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► Understanding informality and expanding social security coverage in the Lao People's Democratic Republic



Supported by:



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▶ Understanding informality and expanding social security coverage in the Lao People's Democratic Republic

Fred Merttens, Chansathith Chaleunsinh, Wajid Habib, Paul Jasper, Umer Naeem, and Revita Wahyudi



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ISBN 9789220403457 (web PDF)

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► Acknowledgements

The authors would like to thank the Lao Social Security Organisation (LSSO) for their close engagement and commitment to this research, as well as our other counterparts and key informants in the Government of the Lao People's Democratic Republic across numerous ministries, agencies, and departments for generously giving their time, responding to interview questions and data requests, and their active participation in the consultations and validation workshops. We would like to acknowledge and thank all our other respondents, especially enterprise representatives, workers, and independent coffee farmers who kindly gave their time and experience to participate in this research and inform the findings of this report. A full list of stakeholders consulted is provided in Appendix III.

Finally, we would like to thank the Republic of Korea for its generous financial support to this research through the ILO/Korea Partnership Programme "Supporting the Implementation of Sustainable Social Protection Floors for Workers and their Families in ASEAN—Phase III". We also express our gratitude to the European Union for providing financial support to the two workshops held to validate the research findings. We also thank INGO and CSO partners for their collaboration and engagement during the preparation of this report.

This report was written by Fred Merttens, Chansathith Chaleunsinh, Wajid Habib, Paul Jasper, Umer Naeem, and Revita Wahyudi. For their valuable feedback and engagement during this research, we would like to thank Loveleen De, Thongleck Xiong, Nuno Meira Simoes da Cunha, and Marielle Phe Goursat of the ILO. We would also like to thank our counterparts at the LSSO for their close support, in particular, Ms Veomany Khamphai, Mr Palamy Leecha, Mr Sonesaly Bounphayong, Mr Chomphet, Mr Phetsavanh Chanthathone, and Mr Noymany Xayyaphoud. In addition, we would like to express our appreciation for the contribution of Dr Sombounmy Phomtavong to the qualitative fieldwork.

Any errors expressed remain the responsibility of the authors.

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► Abbreviations and acronyms

CSO	civil society organization
DERM	Department of Enterprise Registration and Management
DoIC	Department of Industry and Commerce (provincial/prefecture level)
DoLSW	Department of Labour and Social Welfare (provincial/prefecture level)
DWCP	Decent Work Country Programme
ECCDA	Environment Conservation and Community Development Association
ERC	Enterprise Registration Certificate
FGD	focus group discussion
IWAA	Informal Worker Advancement Association
KII	key informant interview
LECS-6	Lao Expenditure and Consumption Survey
LFS	Labour Force Survey
LFTU	Lao Federation of Trade Unions
LNCCI	Lao National Chamber of Commerce and Industry
LSSO	Lao Social Security Organization
MIS	management information system
MoAF	Ministry of Agriculture and Forestry
MoF	Ministry of Finance
MoH	Ministry of Health
MoIC	Ministry of Industry and Commerce
MoLSW	Ministry of Labour and Social Welfare
MoPWT	Ministry of Public Work and Transport
MPI	Ministry of Planning and Investment

MSMEs	micro-, small- and medium-sized enterprises
NED	National Enterprise Database
NHIB	National Health Insurance Bureau
NHIF	National Health Insurance Fund
NSSF	National Social Security Fund
NSSFC	National Social Security Fund for Civil Servants
NVF	National Veterans Fund
OSS	One-Stop-Service
PR	public relations
P-TIN	Personal Tax Identification Number
SEZ	Special Economic Zone
SEZA	Special Economic Zone Management Authority
SEZO	Special Economic Zone Management Office
SMEs	small- and medium-sized enterprises
TaxRIS	Tax Revenue Management Information System
TIN	Tax Identification Number

► Executive summary

Introduction

This study comprises two parts. Part One draws on national survey data and Lao Social Security Organisation (LSSO) administrative data to provide a comprehensive quantitative analysis of the labour market and enterprise landscape in the Lao People's Democratic Republic, including the characteristics of key relevant groups of workers. The aim of this analysis is to provide a detailed picture of the conditions of the Lao labour market, including characteristics of key relevant groups within it, such as informal workers and/or workers not currently covered by social security.

Part Two consists of a qualitative study focused on documenting and analysing the key institutional and operational processes relevant to delivery of social security services and enterprise formalization in the country, alongside an analysis of the demand side in terms of the knowledge, preferences, ability to pay and user experiences of National Social Security Fund (NSSF) members and potential members vis-à-vis social security and formalization. This second part of the report is founded on a legislation and literature review plus key informant interviews (KIIs) and focus group discussions (FGDs) with both supply-side and demand-side stakeholders. These include public organizations such as the LSSO and various line Ministries, civil society and representatives from the private sector. In addition, the qualitative research focuses on workers and enterprises in three economic subsectors covering the three broad pillars of the economy: agriculture, manufacturing, and services. These subsectors are coffee production, manufacture of drinking water and logistics.

The findings from both parts of this study are brought together in a concluding section to provide a comprehensive yet nuanced analysis of informality in the Lao People's Democratic Republic and to identify the drivers of informality alongside the needs of informal workers and enterprises. The objective is to aid national policymakers and development partner stakeholders to explore ways of expanding social security coverage in the Lao People's Democratic Republic and to increase formality within the labour market and enterprise landscape.

► Part One Methodology

The analysis draws primarily on the results of the 2017 Lao Labour Force Survey (LFS), coupled with LSSO administrative data. These two sets of data do not always perfectly align. For example, while the LFS estimates that some 11 per cent of non-civil servants were covered by some form of social security in 2017, LSSO administrative data imply that only 7 per cent were covered. To help mitigate this limitation we used data from the 2019 Lao Expenditure and Consumption Survey (LECS-6) for triangulation purposes. LECS-6 data also allow us to dig deeper into areas such as the ability to pay social security contributions.

In the text that follows, we distinguish between “formal” and “informal” sectors of employment, as well as between the formal and informal employment relations. We also disaggregate between those covered by social security and those not covered. Finally, we distinguish between civil servants and non-civil servants, with the focus of the analysis being exclusively on the latter of these two groups. The distinctions between formal and informal sectors, and between formal and informal employment relations, are explained below.

In regard to the distinction between both formal and informal sector of employment, and formal and informal employment relations, we adhere to international statistical standards. For the former, formal enterprises are defined to include: government or international organizations, as well as private firms that are registered or that have written accounts or whose employees are entitled to social security or that have five or more employees and a fixed operating location. Informal enterprises include those that do not fall into the previous category and that are not engaged in household sector activities, such as domestic work or producing agricultural goods solely for own consumption. In regard to nature of employment, employees are considered to have informal jobs if they are not entitled to social protection or employment benefits, including paid annual leave or sick leave. Employers and own-account workers in the informal sector are also classified as having informal working conditions, as are all contributing family workers (whether located in formal or informal sectors of employment).

In regard to the distinction between being covered and not being covered by social security, we define those covered by social security using particular questions in the LFS asking whether either respondents themselves or their employers pay contributions to specific relevant forms of social security.

Findings

The labour market and enterprise landscape in the Lao People's Democratic Republic

Excluding civil servants, the employed population totals just over 1.44 million people. Of these, 8 per cent are in the formal sector, 45 per cent are in the informal sector, and 47 per cent work in households. Breaking things down by employment type, 17 per cent are wage earners (employees), 1 per cent are employers, 34 per cent are own-account workers, and 47 per cent are contributing family workers (<1 per cent are elsewhere not classified).

