Social Protection and Labour Market Outcomes in Sri Lanka:

An Empirical Analysis

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Outline

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Background and Motivation

❑ Social protection (SP)- an important tool for addressing poverty, vulnerability, inequality and social exclusion.

❑ SP has contributed to the achievement of the MDGs. It has also been recognized as an important element for the post-2015 development agenda (Fiszbein *et al.* 2013;ECA *et al.* 2012; HLP 2013; UNICEF 2010).

❑ SP can be broadly considered as a set of programs and policies that enable vulnerable groups to prevent, reduce and cope with risks.

Background and Motivation(cont'd)

❑ The relationship between SP and labour market (LM) outcomes (e.g. labour force participation).

- ❖ **A negative effect** - Barr et al., 2010; Lemieux & Milligan, 2008; Bertrand et al, 2003

- ❖ **A positive effect** - Ardingtonet al, 2009

- ❖ **No significant effect** - Ersado & Levin, 2011; Alzua et al.,2010; Skoufias & Di Maro,2008

- ❖ **Mixed effects** depending on the gender and age group -Gonzalez & Pfutze, 2014; Kits er al, 2013.

❑ No empirical study to-date has explored the relationship between SP and LM outcomes in Sri Lanka.

Objective

❑ The objective of this study is to analyse the relationship between social protection and labour market outcomes in Sri Lanka.

❑ In particular, the study analyses:

    ❖   The effect of SP on labour force participation

    ❖   The effect of SP on employment status

Methodology

❑ Econometric analysis and descriptive analysis

❑ Overview of the SP system and labour market situation

    ❖ Descriptive analysis based on secondary data /information

❑ The effect of SP on LM outcome in Sri Lanka:

    ❖ Econometric analysis based on the Household Income and Expenditure Survey (HIES) 2009/10

Social Protection System in Sri Lanka

Social Protection Programs

Social Insurance Programs

Pensions for Public sector workers (PSPS)

EPF/ETF

Pensions and insurance for informal workers

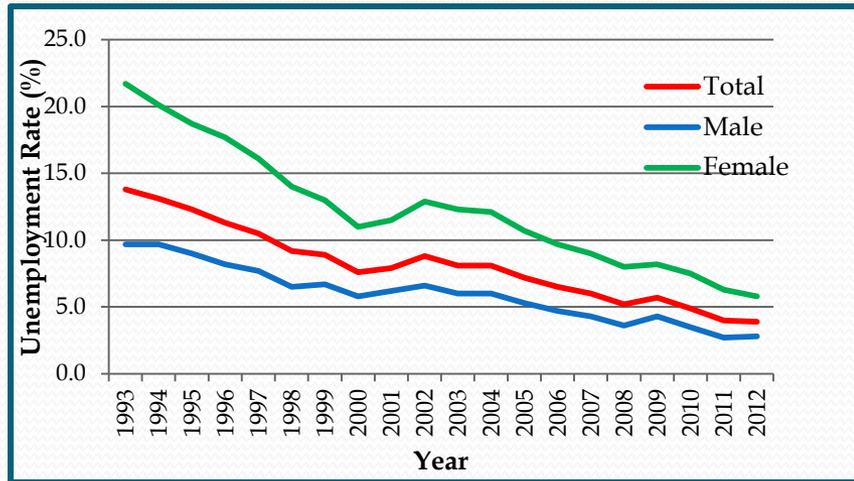Social security programs for low-income groups

Social Assistance Programs

Cash in kind transfers for:
Low income HHs
(e.g. Samurdhi program)
Elderly
Disabled persons
Children
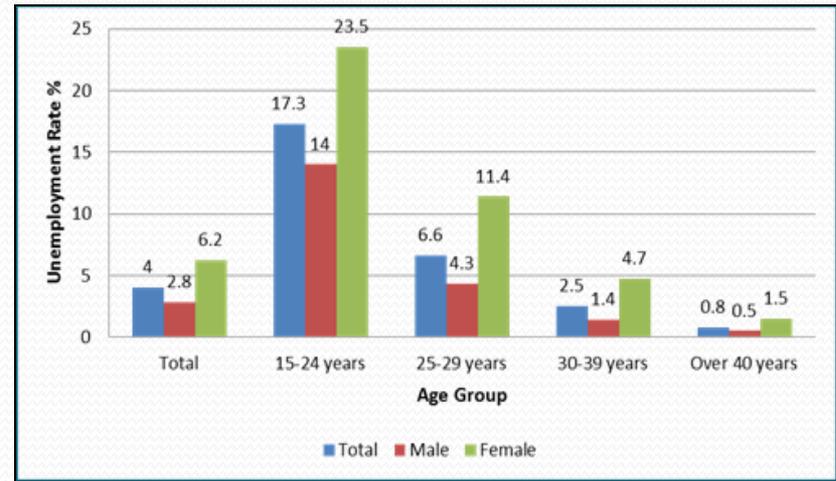Pregnant mothers
Disaster affected

