked into the recipients' satisfaction, and opinion about the efficiency of providing the monetary assistance.

Around 67% recipients who received this assistance during the first wave, and 63% who received it during the second wave, had stated that the distribution process was very efficient in their respective areas. However, 23% to 27% of the recipients had stated that it was somewhat efficient during the two waves. With regard to the provision of this assistance during the second wave, 5% had stated that it was somewhat inefficient, while 4% had stated that it was highly inefficient.

With regard to monetary and in-kind assistance, the IPS said that even though they have helped to minimise the adverse effects of the pandemic on low-income and vulnerable groups, particularly to smoothen their consumption, these measures alone are inadequate to sustain the recovery and to mitigate future crises.

“The pandemic has created an opportunity for the country to build back better through strengthening the social protection system to ensure greater resilience against future crises,” it noted.

Strengthening and streamlining social protection measures in Sri Lanka

In its conclusion, the report said: “Social protection is not just cash and in-kind transfers; it is a broad range of measures that include old age retirement benefit schemes like pensions, livelihood assistance, cash and in-kind transfers to vulnerable groups, unemployment protection measures, as well as sick leave. At present, Sri Lanka has many social protection programmes in place, but the system as a whole has many weaknesses, such as low coverage, targeting issues, leakages, and a fragmented system.”

Similar to South Asian counterparts, one of the key reasons for the low coverage of social protection in Sri Lanka is the high prevalence of informal workers who account for about 60% of the total workforce. This share has not shown a significant improvement over the past decades. Informal workers often lack employment-related social security benefits like pensions, Employees’ Provident Fund (EPF), maternity benefits, and paid sick leave.

According to the report, another issue is that some informal workers tend to be excluded from the poverty-targeted cash transfer programmes, because they are considered “not poor enough” to receive those benefits. It stressed that part of the informal workers – including some small-time entrepreneurs, contractual workers, and self-employed workers – are often not covered by social protection systems, and that they account for a large portion of the so-called “missing middle” of the social protection systems of many countries.

It also added that broadening social protection coverage to include the “missing middle” is an important step towards achieving universal social protection by 2030, and that this requires not only substantial fiscal space, but also a mechanism to cater to the needs of those who are left out of the system.

“A starting point could be extending the coverage of the existing cash transfer programmes,” it added.

“Also, it is vital to take steps to address widespread targeting errors of the Samurdhi subsidy programme and include the deserving poorest families who have been excluded from the programme,” it said, adding that while broadening social protection measures is crucial, it is also crucial to improve the efficiency of the existing ones. Achieving it, according to the report, requires building an integrated social protection system with an integrated social registry and beneficiary registry and creating sound delivery systems with digital payment mechanisms in order to ensure the efficient and safe service delivery.

Adding that social protection is not a panacea, it said that while taking measures to achieve the above-mentioned progress, those efforts should be complemented with other macro and micro-level policies and strategies. It added that this will require macro-level policies to ensure sufficient fiscal space, improve investment in the social sector and address labour market inequalities like a large informal workforce, low female labour force participation, and high youth unemployment that are likely to worsen due to the effects of the pandemic.

“Furthermore, it is vital to prove financial literacy among households to ensure the prudent management of financial resources and instruments in order to help them to better cope with future crises similar to pandemics of this magnitude,” it further said in its conclusion.

Since the outset of the pandemic, Sri Lanka has provided monetary and in-kind assistance to affected people on several occasions, and the people have benefited from it. However, the social protection mechanism that is in place needs to be further improved by learning from the previous programmes. Also, as the report noted, it is not just a matter of financial resources; this improvement also involves policies and strategies to strengthen the lower levels of the national economy.

At the same time, Sri Lanka should identify the pressing need to recognise and empower the informal sector, which, according to the report, is one of the groups that did not adequately receive government-provided assistance, and according to labour rights activists, is almost invisible as far as legal and policy-level protection is concerned.

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