International Labour Organization

Social protection and the COVID-19 crisis

Responses to support workers and their families in Sri Lanka

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Summary:

This note discusses and outlines social protection approaches to support workers and their families to manage the impacts of the COVID-19 crisis in the short and medium term. The intention of the note is to present a set of potential options for consideration. The ILO is available to undertake further analysis on specific approaches and scenarios (including costing) depending on the decisions taken by the Government of Sri Lanka.

Prepared by:
Charles Knox-Vydmanov
Nuno Meira Simões da Cunha

ILO Country Office for Sri Lanka and the Maldives
ILO Regional Office for Asia and the Pacific

Introduction

COVID-19 has the potential to result in an economic shock in Sri Lanka unlike any in living memory. The crisis combines a shock to supply chains, domestic demand and external markets, resulting from a mix of lock-down measures and a slowing of the global economy. The International Monetary Fund (IMF) projects that the global economy will contract by -3 per cent in 2020, although this is considered by many to be optimistic.[1] Sri Lanka's dependence on export revenue, in addition to debt and fiscal challenges makes the country particularly vulnerable. While the specific economic trajectory is uncertain, GDP growth is expected to slow significantly in 2020, with organisations including ICRA Lanka Limited (ICRA Lanka), KPMG and the World Bank anticipating an economic contraction in 2020.[2] This also comes on the back of a challenging year for the economy in 2019 as a result of the Easter Sunday attacks.

This has the potential to have deep and lasting impacts on the Sri Lankan economy, society and labour market. As the crisis evolves there is increasing recognition that economies and labour markets will likely not return to their configuration prior to the crisis, thus creating a "new reality". This may well include a significant reallocation of labour responding to new economic realities. If tackled head on, Sri Lanka can use the crisis as an opportunity to reshape the economy and labour market for the future.[3] The crisis also has significant social dimensions, and if not managed effectively can result in significant adverse impacts on poverty, wellbeing and social cohesion.

Social protection will be a core instrument to support workers and their families through the immediate crisis and through a transition to a better normal. Social protection schemes are recognised as a core component of an effective response to economic crises, both to cushion workers and families from the impacts of the crisis, and as one of the most effective counter-cyclical tools to boost aggregate demand. In the context of COVID-19, they also play a central public health role by providing income security that allows individuals to comply with quarantine and curfew measures. Sri Lanka is one of more than 200 countries across the globe that have taken unprecedented steps to put in place temporary social protection measures in response to the crisis.[4]

The key objective of this paper is to discuss and outline social protection responses to COVID-19 to support workers and their families in the short and medium term. The note starts by assessing the impact of the crisis on different categories of workers and the social protection response to date. It then moves to review international social protection responses, and sets out options for how Sri Lanka can use social protection to support workers as the crisis continues to develop.

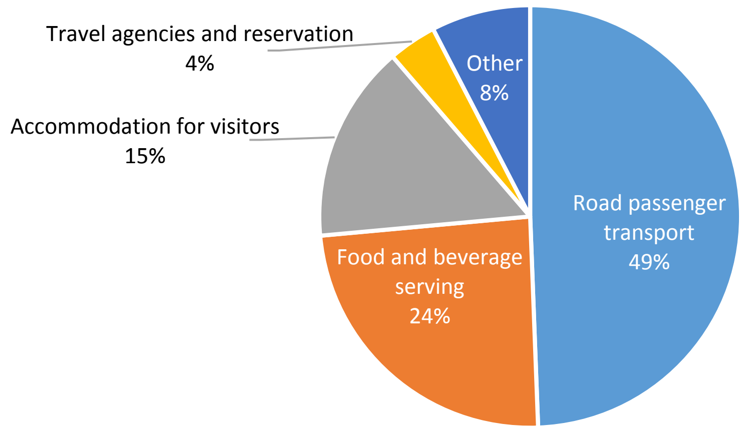
[1] IMF, "World Economic Outlook, April 2020" (Washington, DC, 2020), https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020; World Economic Forum, "The IMF Says Its Forecast for the COVID-19 Recession Might Now Be Too Optimistic," April 18, 2020.
[2] ICRA Lanka, "Economic Impact of COVID-19 in Sri Lanka" (Colombo, 2020); KPMG, "The Impact of COVID-19 on the Sri Lankan Economy" (Colombo, 2020); World Bank, "South Asia Economic Focus: Spring 2020" (Washington, DC, 2020), https://doi.org/10.1596/978-1-4648-1566-9.
[3] Indrajit Coomaraswamy, Sisira Pinnawala, and Ganeshan Wignaraja, "Pathfinder Beyond the Box: A New Economic VIsion for Post-Covid-19 Sri Lanka," 2020.
[4] ILO, "Social Protection Responses to COVID-19 Crisis around the World (Online Tool, Updated 02/06/2020)," 2020, https://www.social-protection.org/gimi/ShowWiki.action?id=3417.

1. The impact of COVID-19 on Sri Lankan workers

The COVID-19 crisis has impacted the whole of Sri Lankan society, but is hitting some sectors particularly hard. Previous economic shocks including the Great Recession of 2008-10 increased unemployment in Sri Lanka, but the impact from COVID-19 is expected to be much more significant. Curfew and quarantine measures have already had a direct impact on workers, with a recent online-survey of formal sector establishments conducted by the Department of Labour finding that 64 per cent of workers represented were not in work in May. While many of these workers may return to their jobs as the lockdown ends, 9 per cent of workers' contracts in these establishments have either been (or are proposed to be) terminated.[5] In the medium-term, it has been estimated that unemployment in the country could increase to between 8 and 11 per cent of the total labour force (between 670,000 and 920,000 workers), depending on the severity of the crisis.[6] Underemployment of workers may also increase. While the whole population of the country is being impacted by the crisis, the characteristics of certain sectors make workers dependent on them particularly vulnerable.

