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Effective Inclusion of Differently Abled Economic Agents into National Labour Force: Challenges and Prospects

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1. Background

Inclusive growth has become a prominent topic in emerging global development agenda. It attempts to include people who are excluded such as aged population, economically inactive females, differently abled persons and so on, into the mainstream labour force (Udaya Kantha K. K. S. and Perera K. E. D., 2013). According to the Census of Population and Housing of Sri Lanka conducted by the Department of Census and Statistics in 2012, 8.7 per cent of the total Sri Lankan population (five years and above) are differently abled persons (Approximately 1.6 Mn persons). Sri Lanka labour force has lost its full capacity due to two youth insurrections, 2004 Tsunami situation and thirty years long civil war in addition to born with, disabilities population (Coomaraswamy I, 2017 and Department of Census and Statistics, 2012). Further, the ageing population phenomenon and increasing accidents have also led to an increase in the number of disabled persons in the country. In line with these developments government health and welfare expenditure increased and labour force started to shrink. Hence, developing a comprehensive strategy to include disabled persons into mainstream labour force would help not only to minimize government welfare expenditure but also to increase labour force participation.

What is disability?

The term 'disability' has been defined in various ways by different organizations. For the World Health Organization "Disabilities is an umbrella term, which covers impairments, activity limitations, and participation restrictions. An impairment is a problem in body function or structure; an activity limitation is a difficulty encountered by an individual in executing a task or action; while a participation restriction is a problem experienced by an individual in involvement in life situations" (http://www.who.int/topics/disabilities/en/). This definition is based on health perspective and disabilities and impairment are identified as too close conditions.

In Sri Lanka, Protection of The Rights of Persons with Disabilities Act (No. 28 of 1996) as amended by Act No. 33 of 2003 has defined disability as "a person who, as a result of any deficiency in his physical or mental capabilities, whether congenital or not, is unable by himself to ensure for himself, wholly or partly, the necessities of life". Although there are some deficiencies with disabled persons, they also have some capabilities which can be used to include them into labour force. However, today many disabled persons fall in to the economically inactive category which amounts to1.1Mn out of around1.6 Mn total disabled population (Source: Census of Population and Housing of Sri Lanka, 2012, Department of Census and statistics).

2. Barriers to Enter the Labour Force

There are a number of barriers that prevent differently abled persons from entering the labour force. Some barriers depend on their disability, and some are common for all differently abled persons.

Lack of proper education is the main reason for unemployment among differently abled persons. This has been caused by barriers faced by disabled persons within existing socio-economic context. Further, as is identified in national policy on disability 2003, environmental and transport accessibility, communication, cultural, lack of assistive devices and societal and family expectations are the other barriers faced by disabled persons in engaging with mainstream society.

From the labour market perspective, access to workplace and access to public transport are the major barriers faced by disabled persons. For instance, it is hard to provide wheelchair access to workplaces due to steps and other physical barriers. At the same time, differently abled people are unable to use public transport services (eg: Buses, Trains) because of limited alternative boarding facilities. Further, documents in many work places are not accessible for visually impaired people. Therefore, the differently abled, especially the visually impaired people, have to face a lot of information and communication barriers within workplaces. Moreover, it is difficult to address this issue due to lack of affordable assistive devices in the local market.

Furthermore, over or lower protection within families for disabled children prevent socialization of such children. Negative attitudes and stigmatization towards differently abled persons within work places also discourage their labour force participation. From employers' perspective, they assume that additional costs have to be incurred to employ disabled persons into their firms. For example, necessary workplace arrangements have to be made before enrolling wheelchair users. On the other hand, prejudices on efficiency could also result in excluding disabled persons from the labour market.

Transforming Persons from Disability to Ability: International Experiences to National Development

With a view to addressing the challenges faced by differently abled persons, various countries have introduced various policies. These policies can be divided into two major categories such as passive measures and active measures (Shima. I et al, 2008). Passive measures include welfare schemes and other charitable activities. These kinds of policies lead to increase dependency of disabled persons than independency. Hence, many countries have taken actions to transform their policies from passive to active. The key objective of active policies is to empower disabled persons to be independent persons. In other words, these kinds of policies attempt to convert disabled persons from welfare recipients to tax payers.

Disability is caused by one or more impairments. Today assistive technology plays a pivotal role in replacing functions of impaired body parts. Following table provides a detailed description of the developments occurred in this field.

Table 01 Disability Category, Barriers and Assistive Technology Based Solutions

Disability Category	Examples of barriers in social, economic, and community participating	Examples of accessible technology solutions
Visual disability includes total blindness or low vision	Reading print (e.g., textbooks, instructions, documents) and writing (e.g., signing checks legal documents). Accessing visual information in print or audiovisual media (for example, warning and information in text scrolls on television). Navigating new surrounding when all signage is in text.	Text to speech rendition and speech/voice and output. Braille displays Screen and text magnification Voice recognition Audio description of graphic and visual media Electronic audio signage GPS-facilitated navigation Optical character or image recognition Changing screen brightness, color contrast.
Hearing disability total or partial hearing loss	Hearing lessons, warnings, and other auditory information in person or over audio media such as the radio or television. Communicating with others including educators, peers and colleagues, clients, first responders, government personnel, and others.	Closed and open captioning, subtitles for videos, TV programming. Text Telephone or Tele communicating Device for the Deaf (TTY/TDD) which allow text messaging over the phone line. Telecommunications relay services which allow text to speak conversations through an operator. Use of vibration/text alert instead of audio alerts.
Speech impairments	Communicating with others including educators, peers and colleagues, clients, first responders, government personnel, and others	SMS/text messaging Synthesized voice output, text to speech functionality. Use of virtual picture board and communication solutions.
Physical disability loss of mobility, dexterity, and control over some body functions.	Entering, navigation, and using buildings, class rooms, and other physical spaces. Using writing tools such as pens and pencils, keyboards, mouse.	Voice recognition system. Adapted and virtual keyboards. Joysticks and adapted mouse. Use of eye-gaze and gestures to control device. Remote and online access to work, education, and other services.

Cognitive disability includes a range of conditions which may impact a person's memory, thinking and problem-solving, visual, math, reading and language comprehension, ability, to pay attention or follow instructions. Examples of underlying conditions are traumatic brain injury, learning disabilities, down syndrome, autism, cerebral palsy.	Difficulty understanding, remembering, or following instructions. Difficult in comprehending textual information. May occur together with other limitations such as speech impairments or trouble with hand grip and movements. Difficulty in communicating or expressing thoughts and ideas.	Text-to-speech rendition and speech/voice output. Touch screen devices. Mobile apps and online resources that mimic augmentative and alternative. Communication (AAC) devices, electronic picture boards for communication. Organization and memory aid tools such as online calendars, note taking and alerts. GPS-facilitated navigation Use of multimedia to aid comprehension e.g., videos, graphics.
Psychosocial disability	Need for flexible schedules Difficulty understanding, remembering, or following instructions. Inability to react and make appropriate decisions following information or instructions. Difficulty in communicating or expressing thoughts and ideas.	Use online communication, documentation and work tools to aid with flexible scheduling. Organization and memory aid tools such as online calendars, note taking and alerts.

Source: Raja, D. S. (2016)

As illustrated above, there are specific assistive technological solutions for respective disabilities to overcome functional limitations. For instance, visually impaired persons can use screen reading software to perform reading and writing activities, leading to an increase in the individual capacity of the differently abled persons, which would in turn increase employment prospects for differently abled persons. Further, some developed countries have introduced number of active policy measures to encourage labour force participation of disabled persons such as Quota system, anti discrimination law, job protection rights and targeted active labour market policies.

Sri Lanka can also implement new programmes to include disabled persons into national labour force by learning lessons from international developments. As a first step, the Government could provide tax concessions to import assistive devices and respective technological equipments. Furthermore, research and development should be improved to produce compatible assistive devices to suit requirements of local labour market and disabled persons. Digital infrastructure needs to be developed to promote digital labour supply and it would help to provide online working facility for persons with mobility issues. In addition to that, existing national policy on disability should be focused on enhancing accessibility for education, public transport etc. Using tactile walking surface indicators for roads constructions is a better option to improve accessibility of physical structure for visually impaired persons. Information accessibility could be improved by converting all public documents into an accessible format such as electronic and audio. A central mechanism should be established to improve connectivity between employers and disabled persons. Financial assistance could be provided to employers to make work place adjustments for differently abled employees.

Public Administration Circular No.27/1988 provides for an allocation of 3 per cent job opportunities for disabled persons with requisite qualifications when the vacancies in the public or corporation sector is being filled. This existing quota for public sector employment could be rationalized and expanded into private sector. For instance, national level surveys should be conducted to seek suitable employment prospects for disabled persons in terms of their disabilities and capabilities. An appropriate quota system could then be introduced into private sector. Japan has introduced disabled employment quota system for both public and private sectors. Accordingly, employers who do not comply with that system are levied to promote disabled employment (Furukoa et al, 2011). Sri Lanka could also consider the possibility of implementing such a system and thus collected tax income can be utilized to rehabilitate differently abled persons.