Labour Market Programs

Livelihood and

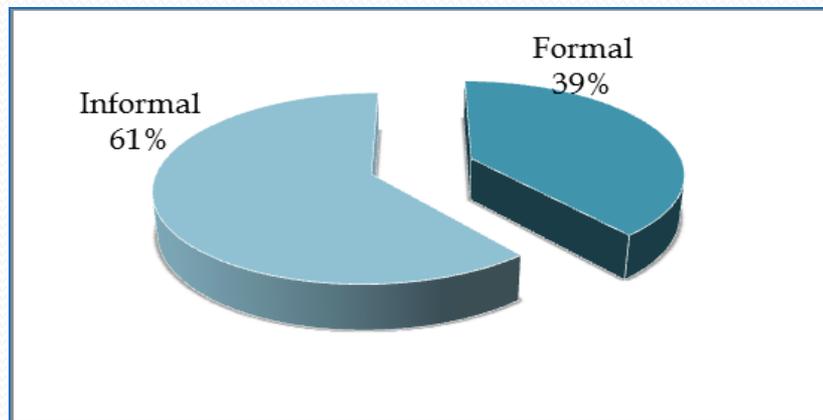skills development programs

Labour Market Situation in Sri Lanka

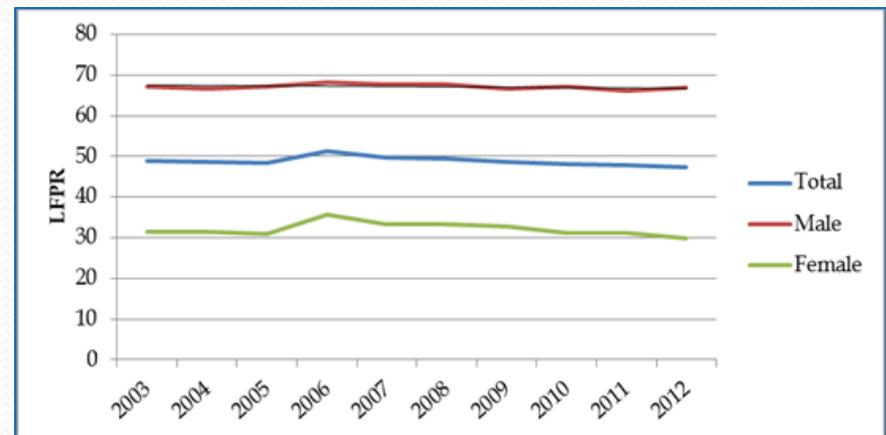## Unemployment rate has declined..

Youth unemployment remains high....

61% of employed are in informal sector...

Female LFP remains low....

Relationship between
Social Protection and Labour Market Outcomes:
An Econometric Analysis

Models : Relationship between SP and LM outcomes

❑ Model 1 – Effect on labour force participation (Probit Model)

$$y_i = \beta_0 + \beta_1 x + \varepsilon$$

- ▪ y =1 if the individual participates in labour force and y =0 otherwise
- ▪ x is a vector of individual and household level variables

❑ Model 2 – Effect on Employment Status (Multinomial Logit Model)

$$y_{ij} = \beta_1 x_{1i} + \beta_2 x_{2i} + \cdots + \beta_k x_{ki} + \varepsilon_{ij}$$

- ▪ y_{ij} is a multinomial variable where j takes on different employment categories (private employee, public employee, employer, own account worker and unpaid worker)
- ▪ x_{ki} represent individual and household level characteristics

Models : Relationship between SP and LM Outcomes (Cont'd)

❑ Household Income and Expenditure Survey (HIES 2009/10)

❑ Only individuals aged 15 and above were considered for the analysis

❑ Key variable of interest - Household social protection income
- ❖ Monthly household social protection income as a percentage of monthly household expenditure
- ❖ Limited SP variables - Samurdhi, pensions and disability benefits

❑ Control variables included age, level of education, marital status, HH size, receipt of remittance from abroad and, sector and province dummies

Results of Model 1 : Effect of SP on labour force participation

Dependent variable	Marginal effects of social protection income
LF participation - all individuals aged 15 and above	-0.0017***
LF participation – women aged 15 and above	-0.0011***
LF participation – men aged 15 and above	-0.0008***

*** p<0.01, ** p<0.05, * p<0.1

Results of Model 1: Effect of SP on labour force participation by age groups and gender

Dependent variable	Marginal effects of social protection income		
	All	**Male**	**Females**
LF participation : youth (15-24 years)	-0.000066	-0.00046	0.0000015
LF participation : Prime age (25-59 years)	-0.0016***	-0.0007***	-0.0010***
LF participation : elder (60+ years)	-0.0025***	-0.0044***	-0.0008***

*** p<0.01, ** p<0.05, * p<0.1

Results of Model 1 : Effects of control variables on labour force participation

❑ Signs and significance of the control variables are largely consistent with prior expectations.

❑ Male and female LFP are affected differently by some control variables. For E.g.

  ❖ Having children below the age of 6 affects the probability of female LFP negatively while for male it is not significant

  ❖ Being married (compared to being single)reduces the probability of LFP for females but increases probability of LFP for males.

Results of Model 2: Effect of SP on employment status

Employment Status [Base : unpaid family worker]	Multinomial logistic estimates of HH social Protection
Public employee	0.0087
Private employee	0.0117**
Employer	0.0090
Own account worker	0.0133**

*** p<0.01, ** p<0.05, * p<0.1

Conclusions and Policy Implications

❑ The study analysed the relationship between SP and LM outcomes, in particular the effect of SP on LFP and employment status.

❑ The household SP income as a share of HH expenditure has a marginal (negative) effect on the probability of an individual's LFP.

❑ This effect holds for the prime age and elderly categories of both genders while there was no significant effect on the probability of LFP among youth.

❑ With regard to the effect on employment status, the findings reveal a positive effect on employment categories like own account workers (compared to unpaid family workers). But again, the marginal effects are very small.

Conclusions and Policy Implications (cont'd)

- ❑ Findings stresses the need for improvement of the current SP system.

- ❑ More emphasis is needed on LMPs such as skills and livelihood development programs that can help improve LFP and employment status.

- ❑ Need to address the inequitable distribution of resources within the existing SP system: only a smaller share of SP expenditure goes to LMPs while a significantly larger share goes to social insurance programs like pensions.

- ❑ Need to reforms the existing pension schemes and address 'targeting errors' of cash transfer programs like Samurdhi.

Thank you !