Tourism is a critical sector for the Sri Lankan economy and for employment, with workers in this sector making up 7 per cent of the employed population (580,000 workers). This was one of the earliest sectors to be affected by the crisis as travel restrictions and social distancing have ground the global travel industry to a halt. Depending on the length and nature of the crisis it may also be one of the last sectors to recover. Workers in the tourism industry are primarily found in the area of **road passenger transport**, **food beverage** and **serving and accommodation** (Figure 1). This sector has **higher rates of informality** than the labour force as a whole, with over 80 per cent of workers in informal employment, compared to an average of around 60 per cent for the all those in employment. If the focus is narrowed to workers in the accommodation and food sector the percentage of informal employment is 74.2%. **Males are significantly more likely to work in tourism** than females, which may reflect the high share of workers in transport (a commonly male-dominated sector).[7]

Figure 1: Distribution of employment in the tourism sector, by sub-sectors (2017)



Source: ILO, 2020

The **apparel and textiles** industry has been affected by supply chain issues (initially from China), a slowdown in the global export market, and curfews (most manufacturing plants are located in Western

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[5] A Wimalaweera, "Covid 19 & Beyond- The Impact on the Labour Market of Sri Lanka," 2020.sri lan
[6] ICRA Lanka, "Economic Impact of COVID-19 in Sri Lanka." http://southernvoice.org/a-brewing-storm-economic-impact-of-covid-19-on-sri-lanka/
[7] ILO, "COVID-19 and Employment in the Tourism Sector : Impact and Response in Asia and the Pacific" (Bangkok, 2020).

Province). Lockdown measures are restricting access to clothing shops in many of Sri Lanka's core export markets, while the economic downturn is hitting consumers' disposable income. Both factors may well depress consumer demand for a significant period of time. Around 790,000 people in Sri Lanka work in the textiles, clothing, leather and footwear (TCLF) industries (close to 10 per cent of the labour force).[8] In contrast to tourism, **workers in the apparel sector are primarily female** (81 per cent). **Levels of formal employment are also comparatively higher**, with half of workers in institutions registered under Inland Revenue Department or EPF . Close to two thirds of workers (61 per cent) have an employer, and a further third (34 per cent) are own account workers).[9] Most apparel workers (82 per cent) are in rural areas, although a large share of these are in districts most affected by the lockdown.

The **transport sector**, including three wheelers, has been hit hard by curfew and quarantine measures affecting demand for public transport, in addition to the impact from on the tourism industry. This is again a sector with high presence of informal worker, with 79.3 per cent of the workers being in informal employment and representing a total of 7.3 per cent of the total informal workers. Many of those working in transport are also heavily dependent on the manufacturing sector. Some workers may have been able to repurpose work of providing public transport by serving as delivery drivers during the curfew.

The **wholesale, retail trade** is also among the sectors expected to be at high risk of being impacted by the crisis. Workers in this sector are particularly vulnerable as 75.6 per cent of them are in informal employment, representing 15,7 per cent of the total informal workforce in the country.

The **construction** industry faces both short and medium-term challenges. In the short-term, curfew restrictions have halted many projects, while the industry is affected by supply chain disruptions and import restrictions given many materials are imported (including from China). Construction projects dependent on Chinese contractors have been affected as many workers have not been able to return after the Chinese new year.[10] In the medium-term, lower growth, fiscal pressures and reduced foreign direct investment are likely to reduce the number of infrastructure projects being initiated.[11] Almost 90 per cent of the workers are in informal employment and they represent 10.2 per cent of the total informal workforce, meaning that their protection is extremely limited.

Agriculture is assessed to be less directly affected given that farmlands tend to be outside areas of confinement and that this sector has been categorised as "essential". Nevertheless, the national and global economic shock will lead to a fall in demand, such as tea sector being more vulnerable. Households in rural areas also tend to have had lower incomes before the crisis – so even a small drop in income can push them into poverty. A fall in employment in other sectors (e.g. transport) may lead to reduced remittances from workers in urban areas, many of whom will return to their rural households.

Within the different sectors, **Micro, Small & Medium Enterprises** are particularly vulnerable to the crisis. The online-survey of formal sector enterprises mentioned above found that those with less than 15 employees are significantly more likely to be closed or operating under capacity than larger establishments. They are also more likely to report that they are unable to pay salaries.[12] Notably, the

[8] Department of Census and Statistics, "Sri Lanka Labour Force Survey - Annual Report 2018" (Colombo, 2019); Department of Census and Statistics, "Annual Survey of Industries 2018" (Colombo, 2019).
[9] Only a small share of workers in this sector are either employers or contributing family workers.
[10] KPMG, "The Impact of COVID-19 on the Sri Lankan Economy."
[11] News First, "Sri Lanka's High Debt to GDP, COVID-19 to Hinder Infrastructure Development," April 22, 2020, https://www.newsfirst.lk/2020/04/22/sri-lankas-high-debt-to-gdp-covid-19-to-hinder-infrastructure-development/.
[12] Wimalaweera, "Covid 19 & Beyond- The Impact on the Labour Market of Sri Lanka."

survey in question only included formal establishments, and it is likely that the situation is similar or worse within MSMEs in the informal sector.

The large number of Sri Lankan **migrant workers** (estimated at 1.5 million) mostly in the Middle East have lost work or faced a substantial reduction in their earnings.[13] Few have access to health care or social protection in their host countries, and many have returned to Sri Lanka and more are seeking to do so. This will add to the number of people seeking employment at a moment when the availability of jobs is set to be significantly reduced. The lower level of remittances flowing into Sri Lanka will also affect the families of migrant workers and, indirectly, the wider economy.