A new employment center for disabled people could also be established under public private partnership. Similar system, which provides employment opportunities for disabled persons, is at work in Malaysia. The Centre is named "Stepping Stone", and comes under Asia Community Service, a nongovernment organization in Malaysia. The center consists of several sections such as baking, hand weaving and yarn dyeing, creative craft, batik printing and pottery. Initially, differently abled persons are given on-the-job training and then, they are encouraged to select one section to match with their potential and preference (Furukoaet al, 2011). Sri Lanka also could adopt such a model under the public private partnership to establish a working center to increase employment opportunities for disabled persons.

Awareness among disabled persons on availability of assistive technologies and availability of employment prospects should be improved. In contrast, awareness among non-disabled persons should be improved on abilities of disabled persons which can be used for value creation in the economy. These two-way awareness process can be used to avoid discriminations and stigmatization towards disabled persons and to empower them. Conducting national level campaigns and introducing disability studies into education curriculum is one way to improve such awareness in the society.

Presently, there are few vocational training centers for disabled persons in Sri Lanka. Service of those centers should be expanded into rural areas and sociologists and psychologists could be employed to enhance the quality of the service.

In conclusion, all above strategies can be proposed to improve labour force participation of differently abled persons and it will ultimately lead to a transformation of differently abled persons from welfare recipients to tax payers. This would also improve the chances of social inclusion of differently abled persons enabling them to contribute effectively to the economic growth in the country.

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Impact of COVID – 19 on Income Inequality of Sri Lanka

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COVID-19 virus is infamous for being ruthless and able to infect anyone and everyone in the world irrespective of wealth, race, religion, gender or any other form of inequality that's been defined. However, the impact on health from this infection and the socio-economic aspects, caused by actions taken to combat the virus, is not felt equally.

Sri Lankan economy was experiencing a subdued performance after the setback created by the Easter Sunday attacks in April 2019, which affected most of the economic activities drastically. While recovering from this unfortunate event, now Sri Lanka is faced with the COVID-19 pandemic which will adversely affect the growth, fiscal, external, and financial sector performance affecting all stakeholders of the economy (Central Bank, 2020). Such adverse effects will be felt and faced differently by households with heterogeneous income levels.

Hence, this article aims to identify the level of income inequality in Sri Lanka, how COVID-19 will affect income inequality and best practices to avoid the severity of income inequality which might be broadened due to effects of COVID-19 outbreak.

Income Inequality of Sri Lanka before COVID-19

It is apparent that, COVID-19 outbreak will have a different impact on different segments of the society. The households in the low income segment is more vulnerable to shocks as their meager earnings through informal employment may not be adequate to save or obtain insurance to face external shocks. On the contrary, the high income earners will have fixed income sources and have the capacity to of generate income through passive sources coupled with a savings habit. Thus, such segments tend to be better equipped to face external shocks and the impact of such shocks could be negated to temporary setbacks. Therefore, identifying the depth of income inequality prior to the COVID-19 outbreak is vital in identifying a way forward.

Unfortunately, even before COVID-19, income inequality of Sri Lanka did not portray a positive picture. The Gini index[1] of Sri Lanka which had decreased from 40.3 in 2006 to 36.4 in 2009 and to 39.2 by 2012, increased to 39.8 in 2016 (World Bank's Data Bank) reflecting a reversing of the decreasing trend. Further, when compared with the countries in the region, it is evident that most countries have Gini indices (latest available) below Sri Lanka indicating the scale of the problem in hand (Table 1).

1. Gini Index of a country is a measure of inequality which ranges from 0 to 100; 0 being complete equality and 100 being complete inequality.

Lorenz curve[2] for Sri Lanka as given at Chart 1 provides graphical presentation of dynamics of income inequality of Sri Lanka. The curvature of the Lorenz curve is high and deviates from the line of perfect equality along with time, indicating that the inequality of income when measured in percentiles of the population is increasing. For instance, in year 2016, the 10 per cent of the population with the lowest income is only earning 2.9 per cent of the total income of the country, whereas the 10 per cent who earn the most enjoys 32.9 per cent of the income of the country (World Bank, PovcalNet). The bottom 6 deciles altogether enjoys only 32.6 per cent of the total income giving a glaring inference on the level of income inequality faced by Sri Lanka. The Lorenz curve for 2012 and 2016 seems to overlap, yet the curvature of Lorenz curve in 2016 is slightly higher, which indicates that policy measures have not sufficiently catered to narrow down the income inequality.

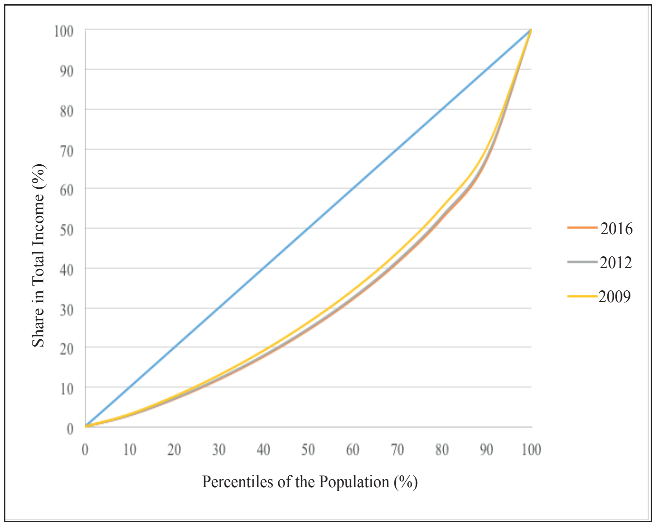
Table 1: Latest available Gini Index and Poverty HCR of Countries in the Region

Country	Gini Index	Poverty HCR (%)
Bangladesh	32.40	14.80
Bhutan	37.40	1.50
Indonesia	39.00	4.60
India	37.80	21.20
Maldives	31.30	0.00
Pakistan	33.50	3.90
Philippines	44.40	6.10
Sri Lanka	39.80	0.80

Source: World Bank's Data Bank

Although the income inequality increased, significant decline in poverty was observed in the recent past. The poverty level measured in terms of poverty head count ratio (HCR) which is the percentage of poor people below the poverty line (USD 1.90 – extreme poverty), in Sri Lanka has been decreasing over time. The HCR has decreased to 0.8 per cent in 2016 from 1.6 per cent in 2012 (World Bank's Data Bank). Further, it is observed that, the poverty levels in Sri Lanka are substantially below the levels of the countries in the region. However, the HCR below the poverty line of USD 3.20 (Global Poverty Line) is still 10.1 per cent, which means that a substantial percentage of the population is vulnerable to fall in to extreme poverty.

Chart 1: Lorenz curve for Sri Lanka



Source: World Bank, PovcalNet

COVID-19 in Sri Lanka

The first person who was infected with Corona virus, inside Sri Lanka was reported on 10th March 2020, after which the Sri Lankan government took drastic measures in an attempt to curtail the contagion effect of the virus. Prior to this incident, the government was taking more of a monitoring role and making the public aware of COVID-19, which did not have a significant impact on the day to day lives or the livelihoods of the population. As at 11th May 2020, the reported number of COVID-19 infected persons were 889 with 9 deaths. The country was in a lockdown situation with curfew from 16th March 2020 which was lifted time to time for some districts. As of today (11th May 2020), the day to day functions are normalized amidst having a curfew and several restrictions on mobility. Nevertheless, a date to re-open schools is not certain yet.

Therefore, such actions which has been vital in containing the spread of the virus, has undoubtedly affected the

2. Lorenz curve gives the relationship between the share of income borne by the different percentiles of the population and the corresponding percentile of the population. Therefore, it is an indication of distribution of income and the 45° line shows the perfectly equal income distribution (Agarwal, 2019).

livelihood of households in the country. Sectors which are drastically affected by the COVID-19 in Sri Lanka are Tourism for clear reasons; Apparels, as major export destinations of Sri Lanka are affected and shortage of raw materials obtained from China; Construction and Engineering, due to shortage of raw materials and labour as employees cannot reach construction sites; and Banking & Finance sector, mainly due to rising of non-performing loans and debt moratoriums (PWC, 2020). Considering the adverse impact on such sectors and the entire economy, the Central Bank has predicted that the GDP growth of Sri Lanka will be 1.5 per cent for year 2020 (Central Bank, 2020). However, if the COVID-19 pandemic continues for a prolonged period, Sri Lanka is likely to be hit by a second wave of the infection and if timely and adequate policy measures are not taken, the economic growth could be even lower than the prediction.