Considering the distribution of the non-civil servant workforce by economic sector, we see that the largest cohort (38 per cent) are employed in the agriculture sector, 22 per cent work in wholesale and retail trade, and 9 per cent in manufacturing. Other significant sectors in terms of share of total employment are construction, other services, accommodation and food, and transportation and storage.¹

The agriculture sector is made up overwhelmingly of informal workers, 93 per cent of whom are contributing family workers (71 per cent) or own-account workers (22 per cent). Agricultural workers tend to be among the poorest members of the labour force. As the second-largest economic sector, wholesale and retail trade also has a high proportion of informal workers (92 per cent) and a low proportion of waged workers (14 per cent). Wholesale and retail trade workers are also concentrated in the bottom of the income distribution (31 per cent in the bottom quintile). The manufacturing sector has a relatively high proportion of waged workers (34 per cent), as well as a high proportion of workers in the formal sector (23 per cent). Manufacturing also has the largest share of workers in medium or large enterprises (29 per cent).

¹ The economic sector of employment is not stated for 15 per cent of observations in the LFS 2017 data.

² Enterprise size is missing for 53 per cent of employees and employers in the LFS 2017 data.

The enterprise landscape in the Lao People's Democratic Republic is dominated by micro and small enterprises, which constitute 99 per cent of all enterprises in the country, with medium and large enterprises accounting for less than 1 percentage point of enterprises.

However, despite the predominance of microenterprises in relation to the number of registered enterprises nationally, small, medium and large enterprises appear to account for a larger share of employment. Small enterprises collectively employ 24 per cent of all employees and employers, while medium and large enterprises account for 13 per cent. This compares to just 10 per cent of employees and employers employed by microenterprises.²

Micro-, small- and medium-sized enterprises (MSMEs) are mostly (63 per cent) located in the wholesale and retail trade sector, followed by the manufacturing sector (15 per cent). Other sectors have much smaller proportions.

Overall, around 83 per cent of employment in the Lao People's Democratic Republic is informal, with less than a third (30 per cent) of all enterprises being formally registered and 87 per cent of enterprises not having a Tax Identification Number. The sectors with the highest proportion of informal sector workers are agriculture (98 per cent), construction (94 per cent), and wholesale and retail trade (92 per cent). The sectors with the lowest rates of informal sector workers are other services (66 per cent), manufacturing (77 per cent), and accommodation and food (80 per cent). Based on the data, 100 per cent of domestic workers are in the informal sector or work in households.

Overall, 40 per cent of wage earners (employees) work in the formal sector, whereas this proportion is slightly less than one-third (30 per cent) for employers and close to zero for own-account workers (1 per cent) and contributing family workers (<1 per cent).

Almost half (49 per cent) of the non-civil servant workforce are women. Women are overrepresented among contributing family members (constituting 55 per cent of the workforce in that group) and underrepresented among employers (31 per cent), employees (41 per cent), and own-account workers (44 per cent). The sectors with the highest proportions of women workers are accommodation and food (62 per cent), other services (59 per cent), manufacturing (59 per cent), and wholesale and retail trade (58 per cent).

Coverage of the labour force by social security

The majority of workers in the Lao People's Democratic Republic are not covered by social security, with only 11 per cent of the non-civil-servant workforce estimated to be covered by the NSSF or National Health Insurance Fund (NHIF) in 2017 based on LFS data, and only 7 per cent according to LSSO data. Workers in the formal sector are significantly more likely to be insured than those in the informal sector. Nevertheless, even within the formal sector 57 per cent of workers are uninsured.

In regard to economic sectors, the vast majority of agriculture workers (95 per cent) remain outside the social security system, with large numbers of uninsured also present in the wholesale and retail trade, services, manufacturing, industry, construction, other services, accommodation and food, and transport sectors.

In terms of enterprise size, workers in medium and large enterprises (those with 50+ employees) are more likely to be insured than those working in smaller enterprises: 51 per cent of workers in enterprises with 50 workers or more are insured, compared to 88 per cent of those working in small enterprises (5–49 workers), and 92 per cent of those working in microenterprises (<5 workers).

The largest numbers of uninsured workers in medium-to-large formal enterprises are found in the manufacturing sector. Wholesale and retail trade and other services also contain relatively high numbers of formal sector workers in medium-to-large enterprises who are not insured. The sectors with relatively large numbers of uninsured formal sector workers in small enterprises are wholesale and retail trade, other services, accommodation and food, and agriculture.

Beyond the sector in which a worker is located, not being insured by social security appears to be weakly related to age (the oldest and youngest workers are slightly less likely to be insured), and strongly related to both income (poorer workers are less likely to be insured) and education (those with lower levels of education are less likely to be insured).

Importantly, according to both LFS and LSSO administrative data, not all civil servants and state enterprise employees appear to be insured or working under formal conditions.

Ability to contribute to social security

A large proportion of the Lao workforce, as well as employers, are not making social security contributions, with only 37 per cent of formal sector workers insured, despite the Amended Law on Social Security No. 54 of 2018 requiring every enterprise and employee to contribute to the NSSF. There is thus a large group of workers who should be covered by the NSSF, but whose employers do not appear to comply with the law by contributing to social security on their behalf.

The ability to contribute to social security is one significant barrier to accessing social security for many Lao workers, though it is not the only or even necessarily the most significant barrier. To investigate ability to contribute, we analysed the potential level of surplus income employees may have to contribute to social security after paying for household consumption. According to our estimations, some 52 per cent of employees could potentially afford to contribute the maximum 9 per cent share of their income required for the full complement of benefits under the NSSF voluntary scheme.

Ability to contribute varies across economic sectors, with the highest ability to contribute to a pension found in the education, other industry, and public administration sectors (79 per cent, 77 per cent, and 76 per cent, respectively), and the lowest in wholesale and retail trade, agriculture, and domestic work (29 per cent, 22 per cent, and 20 per cent, respectively).

Due to significant income inequality between men and women, with women earning less than men in both the formal and informal sectors and across wealth quintiles, women's ability to make contributions to social security is constrained relative to men's.

Conclusions from Part One

The aforementioned findings on the low proportion of workers covered by social security in 2017 (just 7–11 per cent) indicate that there is significant potential to increase the coverage of social security in the Lao People's Democratic Republic. Efforts to this end could focus on sectors where there are high proportions of waged workers, significant numbers working in medium or large enterprises, relatively high proportions working in the formal sector, or large proportions working in enterprises whose employees have a reasonable ability to afford contributions.

At the same time, due to their low levels of income, workers in certain sectors and certain types of workers will require social assistance and/or government-subsidized social security contributions in order to be covered by social protection benefits – this is especially pertinent for workers in agriculture and domestic work. Special efforts will also be required to mitigate some of the structural prejudices women face in the labour market.