2. Social protection in Sri Lanka before COVID-19

The Sri Lankan social protection system has been successful in covering important groups of workers and households. Core components of the system include:

- **Pensions for public servants and armed forces personnel**. These schemes provide retirement benefits, as well as widows and orphans benefits, for workers in these sectors. These schemes are administered by the Department of Pensions, a department of the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government. Around 14 per cent of the labour force (1.2 million) work in the public sector.
- The **Employees Provident Fund** (EPF) under the Department of Labour and **Employees Trust Fund** (ETF) are contributory schemes for private sector workers.[14] They primarily provide lump sum benefits upon retirement, with additional benefits including housing loans (under EPF) and life insurance, disability insurance and support for specific healthcare need (under ETF). Latest data suggests between 2.6 and 2.8 million workers are active contributors to EPF and ETF, representing around one third of the labour force.
- **National Insurance Trust Fund** - "Agrahara" medical insurance scheme provide health insurance cover for around 14 per cent of the labour force (1.2 million) employees from public service and provincial public service and their families.
- A number of **voluntary pension schemes** exist for informal sector workers. The total 1,745,000 members of these schemes represents 21 per cent of the labour force in 2018, although a significant portion of this number are likely not active contributors (including those receiving pensions and other benefits) and some individuals may be members of multiple schemes. All of the three schemes in this category provide for periodic pension payments, as well as payments for disability and death (although each schemes has specific regulations):
    - **Farmers insurance scheme**, as of 2012 there were 960,000 members.
    - **Fisherman's insurance scheme**: as of 2012, there were 70,000 members.
    - **Pension and Social Security Benefit Scheme** for Self-Employed persons. As of 2019 there were 715,000 members of the scheme for self-employed workers.[15]
- A variety of social welfare benefits exist for poor and low-income individuals and households:
    - The **Samurdhi** programme provides a number of services and benefits to households identified as poor. This includes a monthly cash benefit of between LKR 1500 and LKR

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[13] Sunday Times, "Panic Sets in as Stranded Migrant Workers See Others Flown Home," April 26, 2020, http://www.sundaytimes.lk/200426/news/panic-sets-in-as-stranded-migrant-workers-see-others-flown-home-401141.html .

[14] For ETF the contribution (3% of the employees monthly earnings) are made only by the employer. For EPF, the employer contributes 12% of the employee's earnings, and the employee contributes 8%.

[15] Sri Lanka Social Security Board, "Our Progress," 2020, http://ssb.gov.lk/progressE.html.

3500 depending on household size. As of March 2020 there were 1,796,655 regular beneficiary households of the scheme, equal to around one third of all households in Sri Lanka.[16] Beneficiaries are more likely to be in rural areas.

- **Senior Citizens Allowance** providing LKR2,000 per month to almost 420,000 people aged 70 years and over living in poverty, equal to around 28 per cent of the population 70 years and over.[17]
- **Disability Allowance** provides LKR5,000 to almost 85,000 people with disabilities living in poverty.
- **Chronic Illness Allowance** provides a monthly transfer of LKR5,000 to almost 26,000 people experiencing chronic disease (such as kidney disease)

The Sri Lankan social protection system can be considered to have limited scope in terms of the risks covered. Most of the schemes listed above (EPF, ETF, public sector pensions and voluntary pensions) are focused on providing retirement income in old age and, to an extent, in case of disability, ill health and death. Most of the risks faced by the population during their working life, such as maternity, sickness, unemployment and employment injury, are defined in law as an employer liability, and provided through payments such as severance pay and other benefits. Major limitations of employer liability include the fact it places greater risks on employers, that benefits tend to be limited in duration and adequacy, and also that they are unable to provide any protection for own-account workers. Experience shows that compliance is not always easy to monitor leaving many times workers without access to any protection. Social insurance schemes that pool these risks amongst workers and employers are therefore more effective at sharing these risks amongst a wider group, and tend to have more adequate benefits than employer liability schemes.

The weaknesses in provision for reduction of income due to unemployment and underemployment has been particularly revealed by the COVID-19 crisis. The lack of reliable unemployment benefits creates challenges for both workers and businesses in the context of the major employment shock created by COVID-19. Currently, severance pay equivalent to one month's pay is paid for every year of service, however, this support is limited to those whose service period exceeds five years. Therefore, even amongst formal workers with solid contracts, many will not benefit. Businesses in sectors hit particularly hard by COVID-19 may struggle to pay the severance payment bill where there are significant lay-offs.

Sickness benefits are also severely limited. While the tax-funded and universal health system in Sri Lanka provides good quality care for much of the population, it does not address the risks of lost income from those that fall ill for a sustained period of time. This is particularly critical in the context of COVID-19 where an absence of sickness benefits can force sick workers to return to work and further spread the virus. As it stands, employer liability arrangements in Sri Lanka only cover sickness benefits for up to seven days per year. This is significantly less than provided by social insurance arrangements in other countries that tend to provide benefits up to six months or more.

For the contingencies that are covered by the social protection system benefits are commonly inadequate. For retirement, lump sum payments such as those provided by EPF and ETF are widely recognised to provide limited protection against the risks of old age. Even where savings are significant there is an important risk that retirees will outlive their savings, but for many the saving are far from enough to cover more than a few years. Due to factors including the relatively low age at which members can withdraw savings (55 for men and 50 for women), retirement savings have been

[16] Based on 5.4 million HHs in HIES 2016

[17] 1,505,998 older persons aged 70 and over in 2020 according to UN Population Division projections.

calculated to constitute no more than 20-45% of the average wage.[18] Individual savings mechanisms also face high exposure to developments in financial markets which can lead to a sharp fall in benefits during economic crises. While the tax-financed Senior Citizen's Allowance has expanded to reach an important portion of the population ages 70 and over, the regular benefit level is one of the lowest in the world when compared to GDP per capita (4 per cent) and significantly below the global average (16 per cent). Compared to other countries with benefits supporting children, the regular benefit level of the Samurdhi programme is also found to be low.[19] The voluntary pension schemes for famers, fishermen and self-employed workers also face issues of adequacy, with no formal process of indexation for the farmers and fishermen's scheme.[20]

While these schemes generally aim to support those less able to participate in the labour force (older persons, persons with disabilities), their low adequacy has a major impact on workers. The low benefit levels of schemes relating to old age and disability mean that, even in normal times, many recipients need to fill the gap through continued work (where possible) or financial support from family members. The major impact of COVID-19 on the labour market means that the extent to which workers can provide support to those depending on them will be reduced.