In response, various policy measures have been implemented by different authorities of Sri Lanka, to bring some relief for the underprivileged sectors of the population. Yet, how COVID-19 will impact on income inequality and best practices to avoid income inequality in this situation, needs to be evaluated in depth.

COVID – 19 Impact on Income Inequality

COVID-19 effects will come in two folds. i.e. a health crisis and an economic crisis (UNDP, 2020). Both these crises affected and will continue to affect the low-income earners more severely than the high income earners. Further, these crises and policies taken to cope with these crises will determine whether income inequality will be broadened or narrowed in the future.

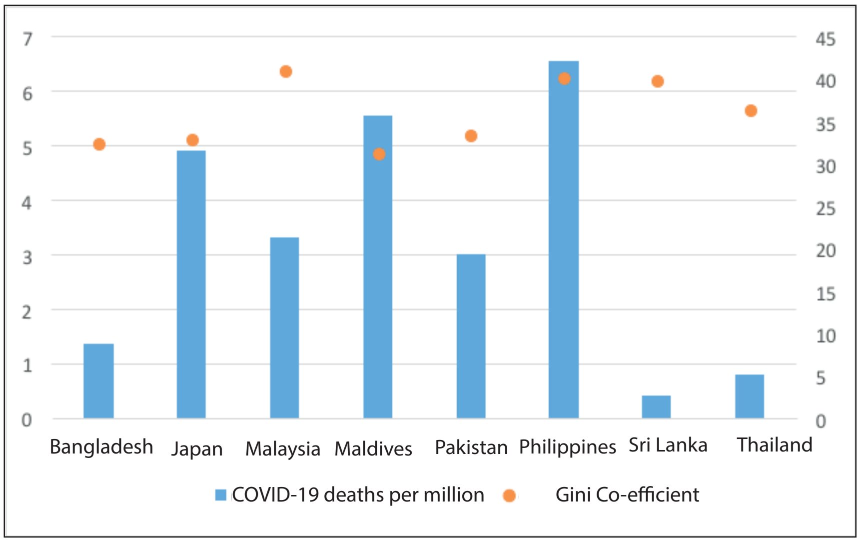
COVID- 19 affects the low income earners harshly in maintaining health and wealth….

Maintaining health

Turrisi and Debinski (2020) has plotted the number of COVID-19 deaths per million with Gini index and stated that the impact of this pandemic will be felt more by the poorer countries. This concept was replicated to several countries on the Asian region, based on data availability (Chart 2). It is evident that countries with high income inequality such as the Philippines, the Maldives and Japan has had the highest number of deaths per million. Sri Lanka despite having a high Gini index has managed to lower the spread of the virus as well as the number of deaths from the infection. A main reason for this maybe, the free health services, actions taken for early detection, isolation and treating immediately. Sri Lanka has a network of Public Health Inspectors who were dedicated on educating people, identifying COVID-19 patients and enforcing self-quarantine practices when needed together with the island-wide hospital services contributed to containing the contagion. Sri Lanka has been fortunate to keep the infection rate at a manageable level as against the available capacity of healthcare facilities. If health care facilities were not a public good, then the income inequality will be a determinant of the severity of this infection. The low income earners, may not be able to access health care services due to lack of education or adequate information and due to inability to afford proper health care.

If the infection rate increased over the capacity of the health care services in Sri Lanka, the problem would be severe and the chances that the low income earners being affected would be higher. The likelihood of low income earners being infected is high due to poor housing conditions with low hygienic standards and not being able to implement social distancing and cleanliness measures advised by the authorities. Purchasing masks, sanitizer and other items to prevent catching the disease is also difficult for low income earners. Hence, the low income earners have a higher probability of being infected by this virus as well as dying from this virus.

Chart 2: COVID-19 deaths per million and Gini Index



Source: "Our world in data" Database and World Bank's Data Bank

Maintaining wealth

As a response to curtail the contagion of COVID-19, the initial measures taken by the Sri Lankan government was to lockdown the country and declare a "work from home" situation. Avdiu and Nair (2020) has compiled a grid between magnitude of requirement of face-to-face interaction and amenability to home-based work, to categorise the common jobs in the society according to magnitude of ability to "work from home". As per this grid, high amenability to carry out work at home and requires the least amount of face-to-face interaction are jobs in "Information" and "professional and advisory services". These sectors are the least affected from lockdown and social distancing regulations brought up by authorities, which also happen to be concentrated to high income earners. "Education" and Finance & Insurance" are more amenable for home-based work. However, for these sectors to be productive, high face-to face interaction is required. Yet such jobs are also secure during the medium term and can be returned to once the contagion of the virus is curtailed. Nevertheless, job roles on sectors which require high face-to-face interaction such as "Accommodation & Food", Retail Trade", "Arts, Entertainment & Recreational" and jobs which are not amenable for home-base such as, "Agriculture", :Construction", "Manufacturing" and "Transporting & Warehousing" are the most vulnerable for not generating an income and leading to unemployment. The high risk sectors after COVID-19 (i.e. Accommodation & Food, Real Estate, Manufacturing, Wholesale & Retail) identified by the ILO also coincides with the classification done by Avdiu and Nair (2020). It is apparent that people employed in such high risk sectors unfortunately happen to be mostly from the low income earners.

In addition to nature of work, having required facilities to work from home, such as an uninterrupted internet connection, laptops, mobile phones, affordability and also adequate computer literacy are vital determinants of whether an employee can work from home. All these requirements can be fulfilled by the high-income category which also have higher educational attainment. Only such employees will not be redundant during a lockdown which ensures that they receive an income during such time enabling them to secure their jobs after the pandemic.

As per the computer literacy survey 2017 conducted by the Department of Census and Statistics of Sri Lanka, only 23.5 per cent of Sri Lankan households own a personal computer. When considering the distribution of owning a personal computer from this marginal percentage, the situation is more alarming. Only 39.9 per cent of urban sector households, 21.0 per cent of rural sector households and 5.1 per cent of estate sector households own a personal computer. This discrepancy is wider when considering province wise availability. Computer literacy rate of Sri Lanka is supposed to be significantly low at 28.3 per cent with a slightly higher digital literacy[3] of 38.7 per cent. Households with access to internet and e-mail were reported at 21.3 per cent and 11.0 per cent respectively. Therefore, low percentage of availability, affordability and knowhow to use electronic equipment for "work from home" and the unequal distribution, reconfirms that the low income earning households in Sri Lanka will be at a disadvantage in "work from home" conditions.

Further, most of the jobs carried out by the low income earners cannot be done from home. Most are daily wage earners and do not have a savings habit. In the case of Sri Lanka, employment in the informal sector accounts for 58.7 per cent in 2018, with some Districts such as Mulativ, Batticaloa, Anuradhapura and Hambantota recording over 70 per cent of employment in the informal sector (DCS, 2018). The majority of the population working in the informal sector, which is more vulnerable to lose income, will be a major concern in facing a pandemic of this scale.

Therefore, the low income deciles who are less likely to "work from home" and who are more likely to be employed in the informal sector, will be the most affected by COVID-19 in maintaining health, wealth and even to afford necessities during this period.

COVID-19 will make income inequality broader….

Worsening of income inequalities as a result of COVID-19 is repeatedly predicted by various studies. Furceri et al. (2020) comments that the epidemics in the past has also caused financial crises and increased income inequality, while having a higher impact on the poor category of the population compared to the high income earners. Furceri et al. (2020) has statistically proven through impulse-response analysis that after an epidemic, the income is disproportionately distributed to high income deciles than the low income deciles, worsening the income inequality. Education seems to be playing a critical role in retaining employment and future employment prospects during the time period after a crisis (Furceri et al., 2020). In addition, the high income earners who are also with high education attainment will be more likely to "work from home" (Ferceri et al., 2020 and Avdiu and Nair 2020) and retain their employment and earn an income even when commuting to the work place is restricted, thus the income inequality may widen under such circumstances.

Mahler et al. (2020) has conducted a study using poverty data and growth predictions analysed in various stress scenarios on growth estimates to obtain the impact of increasing poverty after the COVID-19 pandemic. As per this study, it is observed that 40-60 million people are prone to be pushed to extreme poverty which in turn will increase income inequality.

The effects of low demand for products & service and value chain interruptions will result in lowering of working hours of employees which will make employees redundant (Schifferes, 2020; Avdiu and Nayar, 2020; PWC, 2020). As per the ILO predictions, the reduction in working hours and employees will be severely felt by the Asia Pacific region, with a loss of approximately 7.2 per cent working hours which is equivalent to 125 million employees in the second quarter of 2020. Furthermore, ILO predicts that the upper-middle income countries and the developing countries which happened to have a higher informal sector will be affected the most from this crisis. Unfortunately, Sri Lanka falls in to all these categories which are signaled as high risk for rising

3. Digital literacy is ability to use any electronic devices without limiting to personal computers.

unemployment levels by the ILO. Loss in employment, especially in the low income sectors, will undoubtedly exacerbate the income inequality of a country.

