PROPOSAL FOR STATE FUNDING OF MATERNITY LEAVE BENEFITS (MLBS) IN THE PRIVATE SECTOR

THE PROPOSAL

Verité Research recommends that MLBs in the private sector be state-funded to remove the cost bias against hiring women of childbearing age. **This could be implemented through mechanisms such as tax credits or deductions for employers, allowing them to offset the cost of paid leave against tax liabilities.**

SHORT ABSTRACT

Women in the 20–40 age cohort are disproportionately disadvantaged in Sri Lanka's labour market due to the policy requirement that private employers bear the full cost of maternity leave benefits. Shifting this cost to the state will remove a structural hiring bias, promote gender equality, support SMEs, and boost economic growth, at a fiscally feasible cost of 0.3% of tax revenue[i]

TOPLINE VIEW

<u>Objective of the Proposal</u>

- ☒ Economic Growth
- ☐ Governance
- ☒ Justice and Rights
- ☐ Social Welfare
- ☐ Other: ....

<u>Implementing Agency:</u>	Ministry of Finance
<u>Primary Beneficiaries:</u>	Women
<u>Cost Estimate (if available):</u>	LKR 7.2 Billion
<u>Policy Type:</u>	Expenditure

HOW IT ADVANCES THE OBJECTIVES

1. Shifting the financial responsibility to the state directly contributes to economic growth by encouraging the hiring of women and facilitating greater female participation in the workforce and thereby boosting economic output.

2. The policy would advance good governance by aligning labor practices with principles of fairness and state stewardship, reducing regulatory burdens on SMEs, and creating a more predictable and equitable environment for employers and employees alike.

3. The proposal advances justice and rights by ensuring women are not penalized in hiring or retention decisions due to their reproductive potential, it serves to reduce discrimination in hiring and promotes the social welfare of women.

CASE FOR THE PROPOSAL

Sri Lanka faces a significant and persistent gender gap in labour market participation. Among those in the prime working age group (25–54 years), over 90% of men are employed, compared with fewer than 45% of women. The disparity is particularly acute for women aged 20–40, who in 2023 accounted for 79% of all unemployed women[ii] and were 6.1 times more likely to be unemployed than women in other age groups.[iii] Within this range, women aged 30-39—

coinciding with the country's highest fertility rates [iv] — were 2.5 times more likely to be unemployed than men of the same age.[v]

A key policy factor driving this gap is the legal requirement for private sector employers to bear the full cost of 12 weeks' maternity leave. This creates a direct and concentrated cost burden on employing women in their childbearing years, discouraging recruitment and fostering gender-based discrimination in hiring

State funding of MLBs is a well-established global best practice that removes this structural bias. By shifting the cost from individual employers to public financing, Sri Lanka can enable women to participate in the labour market on equal terms, improve household incomes, and unlock greater economic growth potential.

HOW DOES IT HELP THE COUNTRY

Shifting the funding responsibility for MLBs from private employers to the State can address entrenched gender inequality in Sri Lanka's labour market. The rationale for this policy reform is as follows:

1. **Helps Small and Medium Enterprises (SMEs):**

SMEs face particularly high cost burdens when employing women in childbearing ages. By transferring MLB cost to public financing, SMEs will no longer bear the full expense of 12 weeks of maternity leave, which currently serves as a disincentive to hiring women in the 20–40 age group—precisely when they are most likely to require leave.

2. **Reduces Gender Disparities and Spurs Economic Growth:**

Global evidence shows that publicly funded maternity leave is one of the most effective measures to increase female labour force participation and reduce workplace discrimination. Analysis by the OECD Development Centre, using data from 42 developing economies and the Social Institutions and Gender Index, finds that if all governments financed maternity cash benefits, female labour force participation would be approximately 20% higher in countries with very high levels of gender-discriminatory norms. [vi] This makes state financing particularly transformative in contexts such as Sri Lanka, where structural barriers to women's employment remain high.