Finally, a significant number of people fall through the gaps of the social protection system. While many workers and households in Sri Lanka are covered or receive direct support from the social protection system – an important proportion are not covered by any scheme. This is particularly the case for informal workers in the middle of the income distribution, many of whom are neither contributing to a schemes such as the EPF, ETF or voluntary pension schemes, but also have incomes too high to receive social welfare grants. Meanwhile, there are well-recognised issues with the targeting of the Samurdhi and other social welfare grants, which means many of the poorest households are – in fact – without any support. Recent analysis suggests that over half of those that should be eligible for the Samurdhi programme (59 per cent) are not reached.[21]

3. The social protection response so far

The Sri Lankan government has taken significant action to extend short-term social protection measures. As outlined in Box 1 the response particularly centres on the provision of a benefit of LKR 5,000 to a range of existing and newly registered beneficiaries for a variety of social protection programmes. The benefit has already been provided twice for the months of April and May.

Box 1: Core components of the social protection response to COVID-19 in Sri Lanka

- A one-off payment of LKR 5,000 to groups including:
    - Sumurdhi (1,798,655 existing recipients, plus 600,339 new)
    - Senior Citizen Allowance (416,764 existing recipients, plus 142,345 new)
    - Disability Allowance (84,071 existing recipients, plus 35,229 new)

[18] ILO, "Analysis of the Sri Lankan Social Protection Schemes in the Context of Social Protection Floor Objectives" (Geneva, 2016).
[19] UNICEF Sri Lanka, "An Assessment of the Value of the COVID-19 Support to Sri Lankan Households" (Colombo, 2020).
[20] ILO, "Analysis of the Sri Lankan Social Protection Schemes in the Context of Social Protection Floor Objectives."
[21] Stephen Kidd et al., "Investing in the Future: A Universal Benefit for Sri Lanka's Children" (Colombo, 2020), https://www.developmentpathways.co.uk/wp-content/uploads/2020/04/Investing-in-Children-UCB-for-Sri-Lanka_WorkingPaper_February2020_logos.pdf.

- Farmers registered under the Farmers' Insurance Scheme (160,675)
- Kidney patients (25,320 existing recipients, and 13,850 new)
- Others identified as at risk, identified by Grama Niladhari, Public Health Inspectors, Social Services Officers, Development Officers, Samurdhi Officers, Agricultural Research and Production Assistantsand Public Health Midwives and District Secretaries. This support has been extended to a range of recipients including daily wage earners, workers in the garment sector who have not received their salaries and other low-income groups affected by the crisis.

- Thriposha and other nutritional supplements for expectant mothers and families with malnourished children.

Other measures not strictly falling within the scope of social protection, but of relevance, include:

- Relief on lease instalments for 1.5 million self-employed persons, including owners of three-wheelers, trucks, school buses and vans and self-employed motorists.
- Reliefs provided for private businesses not in a position to pay employees' wages due to the prevailing economic hardships, which is mainly focused on providing low-interest loans to enterprises.

The rapid response has provided immediate support to a significant proportion of the Sri Lankan population. The programme of support was announced relatively early in the crisis and has been successfully disbursed to a significant number of individuals and families. Building the response on the foundation of a set of existing cash transfer programmes has served as an effective mechanism to reach a large portion of the Sri Lankan population. Analysis by the UN suggests that two thirds (66 per cent) of households will have been reached by the package of support.[22]

Nevertheless, there remain important gaps in terms of coverage, adequacy, and the duration of the support provided. An important factor in these gaps is that the approach has primarily built on the existing social protection. While this is a pragmatic approach, it has exposed many of the weaknesses of this system. Key gaps can be summarised as follows:

Coverage

While the package reaches some of the poorest households, it has not managed to reach many vulnerable workers whose incomes have been hit hard by the crisis. Analysis of the announced measures has shown that while over 97 per cent of the very poorest households (decile 1) should benefit, the package would not reach around 30 per cent of those in the middle of the income distribution (deciles 4-7). Many of these households live close to the poverty line meaning that, while they are able to make ends meet in normal times, can easily be pushed into destitution by COVID-19.[23] An important portion of those left out of the package are likely to be workers in sectors hardest hit by the crisis. For example, the package reaches only a third of households in urban areas, and covers fewer workers in manufacturing than in other sectors.

There is also limited support provided to employed and formal sector workers. The range of existing programmes used to channel the LKR 5,000 payment (Samurdhi, Senior Citizens Allowance etc)

[22] United Nations Sri Lanka, "Tackling the COVID-19 Economic Crisis in Sri Lanka: Providing Universal, Lifecycle Social Protection Transfers to Protect Lives and Bolster Economic Recovery" (Colombo, 2020), https://www.unicef.org/srilanka/media/1366/file/UN Brief Social Protection Response Sri Lanka Summary.pdf.
[23] Note that discussion refers to International PPP$1.90 poverty line.

are not specifically targeted at employed workers, even if some may have family members receiving such benefits. Similarly, further analysis is required to understand the extent to which the support directed at daily wage workers and other low-income households has reached employed and formal sector workers.

Adequacy

The LKR 5,000 benefit provides minimal support for even the very poorest households in Sri Lanka. A benefit of this level only constitutes 7 per cent of the average monthly expenditure of Sri Lankan households, meaning it can only make a small contribution to meeting these ongoing needs. Even for the very poorest households (in the poorest expenditure decile) the benefit would only constitute one fifth (20 per cent) of household income. The benefit level will be even more stretched in large households.[24]

Meanwhile, the benefit is well below the average earnings of workers in the hardest hit sectors. According to the 2018 Labour Force Survey, median wages were LKR 32,000 for salaried workers paid monthly, and LKR 20,000 for daily wage workers. The LKR 5,000 benefit therefore provides, at best, one quarter of the earnings of a daily wage worker. It should also be noted that many households will have multiple earners, but will only receive one benefit per household.