Education which is considered as an opportunity for social mobility is also affected by COVID-19. In case of Sri Lanka, schools were the first to be closed down and not even open to date (11th May 2020). However, some schools deliver lessons via the internet. Similar to "work from home" situation the low income earners are again affected with not being able to afford and low access to technology. Further, parents of high income earners may be more equipped for homeschooling than low income earners (The Economist, 2020). Thereby, the possibility of broadening the income inequality is considerably high in Sri Lanka in the long run as well.

Best practices and policies taken to address income inequality during COVID-19

Even though, COVID-19 is seen as a threat which broadens income inequality, Sabga (2020) presents a contrasting view by stating that, this crisis can be used as an opportunity to tackle income inequality through revamped policies towards an equitable future. UNDP (2020) also encourages this view and states that this crises should be used as a fresh start to rewrite the policies with reduced inequality and enhanced resilience to shocks.

Policy responses taken by countries apart from allocating funds for safeguarding health related concerns from COVID-19 can be broadly categorized as; "to ensure business viability and confidence through tax relief, credit & corporate support" and "boosting income support to citizens"(UNDP, 2020). ILO also recommends four pillars of policies to combat COVID-19 namely: stimulating the economy and employment, supporting enterprises, jobs and incomes, protecting workers in the workplace and relying on social dialogue for solutions (ILO, 2020). For ease of discussion, such policies are segregated as preventing job loss related polices, social safety net related policies and other policies.

Preventing job loss related policies

Common tools taken to minimize job losses include granting wage subsidies and offering companies incentives such as tax breaks to retain their workforce during the crisis (UNDP, 2020). Germany and France has taken measures to prevent firms from bankruptcy and enable payment of salaries, Denmark has taken steps to cover 75 per cent of salaries and UK has also taken measures to sustain the employee salaries (Sabga, 2020). Iran has started a scheme on granting loans for SMEs for not laying off employees during this period (UNDP, 2020)

Safeguarding jobs in this manner will enable the economy to bounce back to normalcy after the crisis. If people get unemployed, it will widen the income inequality, people will fall in to poverty and will be a burden to the government even after the crisis. Therefore, preventing job losses and preventing income loss by salary deductions is of utmost importance for the sustainability of the economy.

Social safety nets related policies

Even though, safeguarding jobs related policies are important for the speedy recovery of the economy, such policies do not provide any support to the unemployed people even before COVID-19 and help the people who are already unemployed due to COVID-19. Therefore, countries should take measures to provide employment services to supplement income support, expand unemployment benefits, including compensation for crisis-induced reductions in working hours (UNDP, 2020). This sort of expansion of social safety nets, obtaining the support of banks, fintech and private sector to deliver social transfers are important to people who have lost their livelihoods.

Universal Basic Income payment has also gained popularity following the COVID-19 pandemic, which ensures that every citizen obtains a fixed amount on a regular frequency to sustain their necessities. Canada, India, Japan, United Kingdom, United States, Hong Kong and Singapore are implementing such schemes at present (UNDP, 2020). Apart from the benefit of sustaining the low income earners, a UBI is renowned to increase the aggregate demand and boost the economy in the medium term (UNDP, 2020). Malaysia has also implemented a scheme to grant a constant income for 6 months for people who have lost their jobs during COVID-19. In Thailand provisions have been made to pay USD 153 for three months for informal workers (Asadulla and Bhula, 2020).

Ensuring that the benefits of a stimulus package are largely enjoyed by small and informal businesses is also important. Such stimulus packages should be first given to industries which were hit hard from COVID-19 such as travel, hospitality, tourism and logistics sector. Further, it is observed that certain countries have introduced schemes directed at certain categories of people such as senior citizens, children, people with disabilities, women headed households, unemployed etc. Thereby, the social safety nets are directed to the underprivileged segment of the society to get the maximum benefit of the funds spent by the government.

Other policies

Policies to avoid digital divide is also an important policy measure which needs urgent attention of governments facing this crises with high income inequality, in avoiding asymmetric information, access to finance, opportunities to work and study from home. Due to such reasons "Access to the Internet should be treated as a new public good" (UNDP, 2020). In case of Sri Lanka the connectivity issues, and affordability of technology needs to be critically reviewed to enhance access to technology.

Sri Lanka has also taken several measures to combat the effects of COVID-19 on the economy and the betterment of the people….

Policy measures have been taken to prevent job losses and to safeguard the underprivileged people from effects of COVID-19. "COVID-19 Heath care and Social Security Fund" was established on 23rd March 2020, with an initial amount of Rs. 100 million to be utilized in combating COVID-19. Setting up a re-financing facility amounting to Rs. 50 billion on 31st March 2020, was also amongst the initial measures taken by Sri Lanka. SMEs and COVID affected businesses are eligible to obtain concessions such as debt moratoriums, working capital loans and investment purpose loans through licensed financial institutions via this facility. Nevertheless, in Sri Lanka, people who do not have access to banking services is left without a choice than turning to unregulated credit granting entities to fulfill their financial needs. Even before COVID-19, most of the low income earning households had multiple borrowings from such unregulated sources and were caught in debt traps due to unfair payment conditions including exorbitant interest rates (Arambepola and Romeshun, 2019). Therefore, such underprivileged persons will not receive the concessions given by the regulated financial institutions on debt moratoriums, waiving off penalty interest rates and lowering interest rates, which deprive their financial condition further.

To encourage domestic production and to ease the pressure on the Sri Lankan Rupee, import restrictions have been imposed on products such as rice, flour, sugar, liquor etc. by the Government of Sri Lanka. Further, restrictions are imposed on importing products such as furniture, ceramics etc. on credit basis. As Sri Lanka can produce such products, such policies will create a market for local production, especially agricultural produce, thereby creating income sources and employment opportunities for the low income earners.

Furthermore, a one off payment of Rs. 5,000 was granted to people eligible to obtain Samurdhi payments. As Sumurdhi payments are given to people who are underprivileged with no or low income sources, this additional payment at this time is important to support them. Initially this payment was done to the already listed people who obtained samurdhi payment. Later on steps have been taken to include households who has lost income from migrant workers, apparel sector and people who lost daily wages due to COVID-19.

Important aspects on Policy formulation and implementation

The importance of avoiding leakages in implementing policies is re-emphasised by the UNDP (2020), stating that the given benefits should have measurable out comes. For instance, if funds are given to a company for not laying off employees, the outcome can be measured from the number of employees laid off during this pandemic. In Thailand, a "No One Left Behind" scheme has been introduced which has failed to hounour its name sake and left out thousands of people, due to an administrative error (Asadullah and Bhula, 2020). Therefore, avoiding leakages of executing these stimulus packages is of extreme importance as otherwise, such benefits may leak to high income earners, widening the income inequality.

In conclusion…

It is observed that income inequality is in the rising verge in Sri Lanka even prior to COVID-19 outbreak, which will undoubtedly be multiplied with COVID-19 and actions taken to avoid contagion effects of COVID-19. Nevertheless, Sri Lanka has already initiated numerous measures to combat this income inequality. However, the ability to improve and continue such relief packages depends on a country's fiscal space. Therefore, Sri Lanka, as a country with limited fiscal space, has to review budget priorities, tax exemptions and take measures to avoid tax evasion and avoidance cases, while simultaneously providing COVID-19 relief measures.

In addition, stimulating economy with stable and transparent policies to improve business confidence, while encouraging innovative and technologically advanced banking facilities is vital at this stage. Furthermore, many inventions and entrepreneurs emerged in science and technology arena due to COVID-19 outbreak in Sri Lanka, which needs to be capitalized for the betterment of the economy. In the meantime, implementing indirect policies to avoid income inequality which are increasing equality of opportunities starting from addressing the digital divide is of utmost importance.

Thereby, creating more favourable and sustainable policies to address income inequality with better focus, on a consistent basis to avoid leakages will enable to narrow the income inequality faced by Sri Lanka and ultimately attain inclusive growth after COVID-19 pandemic.

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Importance of Risk Management for Financial Institutions

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Overview of financial institutions and risk management

A financial institution (FI) is a company involved in the business activities to deal with financial and monetary transactions, such as deposits, loans, investments and exchange foreign currencies. FIs include a wide range of business operations within the financial services sector, including banks, finance companies, insurance companies, brokerage firms and investment dealers, etc.

All these FIs are ready to face different level of risks and these risks create rewards to the FIs. However, ultimate result of high risk faced by the FI can lead to business failure . Risk management allows a balance between taking risks and reducing them. Effective risk management can add value to any organization and effective risk management framework seeks to protect an organization's capital base and earnings without hindering growth. Furthermore, investors are more willing to invest in companies with good risk management practices. This generally results in lower borrowing costs, easier access to capital for the firm and improved long-term performance.