Further research by economic sector (including that conducted in Part Two of this report) could help identify key subsectors and groups of workers where the potential to pilot initiatives to increase coverage is highest. Such research could focus on:

- ▶ **Manufacturing** sector, which has one of the highest proportions of waged workers, the largest proportion of workers in medium or large enterprises, and the highest proportion of workers employed within the formal sector – in addition to workers having a high ability to contribute to social security relative to workers in other sectors. A possible lever that could be used to increase coverage in the manufacturing sector is the licences that are required to operate in many parts of the sector.
- ▶ **Accommodation and food** sector has the highest proportion of waged workers among all sectors, as well as one of the highest proportions of formal sector workers (20 per cent). The ability to contribute to social security is also relatively high among this group. The operating licences required to work in this sector could be leveraged to increase formalization and improve social security coverage.
- ▶ **Transport** sector has a relatively high proportion of waged workers (27 per cent), though most transport workers are own-account workers. Nevertheless, given their relatively high ability to contribute, there is again likely potential to exploit the need for operating licences to increase formalization of transport sector workers, improve compliance and/or pilot mandatory social security participation.
- ▶ **Agriculture** sector has the largest number of uninsured workers, so increasing social security coverage among these workers would have a significant impact on the overall coverage rate. However, just 2 per cent are employed in the formal sector, and agricultural workers tend to be among the poorest members of the labour force, with low ability to contribute to social security. Thus, government subsidies for social security contributions and/or social assistance are likely to be required for many in this sector. This being said, there is potential to increase compliance with social security legislation among some subgroups of agriculture waged workers, as well as, for example, among producers of domestic or export market crops.
- ▶ **Wholesale and retail trade** has just 8 per cent of workers employed in the formal sector and their ability to contribute is low (ahead of only agriculture workers). Further research on this group may identify particular subgroups with higher ability to pay and particular characteristics, such as larger enterprise sizes and fixed operating premises, that could be useful in identifying and supporting firms to formalize and participate in social security.

▶ Part Two Methodology

The qualitative research is based on a legislation and literature review plus KIIs and FGDs with key stakeholders. The aim of the research is to identify key challenges to, and opportunities for, expanding coverage of social security across the labour market. It focuses on administrative processes and barriers, contributions and payments architecture, enterprise registration and formalization, and the institutional and legislative context.

Along with the supply side, the research also covers the demand side in order to understand the knowledge, preferences, ability to contribute, and user experiences of both NSSF members and potential members vis-à-vis social security and enterprise formalization, over three economic subsectors: logistics, drinking water manufacture and coffee production.

Findings

Enterprise formalization

Information on the number of enterprises and enterprise registration remains partial and fragmented across different ministries. Different line ministries responsible for different economic sectors and subsectors each operate their own data collection systems, but these are not all formally connected. The two largest national databases containing information on enterprises are linked, however: the National Enterprise Database (NED) maintained by the MoIC, and the Tax Revenue Management Information System (TaxRIS) maintained by the Tax Department of the Ministry of Finance.

The vast majority (around 70 per cent) of enterprises go unregistered. However, clear and generally well-functioning processes and systems for registering enterprises and issuing operating licences exist; although improvements to some parts of these systems and efficiency gains are necessary and possible. Key areas for improvement include:

- ▶ Reinstating conditional links between enterprise registration/tax/operating licences and social security.
- ▶ Provision of standardized templates and guidance to support enterprises with application processes.

The inspection regime for business operating standards, labour conditions and social security is under-capacitated with some inconsistencies within the legislation, resulting in gaps and incoherence across these areas of business operations. Informal collaboration between different sectors of the Government³ partially and imperfectly address some of these gaps, but capacity constraints remain, with negative consequences for social security compliance. Enforcement of regulations remains weak.

Accessing social security

There is a clearly articulated policy agenda to increase formalization of the enterprise landscape and to expand coverage of workers by social security through the NSSF. However, a threat to the second of these two objectives has been raised by the removal of the NSSF healthcare benefits fund to the control of the National Health Insurance Bureau (NHIB), as per the current Law on Health Insurance. This is negatively impacting the quality of healthcare paid for by NSSF members and posing reputational damage to the NSSF. At the same time, there are some gaps and inconsistencies in the broader legislation architecture. These include ambiguities around certain types of employment contracts (such as part-time workers, interns, daily-wage work and subcontractors) and business models (such as franchises). The appropriate social security instrument for domestic workers, including the level of contribution required by their employers, also needs to be specified.

The systems for registering with, contributing to and claiming benefits from the NSSF are reasonably well functioning. The biggest challenges to access stem from lack of knowledge and awareness and physical distance to LSSO offices. The LSSO is investing in district offices and piloting mobile registration desks to help address these challenges, but there remains more to be done in terms of developing online systems to help reduce the costs of participation for applicants and members. Improvements in these areas could increase willingness and ability to contribute among potential members.

Communications and public relations (PR) activities for social security suffer from some budgetary constraints, though the LSSO has developed useful partnerships with employers' and workers' associations, including those working directly with informal workers, to support their efforts in these areas. There is a recognized need across stakeholders to try to improve the form and content of communications materials to better reach informal workers in particular, as they tend to be less educated and literate.

Conclusions from Part Two

There is a clear need to increase registration of enterprises, especially micro and small enterprises. The processes and timeframes for registering enterprises are well established and generally function efficiently, though there is room for improvement in some parts of the system, including around data linkages, application procedures, and mitigating the risk of informal charges by intermediaries. Participation in social security is no longer conditionally linked to business registration and operating licences, which puts the main strain for ensuring compliance on inspection, where capacity is relatively weak.

There are some gaps and inconsistencies within the policy and legislative framework. In particular, these relate to ambiguities regarding the legal status of certain types of employment contracts and business models. The appropriate social security instrument for domestic workers also remains to be clarified.

The decision to transfer the LSSO healthcare fund to the NHIB is having a major negative impact on the quality of services received by NSSF members, and thus is damaging the reputation of the NSSF. This negatively affects people's willingness to join or continue contributing.

The LSSO has generally efficient and effective systems for registration, payment of contributions and making claims. However, distance to LSSO offices and the lack of online systems pose barriers to participation in social security for both enterprises and workers.

General knowledge and awareness about social security needs raising among enterprises and workers, and the means of disseminating such information can be improved.

There is good scope for partnerships across government, the private sector and civil society to help address many of the identified challenges to enterprise formalization and expansion of coverage by social security.

³ Within the context of the Lao Government the word "sector" is used to refer to the vertical organizational structure of areas within government covering a national authority and its related subnational units. For example, the Commerce and Industry Sector would refer to the Ministry of Commerce and Industry (national), the provincial Departments of Commerce and Industry, and the district Commerce and Industry Offices, all of which carry out related duties in line with decentralization policies. In this report, sectors of this type will be explicitly referred to as "government sectors" or will be capitalized, so as to distinguish them from sectors of the economy.

Overall conclusions and recommendations

The current policy framework clearly articulates two broad objectives: (i) to increase formalization of enterprises; and (ii) to increase coverage of the labour force by social security through the NSSF. Despite the size of this challenge, the relevant government capacity needed to achieve these aims is already strong. There is a comprehensive legislative framework and a broadly well-functioning set of systems and processes covering enterprise registration, taxation, labour conditions and social security provision. This does not imply that there is no room for improvement. But with coordinated modifications to the systems and processes for enterprise registration, business operations licencing, and social security, alongside necessary tweaks to the relevant legislation across government sectors in order to close gaps and clarify ambiguities, the Government could significantly strengthen the foundations for developing the economy.

The NSSF offers a competitive product that provides real and good value for workers and enterprises. But, to realize its potential the Fund needs not only to significantly increase coverage, but to rectify an immediate problem stemming from the current situation whereby the NSSF does not control its own healthcare fund. This situation is negatively impacting the quality of healthcare received by NSSF members and thereby damaging the Fund's reputation.

Beyond this issue, there is strong scope to build and strengthen partnerships across government, the private sector and civil society to help address the policy challenges identified in this study. We suggest nine broad recommendations to aid the Government and its development partners as they strive to increase the level of formalization in the labour market and enterprise landscape through a three-pronged approach: team up, upgrade systems and processes, and drive forward.