Duration

The logic of the short-term measures has been to provide broad-based support in the context of curfew and quarantine measures. This has recognised that the vast majority of workers have sustained a major hit to their incomes from a significant portion of economic activity broadly coming to a halt. In this context it has made little sense to narrowly target certain groups of households and workers.

Nevertheless, many workers and households will need support beyond the peak of the health crisis and as lockdown measures are eased. As already discussed, global, regional and national analysis increasingly points to a protracted crisis beyond the lockdown phase imposed at a national level. Labour markets are set to recover slowly, and quite possibly in a different shape. In this next phase of the crisis, a more nuanced or articulated response is likely to be needed, recognising there will be significant diversity in the pathways of different workers and households. While some sectors may be able to reactivate quickly, others (such as tourism and apparel) are set to face a longer-term crisis. Focused support to certain sectors may, therefore, have a stronger logic.

This doesn't necessarily entail decreasing the scale of the response, and this may be the right moment to harness the role of social protection in providing economic stimulus. As already noted, social protection can be a core fiscal tool for economic recovery, as it increases the income of individuals and households who are more likely to spend in the economy. This can boost aggregate demand and, in turn, provide multiplier effects throughout the wider economy, increasing demand for goods and services, thus supporting businesses. While countries have been imposing lock down measures, the role of social protection in stimulating demand has been more limited, as the economy as a whole has been on "life support". The period when the economy opens up, however, is a key moment for such stimulus. At this point in time, while businesses may be struggling to re-build, an injection in the economy can help to get the economy moving again.

[24] UNICEF Sri Lanka, "An Assessment of the Value of the COVID-19 Support to Sri Lankan Households."

4. International experience of supporting formal and informal workers in response to COVID-19

Sri Lanka is one of many countries that have mobilised substantial and often innovative social protection responses in response to COVID-19. Understanding and comparing these responses can contribute to assessing options for Sri Lanka's ongoing response as the crisis evolves. This section therefore provides an overview of this experience, with a focus on the Asia-Pacific region. In reality, most countries provide a mix of these approaches, which is more conducive to reaching a broad array of workers affected than isolated, targeted approaches.

Unemployment insurance

Unemployment insurance schemes are playing a central role in protecting workers from the effects of COVID-19 in many countries in the Asia and Pacific region. Countries including China, Japan, Malaysia, the Republic of Korea, Thailand and Vietnam have unemployment insurance programmes in place as part of broader contributory social security schemes. These have provided support to workers laid off as a result of COVID-19. Some countries, such as Thailand, have also increased the adequacy and duration of unemployment insurance benefits in response to COVID-19.

Unemployment insurance schemes are particularly advantageous in responding to crisis due to their automatic and counter-cyclical nature. Countries with unemployment insurance schemes have been able to rapidly disburse support without the need for design of new programmes, registration of new target groups or (in most cases) identification of new funding sources. Countries are generally able to make use of reserves of social security schemes to cover the short-term expenditure of increased claims to unemployment insurance. As well as protecting workers, unemployment insurance schemes are well recognised for their ability to boost aggregate demand within the economy during a crisis and reduce the depth of economic downturns. Unemployment insurance in European countries was found to have had a significant impact in reducing the depth and length of the 2008-9 global economic crisis.[25] Another important advantage compared to severance pay, is that they share the costs of unemployment between firms.

Meanwhile, they can also support labour market transitions that are set to become a feature of the immediate crisis and the better normal. Unemployment insurance makes it easier for workers to accept employment termination, and provides space for workers to retrain, upgrade their skills and seek new employment. Unemployment insurance schemes usually link recipients to job search and training services. It therefore makes it easier for workers and employers to adapt to new economic conditions, thus supporting increased productivity. Countries with unemployment insurance are therefore likely to be in a better position to adapt to the "new realities" created by COVID-19. This includes supporting a "just transition" of workers to more sustainable modes of economic development, that is likely to shape the aftermath of the immediate COVID-19 crisis.

Some countries with provident funds are allowing withdrawals as a form of ad hoc unemployment support, but this poses longer-term risks. Both Fiji and Malaysia, for example, are allowing members to make withdrawals from their provident fund accounts under certain conditions to cover their immediate needs.[26] This approach, nevertheless, provides short-term protection at the expense of long-term retirement saving. In Sri Lanka, such an approach should be considered with

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[25] Werner Eichhorst et al., "The Role of the Social Protection as Economic Stabiliser: Lessons from the Current Crisis" (Brussels, 2010).
[26] ILO, "Social Protection Responses to COVID-19 Crisis around the World (Online Tool, Updated 02/06/2020)."

caution given the limited adequacy provided by EPF retirement payments as it stands, and the rapid ageing of the population.

Job retention schemes

Job retention schemes (sometimes called short-term work schemes) provide wage subsidies or credits for temporary reductions in the number of hours worked by an employee. This support is provided on a short-term basis, and via an employer, so that the worker remains on the payroll. These schemes aim to perform a dual function; first, providing income replacement for workers and, second, maintaining their employment relationship so that they can quickly re-engage in work once a crisis has passed. The latter is both beneficial for workers' swift re-engagement in paid employment, and for businesses to quickly resume operations without having to recruit new staff. Some countries around the world have mobilised existing job retention schemes to provide support to companies and workers during the COVID-19 crisis, and many other countries have initiated new schemes.[27]

A wide variety of countries in the Asia Pacific region have introduced or expanded job retention programmes in response to COVID-19 (Box 2). Some key variables include:

- **Sectors covered:** Some schemes cover all sectors, while others focus on specific sectors affected by the economic crisis or lockdown measures.
- **Adequacy:** It is most common that benefits are a share of previous salaries, often with a ceiling), although Malaysia provides a flat rate benefit.
- **Co-payment:** In some cases, employers are required to continue contributing a share of the employee's salary.
- **Subsidy vs credit**: Vietnam provides a subsidy for workers on leave, and a credit (to be repaid by the company at a later date) for those with reduced pay.
- **Implementing agency**: Schemes are commonly implemented by social security institutions that also manage unemployment insurance, but other countries implement the subsidy through tax or other administrations.