Complementary research highlights the positive impact on job continuity: women receiving publicly financed leave are more likely to be in work 9–12 months after childbirth, and tend to work more weeks and hours in the second year of their child's life. These outcomes support higher retention of women in the labour market over the long term. [vii] The IMF's cross-country fiscal policy assessments reinforce these findings, concluding that subsidising paid maternity leave significantly boosts female participation rates, particularly among lower-skilled women, by removing cost-related barriers to hiring and retention. [viii]

3. **Cost-Effective Investment:**

Verité Research estimates the annual cost of state-financing MLBs at **LKR 7.2 billion**, [ix] equivalent to just 4% of Aswesuma transfers (LKR 172 billion) and 14% of fertiliser subsidies (LKR

54 billion) for 2023. This illustrates that the reform is highly targeted and more fiscally efficient than broad-based welfare programs.

4. **Meets Global and Domestic Commitments:**

Sri Lanka ratified the ILO Maternity Protection Convention (No. 103) in 1993, which mandates funding of maternity benefits via public or social insurance channels—a commitment not yet realised. Today, 129 countries support MLBs through government or social insurance, with 96 providing full funding and 33 partial. Sri Lanka currently remains outside this global norm. The government made a first step towards redress in the 2019 Budget, proposing partial tax deductions for employer-paid MLBs. However, despite this proposal in the budget being approved by parliament, it was never implemented.

HISTORY OF THE PROPOSAL

Sri Lanka ratified the ILO Maternity Protection Convention in 1993, committing to finance maternity leave benefits through compulsory social insurance or public funds. This obligation has not yet been implemented.

In the 2019 National Budget, the Government acknowledged the economic cost of low female participation and announced measures to share the cost of maternity leave in the private sector. The Budget proposed an additional tax deduction of 50% of the mandatory three months' salary cost for maternity leave (up to Rs. 20,000 per employee per month) and 100% deduction for a fourth month, for five years.[x] However, this policy was not operationalised, and the structural disadvantage in the labour market remains.

PUBLISHED SUPPORTING ANALYSIS

Verité Research *State Funding for Maternity Leave in Sri Lanka* (Sept 2020) at https://www.veriteresearch.org/publication/state-funding-for-maternity-leave-in-srilanka/ [last accessed 14 August 2025]

PublicFinance.lk 'International Women's Day: The burden of Maternity Leave Benefits' (8 March 2023) at https://publicfinance.lk/en/topics/international-women-s-day-1678252724 [last accessed 14 August 2025]

REFERENCES AND END NOTES

[i] Calculations are done for 2023 figures

[ii] Department of Census and Statistics, *Sri Lanka Labour Force Survey: Annual Report – 2023* at [https://www.statistics.gov.lk/LabourForce/StaticalInformation/AnnualReports/2023 [last accessed 13 August 2025]

[iii] Ibid

[iv] The 2015 national fertility rate as reported by the Department of Census and Statistics is considered. This is the most updated data available

[v] Department of Census and Statistics, *Sri Lanka Labour Force Survey: Annual Report – 2023* at [https://www.statistics.gov.lk/LabourForce/StaticalInformation/AnnualReports/2023 [last accessed 13 August 2025]

[vi] Cerise, S. *et al.*, *Breaking the Silence on Violence against Women – From Analysis to Action* (OECD Development Centre 2013), Annex: Analysis on Social Institutions and Gender Index and Maternity Leave Financing

[vii] Baum, C.L. and Ruhm, C.J. 'The Effects of Paid Family Leave in California on Labor Market Outcomes' (2016) 35(2) *Journal of Policy Analysis and Management* 333–356 p.333

[viii] International Monetary Fund, *Women in the Labor Force: The Role of Fiscal Policies* (Staff Discussion Note, 2020)

[ix] The estimated annual cost of MLBs for female private sector employees is derived as follows: (1) fertility rates among private sector employees are assumed to match national fertility rates by age group (2019, Department of Census and Statistics); (2) in 2023, 41.2% of all employed women were in the private sector (Annual Labour Force Survey 2023); (3) based on these parameters, approximately 54,773 private sector women took maternity leave in 2023; and (4) the average monthly wage for women in the private sector in 2023 was LKR 45,157. Applying the statutory 12 weeks of paid leave to this wage yields an estimated total annual cost of LKR 7.4 billion

[x] *Budget Speech – 2019* (05 March 2019) at Parliament of Sri Lanka, https://www.parliament.lk/uploads/documents/paperspresented/budget_speech_2019.pdf [last accessed 13 August 2025]