Team up

- ▶ Enhance coordination and cooperation across government sectors involved in enterprise formalization and social security provision by:
 - Linking relevant databases.
 - Conditioning operating licences on social security participation.
 - Strengthening the inspection regime for business operating standards, working conditions and social security compliance.
- ▶ Strengthen and develop partnerships with workers and employers organizations to:
 - Disseminate information and support members with registration, payments and claims processes.
 - Incorporate civil society into the Decent Work Country Programme (DWCP) tripartite committee.
- ▶ Clarify ambiguities in the existing legislative architecture with regard to certain types of employment contracts and business models (such as franchises); determine the appropriate social security instrument for domestic workers; and develop sub-legislation across government sectors to guide implementation of the Social Security Law and strengthen enforcement.

Upgrade

- ▶ Resolve the issue of low quality of healthcare for NSSF members resulting from the merger of the NSSF healthcare fund with the NHIF by either returning the NSSF healthcare fund to control of the LSSO, or adjusting healthcare benefits packages to distinguish between NSSF and NHIF members and providing the NHIF financial autonomy over NHIF expenditure while ensuring the LSSO regains its ability to protect the interests of their members.
- ▶ Invest to bring the LSSO closer to workers and enterprises through:
 - Continued investment in LSSO district offices and the mobile registration desk pilot.
 - Developing online systems for registration, contributions and claims.
- ▶ Provide NSSF members with greater choice and flexibility regarding selection of healthcare providers.
- ▶ Strengthen social security communications through:
 - Conducting research to inform how social security communications and PR activities can be improved.
 - Developing materials more suited to people with low levels of education and literacy;
 - Making more and better use of social media platforms; and
 - Disseminating social security information to the public more broadly.

Drive forward

- ▶ Expand social security through targeting economic subsectors that are easiest to reach and with most potential to participate.
- ▶ Invest in social assistance (for example, in the form of direct income support) to cover subsectors that do not currently have high potential to contribute by supporting individuals and households to mitigate disruption to income and labour participation caused by life-cycle events. Investment in social assistance will bolster demand for goods and services provided by enterprises and own-account workers, raising their income and thus increasing their ability to participate in social security as part of a virtuous spiral.

01

Introduction



This study is comprised of two parts. Part One comprises a quantitative analysis of Lao national survey data and Social Security Office administrative data. The aim of this analysis is to provide a detailed picture of the conditions of the Lao labour market, including characteristics of key relevant groups within that market, such as informal workers and/or workers not currently covered by social security. Part Two consists of a qualitative study focused on documenting and analysing the key institutional and operational processes relevant to the delivery of social security services and enterprise formalization in the country, alongside an analysis of the demand side in terms of the knowledge, preferences, ability to pay, and user experiences of National Social Security Fund (NSSF) members and potential members vis-à-vis social security and formalization.

With regard to Part One, the analysis of national survey data is centred on the Labour Force Survey (LFS) 2017 as the most recent available data at the time the analysis was conducted. This is supplemented by some key statistics from the LFS 2022, findings from which have since been made available. The analysis seeks to comprehend the labour force across various categories of interest, including:

- ▶ The formal and informal sectors
- ▶ Different forms of employment relation
- ▶ Economic sector
- ▶ Geographic region (urban/rural, province)
- ▶ Enterprise type (for example, size of enterprise)
- ▶ Relevant social, economic and demographic characteristics such as age, gender, education level and income

This analysis is supplemented by data from the 2019 Lao Expenditure and Consumption Survey (LECS-6),⁴ which has been used for triangulation purposes as well as to look at issues such as ability to contribute to social security. In addition, we conducted a secondary analysis of the Lao Economic Census of 2020 to consider the enterprise landscape, in addition to utilizing Lao Social Security Organization (LSSO) administrative data in order to triangulate the LFS estimates of coverage by social security and to consider the evolution of social security coverage and provision in the country. Together, these information sources enable a comprehensive quantitative analysis of the labour market and enterprise landscape in Part One of this report, including coverage of the labour force by social security and the potential of workers and enterprises to contribute to social security.

Part Two of the report is founded on a legislation and literature review plus key informant interviews (KIIs) and focus group discussions (FGDs) with both supply-side and demand-side stakeholders. These include public organizations such as:

- ▶ LSSO
- ▶ Ministry of Labour and Social Welfare (MoLSW)
- ▶ Ministry of Finance (MoF), including its Tax Department
- ▶ National Health Insurance Bureau (NHIB)
- ▶ Hospitals under the Ministry of Health (MoH)
- ▶ Ministry of Industry and Commerce (MoIC)

In addition, interviews were conducted with representatives from:

- ▶ The private sector (such as, the Lao National Chamber of Commerce and Industry (LNCCI))
- ▶ Mass organizations⁵ (such as, the Lao Federation of Trade Unions (LFTU))
- ▶ Civil society (such as, the Informal Worker Advancement Association (IWAA) and the Environment Conservation and Community Development Association (ECCDA))

In addition, the qualitative research focuses on workers and enterprises in three economic subsectors that cover the three broad pillars of the economy: agriculture, manufacturing, and services. These three subsectors are coffee production, manufacture of drinking water and logistics, which were selected based on various factors of consideration, including: availability of relevant quantitative data; areas of known interest to the Lao Government; potential for expanding social security; and identified research needs of key stakeholders.

The findings from both parts of this study are brought together in a concluding section to provide a comprehensive yet nuanced summary of informality in the Lao People's Democratic Republic and to identify the drivers of informality alongside the needs of informal workers and enterprises. The objective is to aid national policymakers and development partner stakeholders to explore ways of expanding social security coverage in the Lao People's Democratic Republic and to increase formality within the labour market and enterprise landscape.

1.1. Background

The Lao People's Democratic Republic is a predominantly agrarian economy, with around 4.9 million people (or 70.5 per cent of the population) living in rural areas. Some 551,000 people (35.8 per cent of the labour force) work in agriculture, forestry and fishing, almost all of whom are in the informal economy. An additional 1.5 million people engage in subsistence agriculture. This leads to low and irregular household incomes that greatly depend on environmental and climate conditions, with many households needing to be active in both farm and non-farm work during the course of the year. People living in rural areas are therefore mostly characterized by low incomes, poor income security and working conditions, and no social protection in case of loss of income.

Poverty in the Lao People's Democratic Republic has declined significantly over the last quarter-century, from close to half the population (46 per cent) being poor in 1993 to under one-fifth (18 per cent) in 2019. This decline has followed a fairly steady trajectory, with the poverty rate reducing by around 1 percentage point per year: In the six years between the two most recent measurements (2013 and 2019), poverty reduced from 24.6 per cent to 18.3 per cent. In recent times, the reduction in poverty has been driven by rural areas, with poverty decline in urban areas having largely stalled; however, the majority of the poor still reside in rural areas. The incidence of poverty tends to be higher among agricultural households, Hmong-Iumien households, and households headed by a person who has not completed lower secondary education or who is unemployed – and such gaps have widened, as has inequality overall (Lao Peoples' Democratic Republic, LSB and World Bank 2020).

In total, around 83 per cent of employment is informal, which presents a significant administrative and financial challenge for the extension of social insurance coverage. This is because workers in the informal economy have irregular and unrecorded incomes, and it is therefore difficult to enforce compliance with tax and social security legislation.