Box 2: Job-retention schemes

- **Republic of Korea** has adapted its existing Employment Retention Subsidy Programme by loosening the eligibility criteria and boosting the share of worker income provided from 66 to 90 per cent.
- **Malaysia** initiated a new Employment Retention Programme which provides RM 600 (50% of the minimum wage) for workers on no-pay leave, if their employer has been economically affected by COVID-19. The scheme is managed by the SOCSCO (a social insurance scheme which also provides unemployment benefits)
- **Singapore** is providing wage subsidies of between 25 and 75 per cent of workers' salaries for up to 9 months. The level of benefit and duration varies by sector, with aviation and tourism receiving the highest benefits. The scheme is administered by the Inland Revenue Authority, with linkages to the Central Provident Fund.

[27] François Gerard, Clément Imbert, and Kate Orkin, "Social Protection Response to the COVID-19 Crisis: Options for Developing Countries," 2020, https://econfip.org/policy-brief/social-protection-response-to-the-covid-19-crisis-options-for-developing-countries/ .

- **Thailand** is providing a wage subsidy of 62 per cent of a worker's salary for up to 90 days if they have been furloughed due to their company being shut down by government. The scheme is administered by the Social Security Organisation.
- **Vietnam** is providing flat rate wage subsidies for workers on unpaid leave and wage credits for those on reduced pay. In both cases the benefit is VND 1,800,000. The scheme is managed by Vietnam Social Security (VSS).

Schemes for informal workers

One of the most notable features of the COVID-19 social protection responses has been the number which provide direct income support to informal workers. Given the high levels of informal employment across many emerging economies, schemes such as unemployment insurance and employment retention schemes are unable to reach the majority of workers. Yet informal workers also tend to have been those most affected by the crisis, with lower earnings before the crisis, fewer employment protections and less savings to provide a cushion against its impacts.

Responses seeking to reach informal sector workers fall into one of three main categories:

1. **Schemes directly targeted at informal workers:** These schemes target individual workers particularly affected by the crisis. In some cases they define specific types of occupation (as in Uttar Pradesh in India and Viet Nam), and others they apply more generally (as in Thailand). The duration of schemes announced to date varies between one-off payments, and those covering 9 months (Singapore).

Box 3: Schemes for informal sector workers

- **Uttar Pradesh** in India is providing a one-off benefit of INR 1,000 to 480,000 daily wagers (street vendors, rickshaw pullers etc).
- **Kazakhstan** is providing a monthly benefit of KZT 42,500 for workers who have lost income as a result of COVID-19. As of 16 April 2.7 million were approved for support, although 5.3 million (60 per cent of th working population) applied.
- **Singapore** initiated a Self-Employed Person Income Relief Scheme which will provide SG$ 1000 per month to self-employed workers below an income and asset threshold for up to 9 months. It is expected to reach 100,000 workers (c. 4% of the labour force).
- **Thailand** initiated a scheme providing THB 5,000 per month for 3 months to informal workers. 9 million workers were enrolled into the scheme (c. 23 per cent of the labour force).
- **Viet Nam** is providing a one off benefit of VND 1,000,000 for workers in pre-defined categories of informal employment who have lost their jobs. The same payment also extends to formally employed workers who do not meet the qualifying conditions for the country's unemployment insurance.

2. **Schemes for low-income and vulnerable households:** Various countries in the region have provided support targeted to low-income and vulnerable households. Given that many informal workers are the breadwinners for such households, they can be an important channel to provide support. The top up provided to Samurdhi during Sri Lanka's response is an example of

this approach. Many countries have used existing programmes to low-income households as a foundation for their response, but often coverage has been expanded substantially. For example, in the Philippines, the short term cash aid programme seeks to reach around 75 per cent of households, well above the 20 per cent normally targeted by the country's conditional cash transfer.

Box 4: Schemes for low-income and vulnerable households

- **Malaysia** launched the Bantuan Prihatin Nasional (BPN) which provides a mix of one-off cash benefits to 5.2 million households and 3.4 million individuals. It seeks to reach both low income and middle income portions of the population. It has used targeting systems from existing cash transfers and the tax system to identify recipients.
- **Philippines** similarly initiated a programme to reach 18 million low and middle income households (around 75 per cent of all households) with a monthly transfer of PHP 5,000-8,000 paid for two months.
- **Republic of Korea** is paying all households in the poorer 70 per cent of the population a one-off transfer of KRW 1,000,000
- **Pakistan** launched the Ehsaas Emergency Cash programme which seeks to pay a one-off transfer of PKR 12,000 to 12 million families.

3. **Lifecycle schemes, such as old age pensions, child and disability benefits:** Providing top ups to beneficiaries of existing schemes addressing risks of children, persons with disability and older persons, has two core functions. First, such schemes provide support to some of those who are likely to be more at risk from the impacts of COVID-19. Second, these schemes have been shown to have important spill over effects on households where recipients are living.

Box 5: Lifecycle schemes

- **Australia** is providing a one-off top up of AU$750 (around RM 2,000) to recipients of a range of existing benefits related to family/children, old age, disability, unemployment and low incomes.
- **Canada**'s COVID-19 Economic Response Plan, includes an increase in the country's child allowance which is expected in to benefit the average family by $550 (RM1,700).
- **Hong Kong** is providing an extra one-month allowance to recipients of old age, disability and social assistance allowances (existing benefit levels vary from HK$1,385 (RM770) to HK$3,585 (RM2,000)).
- **Argentina** is providing recipients of child and maternity benefits with an extra payment in April, amounting to up to $3,000 pesos (RM200).
- **Mongolia** has increased the benefit of the child benefit by 50% for three months.