Integrated risk management is managing all risks that are associated with all the activities undertaken across the entire organisation. In the context of banking organisations, or a deposit taking institution major risks that are associated with it are liquidity risk, interest rate risk, market risk, credit risk and operational risks in their various forms. The common factor in all these risks lies in their possible downside impact on the revenues of an organisation. The sum total of all risk-impacts is a critical factor for all organisations.

Process of Integrated Risk Management:

Effective risk management plays a crucial role in any company's pursuit of financial stability and superior performance. The adoption of a risk management framework that embeds best practices into the firm's risk culture can be the cornerstone of an organizations' financial future.

The process of Integrated Risk Management consists of strategy, organization, process and system.

1) **Strategy:** Integration of risk management as a key corporate strategy.

2) **Organisation:** Establishment of the Chief Risk Officer position with his/her accountability to the Board of Directors.

3) **Process:** The integrated risk management process guidelines have to be prepared in line with internationally accepted best risk management

principles and practices supplementary to those six core risk guidelines.

a) Risk Identification

b) Risk Measurement

c) Risk Mitigation

d) Risk Reporting

e) Risk Monitoring

f) Risk Governance

a) Risk Identification

The first step in identifying the risks a company faces is to define the risk universe. The risk universe is simply a list of all possible risks. Examples include IT risk, operational risk, regulatory risk, legal risk, political risk, strategic risk and credit risk. After listing all possible risks, the company can then select the risks to which it is exposed and categorize them into core and non-core risks. Core risks are those that the company must take in order to drive performance and long-term growth. Non-core risks are often not essential and can be minimized or eliminated completely.

b) Risk Measurement

Risk measurement provides information on the quantum of either a specific risk exposure or an aggregate risk exposure, and the probability of a loss occurring due to those exposures. When measuring specific risk exposure it is important to consider the effect of that risk on the overall risk profile of the organization. Some risks may provide diversification benefits while others may not. Another important consideration is the ability to measure an exposure. Some risks may be easier to measure than others. For example, market risk can be measured using observed market prices, but measuring operational risk is considered both an art and a science.

c) Risk Mitigation

Having categorized and measured its risks, a company can then decide on which risks to eliminate or minimize, and how much of its core risks to retain. Based on the results, systems for manage risk and mitigate risk need be developed.

Because of the vast diversity in risk, there is no single prescribed risk management system that works for all. Each FI should tailor risk management program to its needs and circumstances. Regardless of the risk management program design, each program should cover and provide structured way of risk identifying, measuring, monitoring and controlling. For this, there should be a sound risk management system having the following elements: active Board and senior management oversight;

i. Organisation Structure:

The Board of Directors through the Integrated Risk Management Committee is the apex body responsible for the entire risks of the FI. Risks are not seen in silos and are managed at the apex level in an integrated manner.

ii. Policies and Procedures:

Risk management and related policies and procedures must be developed using a top down approach to ensure that they are consistent with one another and appropriately reflect the strategic objectives and the overall risk appetite of the FI. The Integrated Risk Management framework for FIs are prepared to involve FIs to adopt improved policies and procedures in line with international best practices for their risk management framework. For this purpose, the Guidelines encompass all the probable risks that include credit risk, market risk, liquidity risk, operational risk, compliance risk, strategic risk, reputation risk, environmental risk, and money laundering risk.

iii. Integrated Risk Limits:

A ‘Best Practices’ limit structure would communicate risk appetite throughout the organisation, assist in maintenance of overall exposures at acceptable levels and enable delegation of authority. It would also involve adoption of a common language of risk across all risk categories through risk quantification methodologies across all risk categories.

d) Risk Reporting & Monitoring

In an integrated risk management framework, the top management should have a holistic view of all risks. For example, credit risk reports like outstanding counterparty limits should include all outstanding limits across treasury and credit departments. FIs wide risk reports are used to quantify sources of risk across the FIs and to estimate total exposure to financial markets.

Further, it is important to report regularly on specific and aggregate risk measures in order to ensure that risk levels remain at an optimal level. FIs that trade daily will produce daily risk reports. Other institutions may require less frequent reporting. Risk reports must be sent to risk personnel who have that authority to adjust (or instruct others to adjust) risk exposures.

e) Risk Governance

Risk governance is the process that ensures all company employees perform their duties in accordance with the risk management framework. Risk governance involves defining the roles of all employees, segregating duties and assigning authority to individuals, committees and the board for approval of core risks, risk limits, exceptions to limits and risk reports, and also for general oversight.

In the new risk management culture, every employee of FIs should consider him or herself a risk manager with a shared understanding of the organizational risk appetite, underpinned by a clear governance structure for managing risk, incorporating 'three lines of defense': the first line being the business unit; the second one is the independent risk management function itself; and the third one is the internal audit.

4) Systems: Risk management systems must be developed to provide information and analytical tools to support the Integrated Risk Management functions. Further, an integrated risk management framework needs to be supported by an information technology architecture that is consistent with such integration.

Importance of Integrated Risk Management for Financial Institutions:

Risk Management is a basic necessity for FIs of all sizes, and eventually central to their success and survival. It integrates an organisation's internal and external business processes by applying standard risk terminology, metrics and reporting to facilitate optimal risk/return decisions.

An integrated approach to risk management centralizes the process of supervising risk exposure so that the organization can determine how best to absorb, limit or transfer risk it is an ongoing business process that calls for standard definitions and methods to identify measure and manage risk across all business units. This information can then be analyzed to determine the overall nature of organizational risk exposures, including their correlation, dependencies and offsets.

Integrated Risk Management can go beyond reducing risks and actually help find ways to capitalize on the upside potential of risk. To do that, however, organisations must thoroughly understand the processes of risk in order to make informed decisions about retaining, financing or transferring risks. These decisions require a standardized, integrated approach and integrated reporting so that the organization always has a consistent and timely view of its exposures.

When properly implemented, Integrated Risk Management:

1. Aligns the strategic aspects of risk with day-to-day operational activities.
2. Facilitates greater transparency for investors and regulators.
3. Enhances revenue and earnings growth.
4. Controls downside risk potential.

Benefits of the Integrated Risk Management:

1. Increase the range of opportunities: By considering all possibilities – both positive and negative aspects of risk – management can identify new opportunities and challenges associated with current opportunities of the FIs.
2. Identify and manage unexpected losses: An integrated risk management framework of FIs help to identify their capital reserves related to their actual level of risk exposure more effectively. By aggregating and analyzing types and across lines of business, they will be able to quantify the amount of capital required to absorb unexpected losses.
3. Identify and manage risk entity-wide: Risks can affect many parts of business of FIs. Sometimes, a risk can emanate from one part of the business but have an effect on another part. As a result, management identifies and manages these entity-wide risks to sustain and improve performance.
4. Reduce negative surprises and boost revenue: Integrated Risk Management allows FIs to improve their ability to identify risks and establish appropriate responses, reducing surprises and related financial loss, and allowing them to profit from advantageous developments.
5. In addition, firms that have more transparent risk management processes can improve governance as a result of risk-aware decision-making and strategic planning.

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National Financial Inclusion Strategy of Nigeria, Lessons for Sri Lanka

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Introduction

According to the World Bank financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance delivered in a responsible and sustainable way[1].

The above definition includes the elements of, access to, usage and quality of financial services. Access would entail that all individuals and businesses of a country have access to financial products and services. Usage is achieved when the relevant persons are using the financial products and services in a way which positively affects the development of their livelihood. Quality means that the financial products and services offered are useful to the customer, meeting their needs and are affordable. Quality also includes the elements of responsible and sustainable delivery of products and services.

Measurement of Financial Inclusion

There is no single universally accepted measure of financial inclusion. 'account ownership in formal financial institutions' is considered a basic measure of financial inclusion[2]. However, this is not a complete measure, as it only gives an indication on access to formal financial services. Number of other parameters such as use of payment systems, use of technology such as internet and ATMs, and use of accounts, can be considered in measuring different aspects of financial inclusion. Financial inclusion data relevant to Sri Lanka, compared with Nigeria as well as some of the regional countries is given in Table 01[3].

Table 1

	Nigeria	Sri Lanka	Philippines	Thailand	Malaysia
Having an account in a formal financial institution (%)	40	74	34	82	85
Females having an account in a formal financial institution (%)	27	73	39	80	82
Having made a withdrawal during the past year (%)	79	48	72	70	70
Use of internet to pay bills (%)	-	5	3	10	18
Debit card ownership (%)	4	32	21	61	74

Figures: From the Findex Global database 2017

1. http://www.worldbank.org/en/topic/financialinclusion

2. Global Findex Database, 2017, available at
3. https://globalfindex.worldbank.org/

According to CGAP an estimated 2 billion adults do not have an account at a formal financial institution[4]. It is universally accepted that all people need access to finance regardless of their income. The above stated 2 billion have access only to the informal sources of finance and the services of informal financial service providers are insufficient, risky, expensive, and unpredictable.