⁴ The ILO Social Security (Minimum Standards) Convention, 1952 (No. 102), defines nine functional benefits provided by social security systems: (1) medical care; (2) sickness benefit; (3) unemployment benefit; (4) old-age benefit; (5) employment injury benefit; (6) family benefit; (7) maternity benefit; (8) invalidity benefit; and (9) survivors' benefit. These are supplemented by other benefits encompassed by the wider definition of social protection, namely: housing, basic education, and other income support and assistance/social inclusion.

The social security provisions under the National Social Security Fund (NSSF), administered by the LSSO, in reality cover most of the public sector and, to a lesser extent, formal private sector and self-employed workers. The NSSF allows workers who are not registered through formal sector enterprises or who are formally self-employed to register voluntarily. The social security scheme covers workers for nine types of benefits: (i) health insurance; (ii) employment injury or occupational diseases; (iii) maternity; (iv) sickness; (v) loss of working capacity; (vi) pension; (vii) death grant; (viii) survivor's benefit; and (ix) unemployment (Law on Social Security (Amended version) No. 54 of 2018). However, the beneficiary group only accounts for a small part of the population, given that formal sector workers and civil servants only account for some 24 per cent of the employed labour force. The majority of employment (76 per cent) comprises those working in the informal sector and in households, of whom less than 1 per cent voluntarily enrol in the NSSF.

Since the implementation of the Amended Law on Social Security No. 54 of 2018, all public sector and private sector employees in a labour unit of one employee or more are required to be insured under the NSSF. It is a compulsory contributory scheme, with differing rates of contribution depending on whether a worker is a civil servant, a formally registered private sector worker, or a voluntary member. For civil servants, the contributions comprise 8.5 per cent of the insured salary from the Government (as the employer) and 8 per cent from the civil servant (as the employee). For formal private sector workers, the contributions comprise 6 per cent of the employee's salary from the employer and 5.5 per cent from the employee. For self-employed workers and voluntary members, the insured person pays contributions for each type of social security benefit as stipulated in the regulation, which is equivalent to 9 per cent of insured earnings falling between the official minimum wage and the insurable earnings ceiling.⁶

The NSSF itself comprises five distinct sub-funds:

- i.** Health Insurance Fund.
- ii.** Employment Injury and Occupational Disease Fund.
- iii.** Short-Term Benefit Fund for sickness, maternity, and death grants.
- iv.** Long-Term Benefit Fund for old-age pensions, loss of working capacity allowance, and survivors benefits.
- v.** Unemployment Benefits Fund.

The National Health Insurance Fund (NHIF) has been established to ensure that all Lao citizens have access to equitable healthcare services, including consultation and diagnostic services, medical treatment, physical rehabilitation, and health promotion and prevention services. The NHIF provides both medical and non-medical benefits⁷ and is funded by contributions from the Government and from NSSF members,⁸ and supplemented by co-payments made directly to health facilities by Lao citizens who are not members of the NSSF.⁹ The NHIF is supervised by a Fund Management Committee chaired by the Minister of Health, with the NHIF as the secretariat. Health insurance in the Lao People's Democratic Republic is regulated by the Law on Health Insurance (2019). The National Health Insurance scheme was established in 2016, and by 2019 all existing health protection schemes had been harmonized into the NHIF. The NHIF is currently implemented in 17 provinces and plans to expand into Vientiane soon. By 2020, the NHIF reported approximately 94 per cent of the Lao population were covered by social health protection schemes (Lao People's Democratic Republic, MoH 2022).

⁶ There are 17 levels of monthly contribution available to voluntary members, the lowest being 117,000 kip (following the raising of the minimum wage to 1.3 million kip in May 2023) and the highest being 243,000 kip per month (ILO 2015). Voluntary contributions are divided between three of the five benefit funds, as follows: 1.25 per cent health insurance benefit fund; 2.5 per cent short-term benefits fund; and 5.25 per cent long-term benefits fund (ASEAN Social Security Association 2020).

⁷ Non-medical benefits refer to the expenditures for food allowance, round trip transportation for the poor, the referral fee for transferring an intensive care patient to a higher care level facility (including the allowance for physician, nurse and driver), and the fee for transferring a deceased person's body to their family as stipulated in the regulations.

Social welfare programmes in the Lao People's Democratic Republic mainly consist of short-term in-kind assistance for unexploded ordnance survivors, victims of trafficking and orphans, and the National School Meal Programme. There are no regular, large-scale cash transfers in place. In accordance with the National Social Protection Strategy 2025 (MoLSW 2020), the Lao Government is piloting cash transfers for pregnant women and children in parts of the country, covering at least the first 1,000 days of life for some children.

By providing a comprehensive quantitative analysis of national survey data and social security administrative data, this study hopes to inform ongoing social security policy development and reform.

1.2. Report structure

The remainder of Part One of this document is structured as follows. Section 2 describes the quantitative research methodology used for the study. Section 3 presents an analysis of the labour market and enterprise landscape in the Lao People's Democratic Republic, which forms the context for workers not covered by social security. Section 4 compares the characteristics of workers in specific economic sectors. Section 5 articulates the conclusions that are derived from the quantitative research. Appendix I gives supplementary statistics for workers in selected economic sectors.

Part Two of the report begins in Section 6 with a description of the qualitative research methodology used for the study. Section 7 presents an analysis of employment and enterprise formalization. Section 8 examines access to social security, and Section 9 presents conclusions drawn from the qualitative research and possible policy implications. Part Two of the report is supported by appendices that present a summary of legislation relating to labour and social security (Appendix II) and a list of key informants interviewed for the study (Appendix III).

The report ends with a presentation of overall conclusions in Section 10 and a series of recommendations in Section 11.

⁸ To comply with article 38 of the Law on Health Insurance regarding the transfer of the NSSF health insurance fund to the NHIF, the Minister of Labour and Social Welfare issued Minister's Agreement No. 2228, which transferred health insurance-related administrative work and the contributions made under the health insurance fund from the LSSO to the NHIF starting from 1 July 2019. The transfer is made on a monthly basis and calculated at 1.25 per cent of 16.5 per cent of salary for government workers, 1.25 per cent of 11.5 per cent of salary for enterprise workers, and of 1.25 per cent of 9 per cent of insured earnings for persons under the voluntary scheme. This issue is discussed in more detail in section 8.1 below.

⁹ Private health insurance holders who are treated in a public hospital that is not listed in their insurance policy pay a hospital fee. NSSF members who seek treatment at public hospitals other than their selected hospital and not for an emergency pay a hospital fee. All other Laotians residing in any province outside Vientiane Capital are eligible to exercise their rights under the NHIF and pay a small "co-payment" fee to the healthcare facility. The size of the co-payment is dependent on the type of health facility. For instance, a health centre fee is 5,000 kip per visit, but if the health centre cannot handle the case they refer it to the district hospital, then to provincial and central hospitals, with the fee rising to 30,000 kip per visit. All contribution fees go to the NHIF.



Part One



02

Quantitative research methodology



The primary dataset on which the quantitative analysis focuses is the 2017 LFS. Selected preliminary findings from the LFS 2022 are also provided in order to provide the most recent data for key statistics. Data from the 2019 LECS-6 are analysed for triangulation purposes, as well as to dig deeper into defined areas, such as potential ability to pay social security contributions. Some LSSO administrative data are also presented. Finally, we conduct secondary analysis of the Lao Economic Census of 2020.

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The purpose of the analysis is to provide a comprehensive picture of the Lao labour force, with a focus on the characteristics of those who are not covered by social security across different forms of employment relations, economic sectors, and enterprise types, as well as to provide an examination of social, economic and demographic characteristics of interest such as age, gender, education level and consumption quintile.