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5. Options for the response in Sri Lanka

The next stage of the social protection response in Sri Lanka will need to adapt to the evolving nature of the crisis. Three key factors stand out.

- First, the response needs to be **adapted to a protracted crisis**, which now seems increasingly inevitable. This entails building responses not only to weather a short-term shock, but to support people to adapt to a better normal. A likely feature of this new realities will be reduced external demand from exports and tourism, which means there is need for a domestic demand orientated strategy. Public investment, and particularly social protection, has a key role to play in this respect.
- Second, the response may need to be **more nuanced**. Once the country moves out of curfew and quarantine (or reduces its intensity), the way in which different individuals and sectors are affected may become more diverse and complex. Some occupations may be able to reactivate to a large extent, while others will face a continued downturn or need to significantly adjust their business models.
- Third, the response can be used as an opportunity to begin **shaping an enhanced long-term social protection system**, which is better adapted to the new realities, and better able to manage future crises.

Keeping in mind these factors, the Sri Lankan context and international experience, the following three pillars of support can be considered.

1. Employment Income Support scheme

Establishing an Employment Income Support scheme would provide a channel to support workers hit hardest by the crisis. The scheme could provide some level of continuity to the short-term support provided to daily wage and other workers, but in a more focused, predictable and strategic fashion. The logic for such a dedicated fund is that (a) it could be designed to provide focused support to workers and (b) it could provide an entry point for strengthening longer-term elements of the social protection system. It could also provide a channel for support from international development partners. Key features of the fund could be:

- **Target group**: The first phase of the support can be channeled towards workers in occupations particularly affected by the COVID-19 crisis as a result of unemployment, unpaid leave, or reduced earnings. Support could also be provided to different groups of workers at different moments in a gradual and evolving approach, therefore adapting to how the crisis is affecting different sectors over time. Benefits could be adapted to reach workers in a range of different situations, including formal sector employees, employees previously outside the formal sector, and own account workers. A key consideration will be the modalities used to register different workers (see Box 6).

Box 6: Registering workers in the Employment Income Support Scheme

The modality for registering workers for an Employment Income Support scheme will be critical in order to ensure the programme reaches the right people, in a fair and transparent fashion. An effective registration process can also contribute to the establishment of a first registry that can be the basis for a new system of contributory social insurance benefits in the mid-term. Key approaches for registering different kinds of workers include:

- **Formal employees** should be relatively straight forward to identify and register given their membership of EPF and/or ETF schemes (even if they have recently been laid off).
- **Informal employees in formal or informal businesses**: The disbursement of support through an Employment Income Support scheme could act as an incentive for employees not previously registered to register. In this way, it could contribute to formalisation.
- **Own account workers**: Creative solutions would be needed to identify and register eligible own account workers in sectors hit hardest by the crisis. One approach for consideration would be to work with worker associations such as the Sri Lankan Tourism Development Authority and Sri Lankan Tour Guide Association (in the case of tourism). Again, registering these workers could provide an incentive for ongoing membership of and contribution to a longer-term social insurance programme. There may also be valuable lessons from the implementation of the voluntary pension scheme for Self-Employed Workers (under the Sri Lankan Social Security Board).

- **Benefits** could combine:
  - **Cash benefits:** For the sake of simplicity, and given the lack of evidence of previous earnings in many cases (e.g. own account workers and informal workers), a flat-rate benefit may be optimal. This could be set in relation to benchmarks such as the minimum wage, or median earnings of workers, in order that it provide a level of lost income replacement. The definition of the duration of the benefit will also be essential, as the nature of the crisis demonstrates that very short-term measures might not be the most adequate answer. The modality of payment may vary for different kinds of workers, for example:
    - **Own account workers:** Provided a cash benefit
    - **Workers in MSMEs:**
      - A wage subsidy for those that are furloughed but retain their job;
      - A cash benefit for those who have lost their job
    - **Workers is large enterprises:**
      - A combination of wage subsidy and wage credit for jobs that are kept, meaning that the employer will need to pay back the credit. This helps to demonstrate the commitment of the employer to retain the employee
      - A cash benefit for those who have lost their job
  - **Active labour market policies:** As well as providing protection against the employment shock created by the COVID crisis, the fund should provide space and capacities for workers to adapt to adjustments in the labour market and labour repurposing. The cash benefits should therefore be complemented by active labour market policies such as training and job placement and other incentives. This can be aligned with other public investments aimed at adapting the economy to the better normal. Linkages should also

be promoted with the access to loans, however, it is not envisioned that the fund would manage these loans.

- **Funding**: The launch of the fund could be supported both by general government revenue and, if possible, complemented by funds from international development partners that are being allocated to the response to COVID-19 impact. By acting as a channel for support from international actors, it can ensure that this support (that may be focused on specific topics such as the garment sector, tourism and climate resilience and adaptation) is integrated within a wider government approach, thus improving coherence and effectiveness. In the longer run, the fund could be a platform for developing a contributory social insurance scheme, and be funded by worker and employer contributions, combined with general government revenues .

- **Administration:** It is suggested that the scheme should be managed by an existing social protection institution, both to enable rapid deployment of the scheme, and to create conditions for this process to lead into longer-term reform to the social protection system. An assessment would be needed to identify which institution would be best positioned to manage a scheme of this nature, with potential candidates including the EPF or ETF. The administering institution would need to be one already strongly connected to workers and employers, and already managing contributions and benefit disbursements. The new scheme should have a specific fund (in accountability terms), meaning that its funds should not be combined with funds that the potential same institution might have for different contingencies. This practice is not only aligned with international best practices, but might also facilitate the incorporation of funds from alternative sources such as ODA.

The roll out of the selected solution /approach could take a **phased approach**, starting with a pilot for identified priority workers in priority sectors. This would provide the opportunity to test systems before large scale roll out, and adapt the initial roll out to the scale of funds available. Phases would include:

- **Phase 1 –** Pilot phase targeting specific occupations/sectors with income support and active labour market components (focusing on job search and training). Targeting by geographical area, age (e.g. youth), or other factors could be mechanisms to limit the scale of the target group in this pilot phase.

