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State funding for maternity leave in Sri Lanka - a no-brainer

Women in the 20 -39 age cohort are uniquely and severely disadvantaged in the labour market. This disadvantage is linked to the current policy of placing the full cost of maternity leave benefits (MLBs) on employers. There are multiple economic and labour market benefits that can result from state supported payments of MLBs.

In Sri Lanka, women are half as likely to enter the labour market, and twice as likely to be unemployed than men (See Exhibit 1). There are many socio-cultural factors that contribute to the low economic participation of women. This insight focuses on a specific factor that has been created by policy makers – placing the full cost of maternity leave benefits (MLBs) on formal sector employers. While socio-cultural factors can take time to change, this policy generated factor can be addressed immediately with significant positive impacts on female labour force participation and the Sri Lankan economy.

In Sri Lanka, employers are required to bear the full cost of providing MLBs

to their employees for a period of 12 weeks. This makes hiring women more costly than hiring men, and creates incentive for a discriminatory recruitment practice to prevail – where male job applicants are preferred over female job applicants.

The data and analysis provided in this Insight suggests that the unfavourable labour market conditions faced by Sri Lankan women are connected to these adverse incentives. This insight offers a solution: The state should bear the cost of MLBs. Shifting this cost to the state will change this adverse incentive structure, improve labour market participation and outcomes for women and, thereby, increase overall economic production.

3.8x

More like for a woman to be unemployed than a man between the ages 25-39.

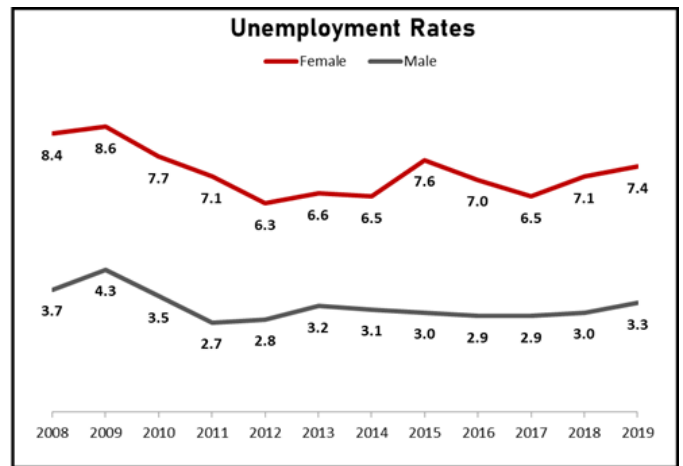
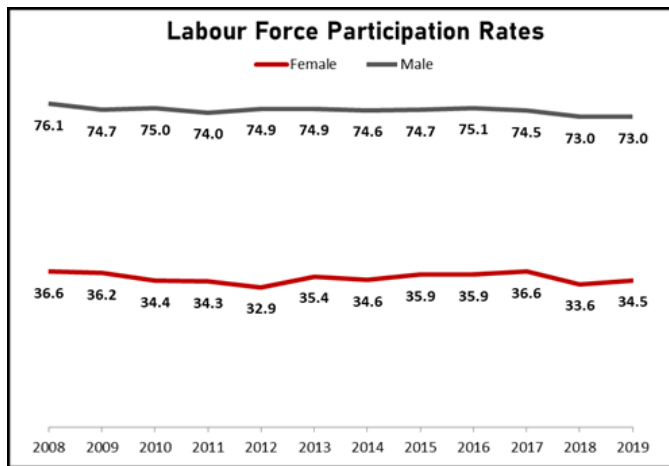
2.7x

More likely for a woman aged 20-39 to be unemployed than a woman outside this age range.

4.2B

To fund maternity leave benefits for all formal sector women outside the public sector.

Exhibit 1



Source: Budget speeches 2003 – 2023 | Central bank of Sri Lanka Annual Report 2021 | Fiscal Management (Responsibility) Act, No. 3 of 2003 and its amendments

Exhibit 2: Unemployment rates in Sri Lanka 2018

Age Group	Number of unemployed women	Unemployment Rate (%)			Increased likelihood of female unemployment relative to male
		Sri Lanka	Male	Female	
Total	208,667	4.4	3.0	71	2.4 times higher
15-19	19,018	26.4	23.8	32.7	1.4 times higher
20-24	77,836	20.1	14.7	29.4	2.0 times higher
25-29	55,379	10.4	5.4	19.8	3.7 times higher
30-39	38,335	3.0	1.4	5.9	4.2 times higher
Over 40	18,099	0.7	0.5	1.1	2.2 times higher

Source: The Department of Census and Statistics, Labour Force Survey Annual Report 2018

Unemployment of women is connected to the MLB liability risk.

A person is considered unemployed when they are seeking employment but are unable to secure a job. Women seeking jobs are less likely to be employed than men, despite being more educated than men on average. This problem is particularly heightened for women between 20-39 years, the age range most likely to create an MLB liability risk for employers. This can be demonstrated by comparing the unemployment rate of women within the 20-39 year age group, against (1) the unemployment rate of men of the same age; and (2) the unemployment rate of women outside of this age group.

(1) Comparing women aged 20-39 years against men of the same age: Exhibit 2 shows that the relative risk of unemployment for women, compared to men, increases as a woman approaches the 20-24 age cohort, and decreases after a woman passes the age of 40. It increases from 2 times the unemployment rate of men between the ages 20-24, to 4.2 times the

unemployment rate of men between the ages 30-39. It then drops to 2.2 times for those above the age of 40. In Sri Lanka, the fertility rate is highest among women in the 25-34 age cohort. A woman between the ages 25-39, who is looking for a job, is 3.8 times more likely to be unemployed than a man in the same age looking for a job.