Three key disaggregations are required for the purposes of the analysis:

- ▶ The distinction between “formal” and “informal” for both workers and enterprises
- ▶ The distinction between those covered and not covered by social security
- ▶ The distinction between civil servants and non-civil servants in the labour force.

2.1. Distinguishing between formal and informal workers and enterprises

The categories of “formal” and “informal” work have been the subject of much discussion in academic and policy literature. Under the category of the informal economy, the ILO includes all economic activities by workers and economic units that are – in law or in practice – not covered, or insufficiently covered, by formal arrangements. In this conception, informal employment refers to working arrangements that are in practice or by law not subject to national labour legislation, income taxation or entitlement to social protection or other employment guarantees (such as advance notice of dismissal, severance pay, paid annual or sick leave, and so on). This definition of informal employment typically differentiates between three groups of workers: (i) employees; (ii) employers and own-account workers; and (iii) contributing family members. The size of the informal economy is usually estimated by including specific questions in labour force surveys or dedicated surveys on the informal economy, or a combination of the two.

In order to distinguish between workers in the formal and informal sectors in this study, we follow the international standards adopted by the 15th International Conference of Labour Statisticians, which define the “informal sector” as consisting of unregistered and/or small unincorporated household enterprises engaged in the production of goods or services for sale or barter (see box 1 below). Following this definition, the 17th International Conference of Labour Statisticians defined “informal employment”, which can be summarized as the “total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households, including: employees holding informal jobs; employers and own-account workers employed in their own informal sector enterprises; members of informal producers’ cooperatives; contributing family workers in formal or informal sector enterprises; and own-account workers engaged in the production of goods for own end use by their household” (Nguyen and da Cunha 2019, 4).

This concept of informal employment reflects the fact that informality can exist outside the “informal” sector. For instance, casual, temporary, and seasonal workers who lack social protection coverage or other employment benefits, or who fall short of full legal status, may have informal employment status even when they work in the “formal” sector. Workers in informal employment are thereby conceived as a diverse group with different employment statuses (own-account workers, employers, contributing family workers, or waged workers) and different employment contexts (formal, informal, and household sectors), and the extent of informal employment is measured as the sum of all these workers, whether employed in the informal sector or under informal conditions outside the informal sector.

The statistical definition of informal employment described above differs from the legal definition used in the Lao People's Democratic Republic. According to the 2013 Labour Law, informal workers are those who work in labour units that are not registered according to the law (article 3(7)); while the Law on the LFTU additionally designates the self-employed as informal. This definition means that, legally, all those who are employed by a registered enterprise are considered to be in formal employment, regardless of the nature of that employment (that is, regardless of whether or not they are entitled to social protection or other employment guarantees such as advance notice of dismissal, severance pay, or paid annual or sick leave).

► Box 1. Definition of informal employment

The statistical definition of informal employment differentiates between three categories of workers: (i) employees; (ii) employers and own-account workers; and (iii) contributing family workers¹.

In the case of employees, informal employment is defined in terms of the employment relationship. According to international standards, “[e]mployees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.)” (ILO 2003, para. 5). The underpinning reasons for this may be:

- Non-declaration of jobs
- Casual jobs or jobs of a short duration
- Jobs with hours of work or wages that are below a specified threshold (for example, for social security contributions)
- The lack of application of the law or regulations in statistical terms.

The formal or informal nature of a job held by an employee is determined on the basis of operational criteria, such as social security contributions made by the employer (on behalf of the employee) and entitlement to paid sick leave and paid annual leave.

Employers and own-account workers are considered to be in informal employment when their economic units operate in the informal sector. The informal sector is a subset of household enterprises (not constituted as separate legal entities and independent of their owners) that produce goods or services for sale or barter in the market, and that do not have a complete set of accounts and/or are not registered under national legislation. These enterprises typically operate at a low level of organization, with little or no division between labour and capital as factors of production, operating on a small scale, and depending on casual and family workers rather than on employees with written contracts and formal guarantees.

Within the Lao LFS, the informal sector comprises all workers in enterprises that are not registered with the relevant authorities and do not keep a complete set of accounts, and whose workers do not benefit from social protection and work-related benefits. It excludes households that produce exclusively for own final use, subsistence agriculture, the construction of own dwellings, and so on. Meanwhile informal employment includes employers and own-account workers who are employed in their own informal sector enterprises; contributing family workers; and employees and paid apprentices or interns who do not have paid annual leave or sick leave benefits and whose employers do not contribute to their social security. This population is derived in the report as a residual of the total number of persons employed and persons in formal employment.

¹ Contributing family workers are, by definition, informally employed, regardless of whether they work in formal sector or informal sector enterprises.

Source: ILO 2003; ILO 1993; Lao People's Democratic Republic, LSB 2018.

Special mention should be made here of the new forms of work that are increasingly important within the Lao People's Democratic Republic and other countries, and which do not fit neatly into the traditional distinctions between formal and informal employment relations. These are jobs in the so-called "gig economy" and among digital platform workers. Although it is not possible to distinguish these new forms of work within the survey or administrative data upon which our analysis is based, and thus we cannot reliably estimate the size of the Lao gig economy, we nevertheless draw attention to this important emerging sector of the labour market as it further problematizes the simple distinction between employment and self-employment. For example, many of the drivers working through platforms such as Foodpanda and Loca have employment conditions that resemble those of employees, even though they are currently officially classified as self-employed (see box 4 for the definition of non-standard forms of employment status). In these cases, clarification as to how the labour law and regulations are to be applied is crucial to ensure these workers are adequately covered. The fact that these self-employed or non-standard workers are not currently (or legally) entitled to coverage by social security makes them especially vulnerable.¹⁰

► **Box 2. Social security obligations in cases where the employment relationship is unclear**

A particular challenge in situations in which an employment relationship is unclear or ambiguous is correctly classifying the employment relationship in order to avoid misclassification of employment or “disguised self-employment” for dependent contractors. Dependent contractors may depend on a single client, a single supplier of material inputs, or an intermediary for access to clients. In such situations, the client, supplier or intermediary exerts a similar level of control over their working conditions as an employer, and therefore the terms and conditions of employment of dependent contractors resemble those of paid employment.

In such cases, it is important to clarify whether they work in an employment relationship, in order to ensure the necessary protection of the worker. Preventing the misclassification of employment is essential to ensure that employers do not unduly transfer economic risks to workers and avoid the responsibilities associated with formal employment contracts, including labour protection and social protection. It may also be that in some cases workers may declare themselves as self-employed in order to avoid rigid tax and contribution obligations, without considering the adverse consequences of a lack of social protection.

The clarification of the employment relationship is particularly relevant in the digital economy, in which self-employment is becoming more prevalent. In Uruguay, for example, the coverage of ride-hailing drivers using digital platforms was facilitated through a phone application that allows for the direct deduction of social security contributions from the price of the ride through the monotax mechanism, thereby ensuring the drivers’ social security coverage and creating a more level playing field between the traditional and digital economies.

Another example of ambiguous employment relations is often evident in the construction sector, where many workers are hired through subcontractors and labour brokers for a limited number of days or weeks. One of the approaches to ensure at least a minimum of social security coverage for construction workers has been to base contributions on the overall value of the construction project, rather than on the payroll, in order to ensure coverage for all workers involved in the project. For example, in India, under the Building and Other Construction Workers’ Welfare Cess Act 1996, 1–2 per cent of the value of construction projects is channelled into worker welfare funds for construction workers, which covers contributing workers for employment injury, access to healthcare (through the Rashtriya Swasthya Bima Yojana scheme), and pensions.