- **Phase 2 –** Extension of coverage to broader age/geographical areas and/or other sectors/occupations. The scope of the active labour market components could also be expanded.

As a follow up to this note, ILO can work with national stakeholders to develop a more detailed roadmap for a gradual roll out of the fund, with a more specific analysis of which occupations and sectors could be prioritizes and respective assessment of costs.

2. Universal child, disability and old age benefits

Continuing and strengthening the broad-based support to low- and middle-income households and individuals will be a core tool to reach workers, especially those in informal employment. While the Employment Income Support measures described above can provide targeted support to workers particularly affected by the COVID-19 crisis, in reality all workers will be affected to some extent by the crisis. It will therefore be critical to have in place a broad-based cushion that provides at least a minimum level of support to low- and middle-income households affected by the crisis.

Nevertheless, the existing schemes such as Samurdhi and Senior Citizens and Disability Allowances face major limitations in reaching those who need support. As already noted, the Samurdhi programme confronts significant challenges in targeting its intended recipients and is unable to reach over half of them. This is not an exceptional situation, and reflects international experience of the challenges of poverty-targeting. The Senior Citizens and Disability Allowances have made important progress to complementing Samurdhi and covering other vulnerable populations, but again confront the pitfalls of poverty targeting.

A package of universal benefits to children, older people and persons with disability would provide effective broad-based support to low- and middle-income workers and families. International experience has shown that a package of universal life-cycle programmes addressing old age, disability and children are an effective way to support the very poorest in society, but also provide a cushion to vulnerable workers and families above the poverty line. An option for Sri Lanka would be to build on the base of the existing Senior Citizens and Disability Allowances and expand coverage to all or most people in these groups (regardless of income) while introducing a Universal Child Benefit for children aged 0-5. These schemes would form a strong foundation of the ongoing social protection system in Sri Lanka, but could be further topped up in times of crisis, including in the protracted phase of the COVID-19 crisis.[28]

3. A social insurance scheme for Sri Lanka

Sri Lanka can use the COVID-19 crisis as an opportunity to move towards the construction of a social insurance scheme, by focusing first on short-term benefits. As discussed in Section 2, the reliance on employer-liability arrangements for benefits related to unemployment, maternity, sickness and work injury provides risks for businesses, and poor protection for workers. A contributory social insurance scheme has the potential to pool these risks and increase the level of protection. It would also have greater potential to reach own-account workers who are left out of most existing contributory social protection and mandatory saving mechanisms in the country.

Unemployment insurance could form the starting point for such a scheme. Given the likelihood that Sri Lankan labour market will need to adjust to unprecedented changes over the coming years, such a scheme could support businesses and workers to adapt. It would also leave Sri Lanka better prepared for future crises. This would not be the first time an unemployment insurance has been proposed in Sri Lanka. In 2009, following the mass redundancy and loss of jobs experienced in the Sri Lankan export industry due to the global recession, the Ministry of Labour proposed the establishment of a permanent unemployment insurance scheme. In the short-term it was proposed that this would provide non-contributory benefits (making use of funds from ETF or EPF) with a move to employer and employee contributions in the longer-run. The scheme proposed to provide a benefit to those in the

[28] United Nations Sri Lanka, "Tackling the COVID-19 Economic Crisis in Sri Lanka: Providing Universal, Lifecycle Social Protection Transfers to Protect Lives and Bolster Economic Recovery."

labour force who were earning less that Rs. 20,000 a month if the need arose. The scheme would pay 50 per cent of the person's previous monthly salary for up to a period of two years.[29]

An unemployment insurance scheme could build from the foundation of the Employment Income Support Fund. Those registered in the Employment Income Support Fund could automatically be registered for the longer-term unemployment insurance scheme. Over time, the funding modality could also be adjusted so that workers and employers begin making contributions to the fund in order to maintain protection under the scheme. In this respect, the short-term Employment Income Support scheme could act as a mechanism to increase formalisation and expand membership of social protection.

A social insurance scheme should gradually incorporate other major risks faced by workers. This might start by providing protection against work-related risks currently covered by employer-liability arrangements, namely maternity, sickness and employment injury benefits. It would also be opportune to explore ways of introducing elements of risk pooling and periodic benefits to old age retirement benefits which to date primarily provide lump sum benefits based on mandatory saving accounts. An important reference point could be Singapore which has been in the process of increasing the level of pooling within the benefits provided by the existing Central Provident Fund.

4. A comprehensive social protection system for Sri Lanka

As in other countries in the region, the COVID-19 crisis revealed the gaps and fragilities of the existing social protection system. Historically, major crises have been turning points in the development of social protection systems. The Asian Crisis of 1997 for instance impacted significantly the development of the Korean social protection system and the more recent economic crisis of 2008 resulted in many countries – including China and Thailand – significantly expanding the coverage of their old age pension systems.

In this regard, the ILO would recommend the Government of Sri Lanka to use this opportunity to set out a long-term vision for the social protection system. This would involve identifying key reforms necessary to reconfigure the social protection system and defining the steps required to reach that vision. Key elements of the vision would include expansion of coverage and increasing the adequacy of benefits, but also making the system more efficient, thus contributing to its future financial sustainability. In this particular regard, it would be advisable to prioritize addressing the current institutional fragmentation and assessing if the structure of programs and schemes available is the most efficient approach to deal with the country labour market structure and existing patterns of vulnerability.

Recognising that social protection reforms take some time, the vision could be aligned with the achievement of the Sustainable Development Goals in 2030 and the goal of Universal Social Protection through a combination of contributory and non-contributory benefits. The objective of the reform should therefore be to develop an inclusive, integrated and modern social protection system that builds on the principles of solidarity and sustainability, leaves no one behind and increases the country resilience to future crisis.

[29] ILO, "Analysis of the Sri Lankan Social Protection Schemes in the Context of Social Protection Floor Objectives."

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