(2) Comparing women aged 20-39 years against other women: Although only 41% of the women in the labour force are in the 20-39 age group, 82% of unemployed women belong to this age group. This means the chances of being unemployed is highest for women between the ages of 20-39. In fact, a woman between 20-39 years is 6.6 times more likely to be unemployed than a woman outside of that age group.

The MLB liability related disincentive can also be seen in the contrasting labour market outcomes for women in the public sector, where such a disincentive does not exist. This is because the salaries and benefits of public sector employees are tax funded. In addition to this, the high

discrepancy in the recruitment of women not seen in the public sector, is in contrast to the employment practices found outside the public sector. In fact, 45% of employees in the public sector are women. In contrast, outside of the public sector, women account for only 30% of employees.

This interpretation of the data is also supported by the Labour Demand Survey (2017), which surveyed 3,500 private sector entities. The survey showed that 41% of employers stated that "maternity leave and working hour relaxation" was a factor they considered when recruiting women.

When private sector employers are mandated to bear the full MLB liability risk, hiring women between the ages of 20-39 years becomes more expensive than hiring men. This creates incentive for employers to hire men over equally qualified women

Three Reasons for the state to fund MLBs in Sri Lanka

The data set outlined above

indicates that the state mandating, but not funding MLBs for formal sector employees has led to a huge disadvantage for women in the 20-39 age cohort. This disadvantage can be reversed by shifting the cost of funding MLBs to the state. This section summarises in three parts, the multifaceted reasons for Sri Lanka to adopt a policy of state support for MLBs.

(1) State funded MLBs translates to positive economic and labour market outcomes:

Shifting the cost of MLBs from private employers to the state removes the above mentioned monetary incentive to hire men over equally qualified women. The literature suggests that state funded MLBs increases female economic participation. For example, according to a linear regression model in Cerise et. al (2013), state funded MLBs increases female labour force participation by 10 to 20 percent in countries with high or very high levels of discrimination against women. Increased female economic participation in turn translates to positive economic outcomes.

Furthermore, allowing the private sector to set off MLB payments against taxes acts as an economic stimulus for the private sector. This is aligned to the government's policy position to provide sustained economic stimuli to the private sector and is particularly important during Covid-19, when many private sector companies are facing challenges in keeping their staff in full employment. State support for MLBs will encourage the private sector to recruit and retain women in employment, without considering MLBs as an additional cost.

Increasing the employment prospects of women, alongside the increased economic participation of women, also helps inject more income into households and cushions post-Covid19 related income losses for households.

(2) State funded MLB is more cost effective than other government initiatives:

Verité Research estimates MLBs to cost LKR 4.2 Billion annually. This amounts

to approximately 0.25% of tax revenue in 2018. In contrast, Samurdhi and the fertilizer subsidy amounted to 2.3% (LKR 39.2 Billion) and 1.6% (LKR 26.9 Billion) of tax revenue in 2018. This means the estimated value of MLBs payments would only be 11% of Samurdhi benefits, and 16% of the fertilizer subsidies financed by the government.

Due to Covid-19 related lockdowns, the government initiated a scheme to hand out LKR 5,000 per household for over a million households. Each round of such disbursements, therefore, costs more than 5 billion rupees – whereas this policy would cost only 4.2 billion, or less, for the whole year.

In response to Sri Lanka's high unemployment rates, the government recently committed to recruiting 100,000 unskilled workers and 60,000 unemployed graduates. This initiative will cost the state LKR 64.67 Billion annually. The government has even committed to training these 160,000 individuals at an additional cost of LKR 27.9 Billion. In contrast, state funded MLBs will boost the employment of women who are currently discriminated against in the hiring process for a fraction of this annual cost.

Therefore, not only is state funded MLBs a fiscally feasible policy for the Sri Lankan government, but it is also a more cost-effective approach to creating employment than existing government initiatives.

(3) State funded MLBs is a global best practice that Sri Lanka has already committed to implementing:

129 countries have already recognised the economic and social value of state funded MLBs– 96 countries fully fund MLBs and 33 countries partially fund MLBs. Sri Lanka is not in this list.

In 2019, the government of Sri Lanka recognised this opportunity to boost female economic participation and made a first step towards rectifying its lapse by announcing partial tax deductibility of MLBs in the Budget. However, the follow up actions to gazette and implement the proposal have not taken place yet.

Subsequently, the government

implemented corporate tax cuts worth LKR 52 Billion – twelve times the value of tax concessions necessary to support MLBs. Yet, the specific structuring of these tax cuts did not target the funding of MLBs. This means the adverse incentives and outcomes for women in the labour force remain in place, despite the government foregoing revenue of more than 12 times what it would have cost to fund MLBs.

Sri Lanka still has the opportunity to shift the funding cost of MLBs from private employers to the state. The main reasons for why Sri Lanka should make this shift can be summarised in three points. Firstly, shifting the cost will boost female economic participation, which in turn increases overall economic growth. Secondly, state funded MLBs is more cost-effective than other government welfare programs and initiatives to support the unemployed and boost employment. Finally, state funding for MLBs is a global consensus that Sri Lanka committed to internationally in 1993 and locally in 2019, but has not yet been implemented. In short, it is a radically cost-effective initiative that will boost economic outcomes for women and improve national economic growth – a typical case of a policy opportunity that is a no-brainer. ♦