Benefits of Financial Inclusion

There are numerous benefits of including the financially excluded in the financial system. Access to formal finance eliminates the safe-keeping problem of cash and provides interest, as an incentive to the depositor. This increases the volume of money available in the formal financial system, leading to increased savings, investment and consumption. Increased participation in the formal financial system would enable better transmission of monetary policy through enhanced influence of savings, investment and consumption. Further, financial inclusion would lead to more accurate measurement of economic performance enabling better economic decisions. These are synonymous with the economic and price stability objective of the Central Bank of Sri Lanka. Moreover, encouragement of cash-less transactions would lead to reduced cost of cash management and cost of issuing currency.

Provision of formal financial access to small businesses and microenterprises develops economic activity, especially, in the rural economy. From the point of view of customers, formal financial access would lead to consumption smoothening and mitigates effects of financial shocks. Further, financial inclusion enables customers to better invest in education and health of their families and reduces costs. All these benefits would contribute to upliftment of the rural economy and lead to overall economic growth of the country.

Importance of a National Financial Inclusion Strategy

The World Bank defines National Financial Inclusion Strategies as; *"roadmaps of actions, agreed and defined at the national or subnational level, which stakeholders follow to achieve financial inclusion objectives"*[5].

A national financial inclusion strategy is useful in to co-ordinate the actions of different stakeholders in increasing financial inclusion by providing a clear strategy and targets for increasing financial inclusion and clearly demarcating the responsibilities of each stakeholder in achieving the targets. A national financial inclusion strategy helps in prioritizing limited resources. Further, a national financial inclusion strategy facilitates collaboration between state entities and the private sector in increasing financial inclusion.

Profile of Nigeria

Nigeria consists of six (6) Federal States spanning an area of 923,768 square kilometers. It currently has the largest economy in Africa with a GDP of approximately USD 405 billion[6], but its per capita GDP remains at approximately USD 1,969[7]. Nigeria's economy depends largely on oil and therefore, with the decline in global oil prices, GDP growth has decreased considerably since 2015, with 2016 recording a negative economic growth. As at 2010, the year Nigeria commenced formulating its Financial Inclusion Strategy, 64% of the adult population was financially excluded[8].

The National Financial Inclusion Strategy of Nigeria

The National Financial Inclusion Strategy of Nigeria (NFIS of Nigeria) was launched in 2012. Its main objective was to reduce the financially excluded

4. CGAP

5. http://www.worldbank.org/en/topic/financialinclusion/brief/national-financial-inclusion-strategies
6. As at 2016 from https://data.worldbank.org/country/nigeria
7. 2017, https://data.worldbank.org/indicator/NY.GDP.PCAP.CD
8. https://www.cbn.gov.ng/Out/2012/publications/reports/dfd/CBN-Summary%20Report%20of-Financial%20Inclusion%20in%20Nigeria-final.pdf

percent to 30% by 2020, from the aforesaid 64% in 2010. In particular, NFIS of Nigeria attempts to address the below mentioned reasons for financial exclusion.

a) Lack of income

b) Long distance to access points

c) Lack of knowledge about financial services

d) Cumbersome requirements in using financial services

NFIS of Nigeria defines financial inclusion as; *"Financial Inclusion is achieved when adults have easy access to a broad range of financial products designed according to their needs and provided at affordable costs. These products include payments, savings, credit, insurance and pensions."*

NFIS of Nigeria provides a blue print to increase the penetration of the identified primary products, namely, payments, savings, credit, insurance and pensions. In particular, it provides a strategy to increase;

a) Savings in formal financial institutions

b) The use of payment services

c) Credit obtained from formal financial institutions

d) Insurance penetration

e) Pensions penetration

f) Bank branch and ATM penetration

g) POS machine penetration

h) Mobile banking agents

Further, NFIS of Nigeria seeks to establish a comprehensive consumer protection framework and a national financial literacy framework. It further plans to provide a national identity card to all adults, enabling better Know Your Customer procedures.

As Sri Lanka is in the process of formulating a financial inclusion strategy with the technical assistance of International Finance Corporation of the World Bank Group, the experience of Nigeria in formulating and implementing the NFIS of Nigeria would be useful.

Action taken for implementation of the NFIS of Nigeria

Nigeria has implemented a policy of encouraging the use of digital financial services. Main channel of utilizing digital financial services in Nigeria is agent banking. Nigeria is currently following a bank-led model, where banks are encouraged to appoint mobile banking agents. Synonymous with this approach of encouraging the use of digital financial services, Central Bank of Nigeria (CBN) has adopted a cashless policy.

To address data privacy issues that may arise due to the cashless policy, Nigeria has assembled the Nigeria Electronic Fraud Forum. Through the Forum financial institutions are proactively sharing fraud data/information amongst banks and service providers, to enable prompt responses to prevent and/or limit fraud losses. The Forum further helps educating and informing all Banks and other stakeholders on various electronic fraud issues and trends (both locally and globally). Strategically the Forum assists in formulating cohesive and effective fraud and risk management strategies, and defining key requirements as relates to e-payment security on behalf of the industry.

CBN has introduced Teired KYC requirements, where less cumbersome KYC requirements are imposed for Tier 1 and Tier 2 customers, albeit with restrictions, which include capped balances, cumulative value of transactions, and/or channels to access funds

Nigeria has adopted a National Financial Literacy Framework (NFLF). The NFLF articulates a multi-stakeholder approach to the delivery of financial education programmes to various consumer segments. Under NFLF action such as; publication of consumer awareness literature, consumer awareness programs, enactment of a Consumer Bill of Rights, targeted financial education programmmes for segments such as farmers, women, and inclusion of financial education in to the school curriculum, are being carried out.

CBN has established a Consumer Protection Framework, in 2016, to formulate strategy on consumer protection. Specifically, it is aimed at protecting the consumers from fraud and harassing practices, improving complaints handling and dispute resolution, enhancing consumer risk management among financial institutions, empowering consumers to make better financial decisions; and entrenching the rights and responsibilities of consumers.

Nigeria is working on increasing insurance sector penetration through encouragement of micro-insurance, mobile-insurance and 'bank-assurance'. While micro-insurance assists in increasing insurance penetration among the low-income and vulnerable segments of the society, mobile insurance enables better access to insurance products. 'Bank-assurance' is insurance companies partnering with banks to sell their insurance products. The banking network in Nigeria is widespread than the insurance network. Therefore, the intention of 'bank-assurance' is to utilize the existing banking network for insurance products, increasing access to insurance.

Moreover, Nigeria, with assistance of the Melinda and Gates foundation, has performed geospatial mapping of access point to depict the dispersion of access points. This has enabled Nigeria to identify areas with less or no access points, enabling it to increase access in such areas. In addition, activity at each access point is measured.

Table 2

Measurement	Parameter	2010 Baseline	2020 Target	2016 Actual
Percentage (%) of the adult population	Having an account in a formal financial institution	36	70	48
	Saving at a formal financial institution	24	60	28
	Borrowing from or pay back to a regulated financial institution	2	40	1.8
	Covered by a regulated insurance policy	1	40	1.8
	Registered with a regulated pension scheme	5	40	8
	Having a National Identification Number	0	100	15.1
Units per 100,000 adults	Commercial bank branches	6.8	7.6	5.6
	ATMs	11.8	59.6	18
	POS devices	13.2	381.7	116.3
	Mobile Banking agents	0	62	18.8
Data given as per 2016 Annual Report of Nigeria's NFIS implementation, although some of the data differ from the Findex 2017 figures given in Table 1 above, the data in the annual report was used for consistency.				

Progress in implementation of the NFIS

The progress, as at 2016, in achieving its financial inclusion targets is given in Table 2 above.

Nigeria lags far behind on achieving most of the set targets for 2016, which apparently makes achieving the target for 2020 challenging. This has prompted Nigeria to review its NFIS[9].

Monitoring and co-ordination of the NFIS, Nigeria

Monitoring and co-ordination of the NFIS, in Nigeria is done by the Financial Inclusion Secretariat of CBN (FIS), which is attached to the Development Finance Department of CBN. FIS is mandated with coordinating the stakeholder activities, track and monitor achievement of targets, gathering and maintaining data, publication of annual reports, capacity building of stakeholders and functioning as secretary to the committees described above.

The National Financial Inclusion Steering Committee

The committee is the highest body responsible for implementing the NFIS of Nigeria. It reports to the National Economic Council of Nigeria, at the national level. The Committee is chaired by the CBN Governor, and comprises of the Heads of relevant agencies, regulators, and industry associations.

The Committee meets bi-annually, and is mandated with providing financial inclusion policy direction for the financial industry, including taking policy decisions, obtain inputs from all concerned stakeholders, outline the framework for increasing financial inclusion and most importantly sustain high level commitment to the project.