Source: Adapted from ILO 2021a.

¹⁰ It should also be mentioned that not all gig work is necessarily poor-quality employment or carried out on exploitative terms. The gig economy can include freelancers, business owners, online merchants and stock investors. Freelancers can range from gardeners and coffee baristas to specialized professionals like doctors, graphic designers, lawyers and financial advisers (Naiyaraksaree 2017), alongside digital-platform drivers and delivery workers.

In practical terms, we deploy the following protocols for distinguishing between formal and informal workers and enterprises:

Formal sector

- ▶ Those who are employed by the Government or by international organizations – in the LFS 2017 questionnaire this is determined by question AC13: Was your main activity carried out in? = 1 (government), 2 (state-owned enterprise), 4 (international organization/foreign embassy), or 5 (non-profit institutions).
- ▶ Private firms (AC13 = 3 – private business or farm) producing to sell in the market (OPW04 = 2, 3) and either registered (AC15 = 1) or with written accounts (AC16 = 1).
- ▶ Private firms (AC13 = 3) producing to sell in the market (OPW04 = 2, 3) and employees who do not know if their firm is either registered (AC15 = 2, 3) or have written accounts (AC16 = 2, 3), but who do know they are entitled to social security (AC08 = 1).
- ▶ Private firms (AC13 = 3) producing to sell in the market (OPW04 = 2, 3) and employees who do not know if they are entitled to social security (AC08 = 2, 3) but the firm size is greater than or equal to five (AC17 = >2) and has a fixed location to operate (AC18 = 4, 5, 8).

Household sector

- ▶ Those who are employed by households as domestic workers (AC11a = 2 or AC13 = 6).
- ▶ Those whose products from farming or fishing are used for themselves or their family only (OPW04 = 1).

Informal sector

All who do not fall into either the formal or household sectors according to the above definitions are classified as falling into the informal sector.

Nature of employment

The nature of employment is classified as formal or informal based on the following criteria.

Formal

- ▶ All those who are employees and are entitled to social security (AC08 = 1).
- ▶ All those who are employees and are not entitled to social security (AC08 = 2, 3), but who are entitled to either paid annual leave (AC09 = 1) or paid sick leave (AC10 = 1).
- ▶ Employers and own-account workers who are in the formal sector.

Informal

- ▶ Employees not working in formal employment conditions according to the above criteria.
- ▶ Employers and own-account workers who are in the informal sector.
- ▶ Employers and own-account workers who are in the household sector.
- ▶ All contributing family workers.

2.2. Distinguishing between those covered and not covered by social security

The second key disaggregation required is between those who are covered and those who are not covered by social security. As the objective of this study is to identify ways to expand social security coverage to workers who are currently not covered, our operational definition focuses on those people who are not covered by the NSSF, the National Social Security Fund for Civil Servants (NSSFC), or the National Veterans Fund (NVF) benefits schemes. Our analysis thus defines three basic groups:

1. Those not covered by the NSSF, the NSSFC, or the NVF.
2. Those covered by the NSSF.
3. Those covered by the NSSFC or the NVF (that is, civil servants).

In practical terms, identifying those who are covered and those who are not covered by social security in the Lao 2019 LFS data relies on a combination of three questions in the LFS dataset. These are:

- ▶ AC08. Does your employer pay contributions for social security on his/her behalf?

- 1 = Yes
- 2 = No
- 3 = Don't know

- ▶ SP07. Do you, or does [NAME] contribute to, or are you [is NAME] a member of any social protection, social security, provident fund, or health coverage scheme?

- 1 = Yes
- 2 = No

- ▶ SP10. Where/which institution are your [are NAME's] social security contributions paid to?

- 1 = National Social Security Fund
- 2 = National Health Insurance Fund (Health Equity Fund)
- 3 = Private social security, health insurance
- 4 = Private company/institution
- 5 = Other (Specify)

All those who answer AC08 = 1 or SP07 = 1 and SP10 = 1 or 2 are classified as insured, and everyone else is classified as not insured.

Here we should note that, strictly speaking, this definition defines as insured all those who are contributing to social security, including to the National Health Insurance Fund (Health Equity Fund). However, the LFS questionnaire includes additional questions on whether household members are currently receiving any form of social security benefits, namely:

- ▶ SP01. Do you, or does [NAME] currently get benefits from any form of social protection coverage or health scheme?

- 1 = Yes
- 2 = No

Respondents who answer “Yes” are then asked to identify the main form of benefit they are currently receiving:

► SP02. What MAIN form of social protection scheme do you or does [NAME] get benefits from?

- 1 = Health insurance
- 2 = Maternity benefits
- 3 = Employment injury and occupational disease benefits
- 4 = sickness benefits
- 5 = Old age/ retirement benefits
- 6 = Death benefits
- 7 = Survivors' pension/benefits
- 8 = Unemployment benefit
- 9 = Other (Specify)

Our definition thus excludes those who are not currently contributing to social security but who are currently receiving some form of social security benefit. Out of a total of 12,986 observations classified as currently employed, 3,090 were insured according to our definition. Excluded from this group are a total of 45 observations who were not currently contributing but who were currently benefitting from some form of social security. Of these, 31 were benefitting from health insurance, which (based on previous questions) is likely to refer to the National Health Insurance Fund rather than the NSSF healthcare benefit.

2.3. Distinguishing between civil servants and non-civil servants

Distinguishing between civil servants and non-civil servants in the LFS is more straightforward than distinguishing between formal and informal forms of work or those who are or are not covered by social security. The LFS questionnaire includes a question that directly identifies this group (AC13 = 1 or 2).

2.4. Limitations and assumptions

The data presented in this report provide an estimation of the number of insured workers based on samples available from the LFS 2017.¹¹ As these estimates derive from a sample survey,¹² they do not perfectly align with LSSO administrative data. The differences may be explained by one or more of the following reasons.

- i. Possible underreporting of NSSF membership from LFS respondents: This can be common in survey data relating to the receipt of benefits for a variety of reasons, including respondents not understanding the question (for example, not knowing the name of the scheme), not knowing the situation of other household members, or being reticent for fear of losing entitlements or incurring tax liabilities.
- ii. The sample design of the LFS: LSSO administrative data may record a larger proportional share of scheme members in the capital city of Vientiane or other urban areas compared to the LFS estimate, while the estimations based on the LFS may not account for this balance.¹³
- iii. NSSF data record members with active and inactive contribution status.

According to the LFS estimate, 155,458 (11 per cent) non-civil servant workers were covered by the NSSF in 2017. Including insured civil servants, the estimated number of workers covered was 422,013, representing a coverage rate of 24 per cent of the workforce. If we assume all civil servants are covered (which, admittedly, is not the case according to the LFS data), then a total of 470,108 workers are insured, representing a coverage rate of 27 per cent.

However, according to LSSO administrative data, there were 107,042 NSSF non-civil servant members in that year (comprising 101,273 private sector formal enterprise members and 5,769 voluntary members), implying a coverage rate of just over 7 per cent. Including the 181,605 registered civil servants in 2017, the total coverage rate was 16 per cent.

The LFS data thus appear to somewhat overestimate the coverage of workers by social security. This could at least partially be due to the inclusion of the National Health Insurance Fund in the definition of those contributing to social security. However, in what follows, we still utilize the LFS data due to the rich information they contain and the insights they provide into the characteristics of different subgroups within the labour force. This is useful to help identify opportunities and strategies for increasing both formalization and coverage by social protection.