The National Financial Inclusion Technical Committee

The Technical Committee provides technical support for the implementation of the NFIS. This committee is chaired by the Deputy Governor, Financial System Stability (FSS) of CBN, relevant Departmental Directors of CBN as well as Directors/equivalent within relevant Agencies/Regulators and Industry Associations.

The Committee meets quarterly and serves as the advisory body to the Steering Committee on policy decisions. In addition, it is responsible for providing reports to the Steering Committee on the implementation status, to support policy decisions of the Steering Committee.

The National Financial Inclusion Working Groups

In addition to the above two committees, to address interventions in specific focus areas Four (4) working groups have been appointed.

a) Channels working group - Addresses implementation issues on financial access points and their dispersion across the country

b) Financial Literacy Working Group - Addresses financial capability of consumers, in order to improve their understanding of concepts and risks associated with financial products and services:

c) Products Working Group - Addresses implementation issues of financial products and services

d) Special Interventions Working Group - Addresses implementation issues related to Women, Youth and People with disabilities in order to enhance their access to financial products and services

The Working Groups provide a quarterly report to the Technical Committee on the special interest areas.

Lessons to be learnt from the NFIS

1. Set realistic and achievable targets

The targets set in the NFIS, Nigeria may be too ambitious and may not be achievable by year 2020. The targets of a NFIS should always be based on a comprehensive baseline survey of the current financial inclusion situation and the capacity and

9. https://independent.ng/financial-inclusion-cbn-begins-review-of-nfis/

resources of the relevant stakeholders to improve that situation. Therefore, the targets should be set only after a rigorous consultation process of all relevant stakeholders. Moreover, any NFIS target should be time-bound, realistic and achievable.

2. Give priority for use of digital finance/cash-less finance for increasing financial inclusion/ usage

As per data available in Table I Nigeria has an account ownership percentage of 40% Contrastingly, Sri Lanka has already reached account ownership of 74%. However, Sri Lanka shows low usage in some financial service areas and has had problems in the areas of customer protection and awareness, affecting the quality of service. Therefore, the thrust of increasing financial inclusion in Sri Lanka should be on increasing usage and quality, while attempting to further increase the account ownership (the currently excluded 26%).

It is recommended that Sri Lanka conduct an appropriate diagnostic survey to identify the reasons for the financial exclusion (18% financially excluded), low usage, and promote appropriate methods to further increase financial inclusion and increase usage. Further, action need to be taken to increase the quality of financial services through stringent customer protection laws and increased customer awareness.

3. Adaption of the monitoring and implementation structure of Nigeria

The most impressive component of the NFIS, Nigeria is its implementation and monitoring structure. CBN, through the FIS, spearheads the monitoring and implementation process. The implementation process is constantly evaluated by the steering committee and the technical committee, while areas which need special attention are addressed through the working groups.

It is suggested to adopt a similar structure in implementing and monitoring the NFIS of Sri Lanka. Monitoring of Sri Lanka's NFIS should be through a unit exclusively established at the Central Bank of Sri Lanka (the Unit). The steering committee, technical committee and working group structure can be adopted with the relevant stakeholders included.

The Governor of CBSL must head the steering committee. The meetings of the technical committee and working groups must be led by a representative from CBSL. CBSL should prepare the agenda and the meeting minutes. The decisions taken at the meeting and the responsible parties must be recorded at the meeting, and followed up by the Unit. It is suggested that CBSL adopt quick lines of communications such as e-mail for communication with stakeholders, without resorting to formal postal communication.

One shortcoming of the Nigerian implementation structure is that the same representative may not represent the technical committee and working groups at all meetings. Therefore, in Sri Lanka each, stakeholder must be required to nominate a permanent representative and an alternate, which would ensure continuous representation by the same person/s.

4. Each regulator should include its NFIS actions under its own strategy and make budgetary allocation for it

It is not adequate that the stakeholders agree to adopt a NFIS. They should incorporate relevant actions under their strategic plans and make necessary budgetary allocations for the same. Nigeria is adopting this process, although there are budgetary constraints faced by the stakeholders. In Nigeria, strategic plans and budgetary allocations of each regulator are discussed at the Steering Committee level, before being finalized.

Therefore, when adopting the NFIS of Sri Lanka, a mechanism should be formulated to make sure that each stakeholder includes its NFIS actions under its own strategic plan and adequate budgetary allocations are made each year for such actions.

5. **Prepare a Digital map of access points with a related database**

It is recommended that Sri Lanka prepare a digital map of access points. Sri Lanka may further develop the map by amalgamating it with an interactive database where refined information could be obtained through searches. This would enable quick identification of areas which need increased access to financial services and digital financial products. Moreover, a mechanism should be established to constantly update the database.

6. **Establishment of a fund for implementation of NFIS**

One problem faced by Nigeria in implementing the NFIS is lack of funding. Nigeria has established a fund under CBN through which some of the activities of the NFIS are funded. It is recommended that a similar fund be established under CBSL to finance the NFIS of Sri Lanka. This fund could consist of funds obtained from the Government, donors, financial institutions and CBSL. This would enable funding of certain special activities under the NFIS, which may not receive Government funds e.g. inclusion of financial literacy education in to the education curriculum. In addition, the fund would enable CBSL to provide emergency funding when quick action is required for implementation of Sri Lanka's NFIS.

7. **Setting annual targets for NFIS**

There are no annual targets set in relation to the NFIS of Nigeria. Without setting annual targets, progress towards achievement of the final target can not be properly monitored, which would prevent proper corrective action from being taken in case of deviation from the desired target. This can be considered as one reason for Nigeria’s failure in making significant progress towards the set target of 70% of financial inclusion.

Therefore, for Sri Lanka, it is recommended that the steering committee set annual targets for each parameter used for measuring financial inclusion and ensure the relevant stakeholders achieve the set targets. There should be a vigorous process of monitoring the progress towards achieving the targets.

8. **Formulation of a financial literacy framework and including financial education in school curriculum**

Currently, different regulatory bodies such as CBSL, Securities and Exchange Commission of Sri Lanka and the Insurance Board of Sri Lanka adopt varied financial awareness programmes. As a part of NFIS of Sri Lanka a national financial literacy framework must be established, within which each stakeholder could formulate their own financial literacy programme. As done in Nigeria, students of universities, teacher training institutions and vocational education institutions must be trained as resource persons in financial education.

Another observation made on financial awareness is that the impact of awareness campaigns must be measured. This may be achieved through periodic assessments of impact of financial awareness/ education programmes through surveys.

Financial education should be made a part of the school curriculum. The approach adopted by Nigeria is to incorporate relevant financial literacy material within the existing subjects. It is recommended that following a similar approach financial education should be integrated to the existing subjects, at the primary and secondary education levels.

9. **Formulation of a comprehensive consumer protection law as part of the NFIS**

Currently, in Sri Lanka, various laws enable different regulatory authorities to issue regulations on financial customer protection within each regulator's regulatory sphere. However, factors such as focus on the prudential regulation, rather than non-prudential regulations and lack of direct mandate on customer protection, has led to weak financial customer protection by regulators. Therefore, there is a need for a financial customer protection law which enables financial customer protection, empowering a dedicated authority to protect financial customers, with a clear mandate and comprehensive powers.

10. Adopt strategies of Nigeria in increasing access to insurance products

Currently, usage of non-mandatory insurance in Sri Lanka is low. Therefore, it is recommended that some of the channels used by Nigeria be used in increasing insurance usage. One approach is to spread micro-insurance through agents such as farmer societies, co-operative societies etc. Another method would be to use the existing bank network to increase access to insurance ('bank-assurance').

11. Initiate establishment of a Forum on data protection

With the increased use of digital channels protection of data and the customers becomes a priority. Currently, there is no unified effort by the relevant stakeholders in the financial sector on data protection. It is recommended that a forum similar to the Nigeria Electronic Fraud Forum be established in Sri Lanka with the participation of parties such as CBSL, other relevant regulators, financial institutions, the police, experts in data protection and consumer protection agencies, to discuss future threats and, operational and strategic action in the area of data protection.

Conclusion

Although the NFIS of Nigeria was launched with ambitious targets it has failed to achieve them due to the shortcomings explained above. When Sri Lanka launches its NFIS, such shortcomings should be prevented. Sri Lanka should set realistic and achievable targets, identifying the areas which need improvement. The focus of Sri Lanka should be to improve the quality of its financial services, while further increasing the number of account holders in formal financial institutions. Sri Lanka should focus on adoption of digital finance, increasing insurance penetration, implementing a comprehensive consumer protection mechanism, and embedding financial education in the school curriculum, to improve financial inclusion in the country. Along with the final targets, the NFIS of Sri Lanka should include an action plan with annual gargets and the necessary budgetary allocations required from each stakeholder. The Central Bank of Sri Lanka may establish a fund to assist stakeholders that lack adequate funds. Finally, it is important that a formal monitoring and implementation mechanism is adopted similar to the implementation mechanism of Nigeria■

Developing the Government Securities Market - The German experience

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The development of domestic financial markets, in particular the market for government debt, offers broad benefits for the economic development and stability of a country. Developed financial markets promote alternatives to traditional financing via the banking sector, thus improving resource allocation and risk diversification. Development of domestic financial markets increases macroeconomic stability by lowering inflation and increasing savings and growth. In addition, functioning of domestic financial markets (most notably the money market and the market for government bonds) are crucial for a smooth transmission of monetary policy and an effective use of market-based monetary policy under an interest rate steering approach.

Development of Government securities market which is an integral part of the domestic financial market must be viewed as a dynamic process in which continued macroeconomic and financial sector stability are essential to building an efficient market and establishing the credibility of the government as an issuer of debt securities. Prerequisites for establishing an efficient domestic currency securities market of the government include a credible and stable government, sound fiscal and monetary policies, effective legal, tax, and regulatory infrastructure, smooth and secure settlement arrangements, and a liberalized financial system with competing intermediaries.

The evolution of the Government securities market in Germany from a weak unstable market sixty years ago, to a very strong and stable market as it is today, provides important insights for market development. In the past, the German bond market had been very unstable following heavy budget deficits and other volatilities similar to those commonly observable in many developing countries. Gradually, over the years, it has developed tremendously to become one of the largest and most liquid markets for sovereign debt in the world.

At present, Federal securities typically have a very broad investor base. Demand for German government bonds comes from all sectors inside and outside Germany. Within the euro area, with the disappearance of the currency specific advantage of issuing securities in Deutsche Mark, the German public sector issuance has been required to compete directly with public sector debtors of the partner countries in the euro area. However, owing to their high credit quality and liquidity complemented by their benchmark status, German government securities continue to remain a highly relevant and attractive investment proposition for international and in particular nonEuropean investors. Federal securities also continue to play a key role for the reserve assets of foreign central banks.

In Germany, the Federal Ministry of Finance is responsible for the Federal Government's debt management. However, the task of managing Federal Government borrowing and liquidity, has been entrusted to "Finance Agency" which is solely held by the Federal Ministry of Finance. The main task of the Finance Agency is to provide timely, cost-effective and low-risk debt management services for the Federal Government, in particular through the initial issuance of securities in the primary market. At the same time, the Finance Agency's work is intended to cement and further extend the status of Germany's Federal Government as a benchmark issuer in the euro area.

Meanwhile, as the government's fiscal agent, the Bundesbank performs technical debt management duties for the Federal Government, conducting auctions of Federal securities, carrying out market management operations on the German stock exchanges, and settling the Federal Government's securities transactions. These tasks are completed on behalf of and for the account of the Federal Government in coordination with the Finance Agency. It should be noted that, as the Federal Government's fiscal agent, the Bundesbank provides banking services which are strictly separate from its monetary and foreign exchange policy tasks. The Bundesbank does not grant loans when auctioning Federal securities in the primary market, nor does it take Federal securities into its own portfolio. On account of its fiscal agent role, the same applies to secondary market transactions.

In terms of conducting primary auctions, Germany follows an exceptional method viz-a-viz the generally accepted model of issuance through primary dealers as followed by many developing and developed countries alike. It is broadly established that providing privileged access for direct bidding to a small set of specialized intermediaries (i.e. primary dealers) and tasking that sub-set with the absorption of newly issued securities, distributing such securities to final investors and acting as market makers by way of providing two-say prices (i.e. buying and selling price for the securities) result in market development through enhanced transparency and price efficiency. Interestingly, contrary to the above established practice, no primary dealer system exists in Germany. A major argument maintained by German authorities for not favoring a primary dealer is the risk of collusion through manipulation of prices by primary dealers being a small group of privileged financial institutions. In its place found in Germany, is the Bund Issues Auction Group, who has been approved by the Finance Agency, to bid in Federal Government auctions. The group currently comprises as large as 36 credit institutions and investment firms which are established in member states of the European Union. According to German authorities, having such a large number of bidders at primary auctions has prevented collusive action by bidders thereby resulting in greater competitiveness at auctions leading to improved price efficiency. For Sri Lanka too one would see it as a timely proposition in view of alleged scandalous behavior of certain primary dealers that had come into limelight in the recent past. In Germany, to remain in the auction group, members must subscribe to at least 0.05% of the total issuance allotted, weighted by maturity, in auctions in any one calendar year. Member institutions which fail to subscribe to this minimum share are required to leave the group at the end of the year. Apart from the minimum share requirement, members have no additional obligations. For instance, they are not expected to provide any market making services in the secondary market – i.e. quote bid and ask prices for Federal securities or provide mandatory reporting and advisory services for the issue, which is a main deviation from the role of primary dealers. Active engagement of each Bund Issues Auction Group member at primary issuances is recognized by the

Finance Agency by publishing the ranking of each member by its share of the weighted issuance volume allotted, without quoting percentages.

Issuance planning is considered very important by German bond issuance authorities as market participants and investors value an issuer's continuity, transparency and reliability. Such planning will ultimately pay off for the borrower in the form of favourable borrowing conditions. Auctions of Federal securities planned by the Federal Government over the course of the forthcoming calendar year are therefore announced by the Finance Agency at the end of the year in an annual issuance calendar. The annual preview contains precise details on the Federal securities which will be put up for auction, such as the auction date, the planned issuance volume and the exact maturity date. Additionally, a quarterly issuance calendar is published, which may contain deviations from the annual preview. As an issuer, the Federal Government strives to conduct its announced issuance activities according to its published schedules. However, these plans may need to be adjusted if borrowing requirements, the Federal Government's liquidity position, or the capital market situation as a whole change significantly during the course of the year.

Also important for the development of Government securities market as recognized by German authorities is the availability of securities of varying maturity to accommodate needs of investors holding different duration goals. The Federal Government is committed to maintain a regular supply of Federal securities with an overall balanced maturity profile which in turn would ensure broader participation at auctions. For that purpose, it weighs the generally lower borrowing costs of revolving short- term debt against the certainty that borrowing in the long- term maturity segment can offer. Accordingly Bundesbank auctions on a regular basis securities bearing different maturities viz. six- month Treasury discount paper ("Bubills") in the money market segment, and in the capital market segment, two-year Federal Treasury notes ("Schätze"), five-year Federal notes ("Bobls") and mainstay ten-year and thirty-year Federal bonds ("Bunds"). Inflation- linked Federal securities ("Bund-Linker") are also auctioned on a regular basis.

The primary issuances of Federal Government bunds is entirely transparent with auctions taking place on the Bund Bidding System (BBS), an electronic auction platform provided by the Bundesbank which is responsible for technical implementation of the auction process including announcing the auction and the invitation to bid, monitoring bidders' submissions on the day of the auction and publishing the auction results. The Finance Agency and the Federal Ministry of Finance both have direct links to the BBS, and they make the economic decisions (i.e. they determine the allotment conditions such as allotment prices and volumes on the day of the auction.) Once the deadline for bids has passed, it is generally the case that the allotment decision is made and the auction results are announced via the BBS and financial information providers swiftly, within the space of two minutes.

The Finance Agency sets aside a share of the securities issued in each auction as proprietary holdings of the Federal Government for secondary market operations. This amount is not defined in advance and varies from one auction to the next. On average, around 20% of the issuance volume is set aside for this purpose. Following the auction, these securities are gradually fed into the market by the Finance Agency in the context of secondary market activities. As a result, counterparties can still purchase Federal securities from the issuer after they have been issued in the primary market. In addition, the issuer might find it beneficial to smooth its borrowing to a degree over time. However, secondary market activities also include secondary market operations on the German stock exchanges, which entail the Bundesbank buying and selling listed Federal securities for the Federal Government's account. These operations aim to achieve fair prices which do not discriminate between different market participants and to maintain liquid trading with low bid-ask spreads. The Bundesbank assists in setting a "Bundesbank Reference Price" on the Frankfurt Stock Exchange for every listed Federal security on each trading day, which provides an important benchmark, especially for the retail business. This institutional framework plays a part in ensuring that Federal securities can be traded at robust prices that are in line with the market each trading day. The Federal Government's proprietary holdings can also be used by the Finance Agency to collateralize securities repurchase agreements (repos) and interest rate swap transactions, as well as for securities lending. The Federal Government's securities transactions are settled via the cash and safe custody accounts it maintains with the Bundesbank.

German experience suggests that economies that lack basics or demonstrate weaker fundamentals that vie for development of Government securities market shall prioritize adopting stable and credible macroeconomic policy framework whilst reforming and liberalizing the financial sector despite hardships that they would come across in the interim.

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