The 2019 LECS-6 data offer an opportunity to triangulate the LFS and NSSF administrative data, although it should be noted that the LECS-6 information is constrained by the way relevant questions are asked within that survey. The survey questions only enable one to identify whether a worker benefits from some kind of social security – be it any type of public or social health insurance, or any income received from social security, pension or life insurance – without identifying whether a worker actually contributes to the NSSF. Nevertheless, those data estimate that, overall (that is, including civil servants¹⁴), some 21 per cent of Lao workers do benefit from some kind of social security, with the vast majority (19 per cent) accounted for by public or social health insurance benefits (less than 2 per cent receive income from social security, pensions or life insurance).

It is also important to recognize that there may be some nuance within LSSO administrative data insofar as there is a difference between active and inactive contributors, and even between those with different levels of contribution (and thus different levels of eligibility for given benefits).¹⁵

¹¹ The total sample size for the LFS 2017 is 52,167, comprising 25,741 men and 26,426 women. These are split between 37,783 rural respondents and 14,384 urban respondents, including 1,837 in the capital city of Vientiane. The total number of employed persons found in the sample is 12,986.

¹² It is also useful to note that the samples analysed here for both the LFS 2017 data and the LECS-6 data only comprise 60 per cent of the total samples collected for those surveys. This is due to Lao legal provisions prohibiting access to the full samples for national survey data of this type. The supplied population weights are adjusted to represent the full sample frame for both surveys.

¹³ According to the 2015 Lao People's Democratic Republic census, the total population is 6,492,228, with 32.9 per cent of the population living in urban areas (including 9.9 per cent in the urban areas of Vientiane Capital) and 67.1 per cent living in rural areas (Lao Peoples' Democratic Republic, LSB and World Bank 2015); whereas within the LFS sample, 27.6 per cent are located in urban areas (including 24.1 per cent in Vientiane Capital).

¹⁴ Civil servants cannot be distinguished from non-civil servants in the LECS-6 data.

¹⁵ For example, an NSSF member is entitled to receive a daily allowance for sick leave only if they have paid contributions for at least three months. For childbirth or abortion benefit, the member must have paid at least six months of contributions (Law on Social Security No. 54 of 2018).

03

Labour market and enterprise landscape



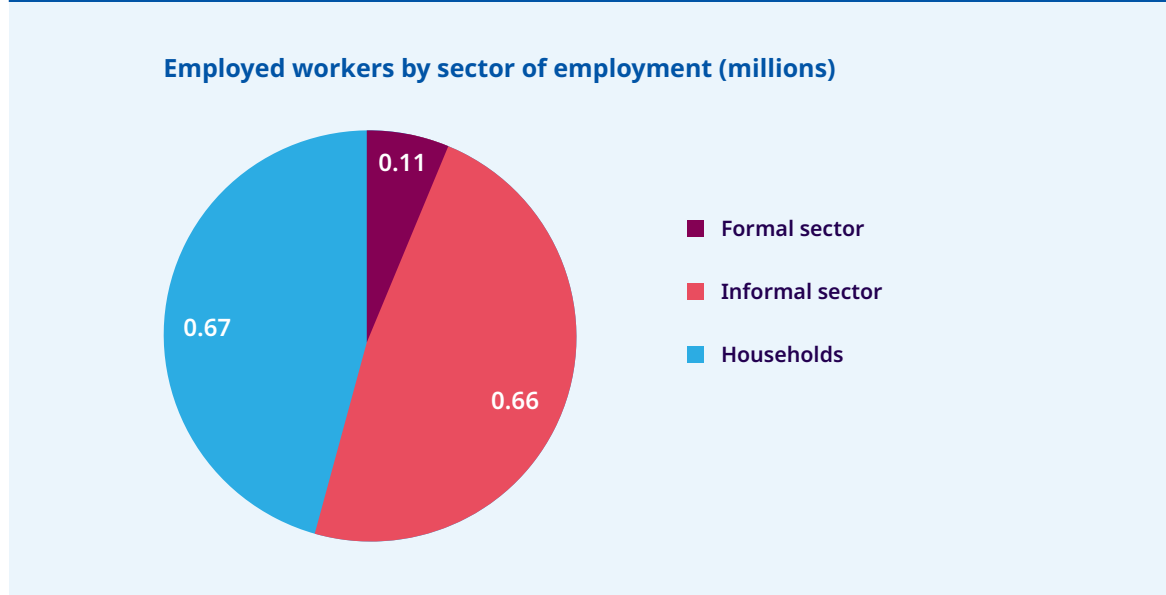
3.1. Labour market characteristics

According to the data from the 2017 LFS, the total employed population in the Lao People's Democratic Republic is estimated at close to 1.8 million workers, including just over 0.3 million civil servants, out of a total population of nearly 7 million people (United Nations Statistics Division 2019).

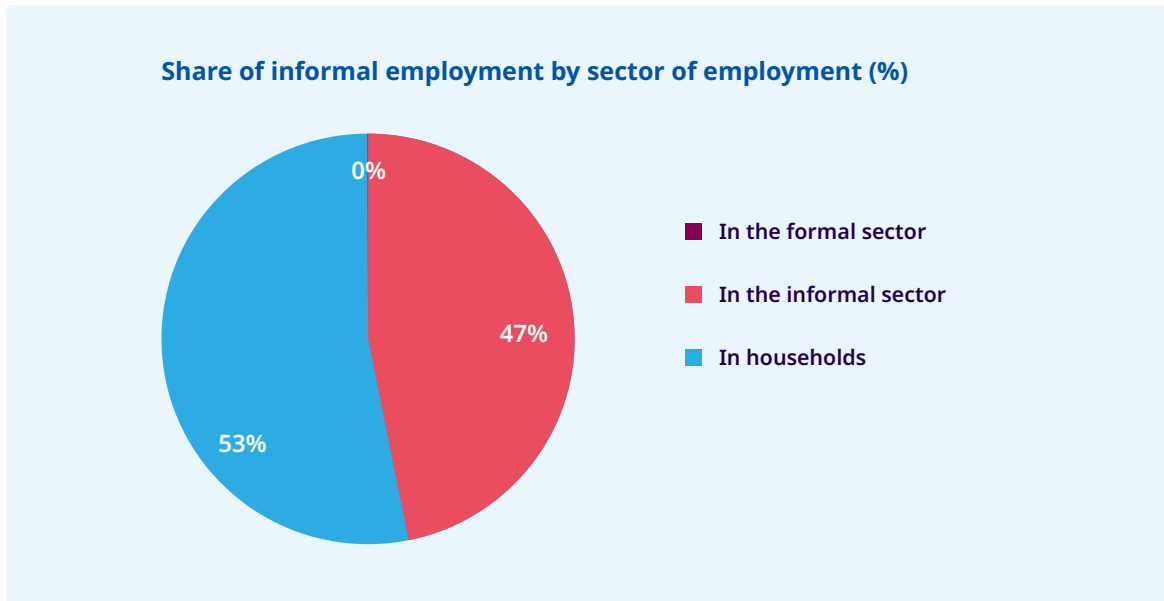
Excluding civil servants, the remaining employed population totals just over 1.44 million people. Of these, 0.11 million (8 per cent) are estimated to be working in the formal sector, 0.66 million (45 per cent) in the informal sector, and 0.67 million (47 per cent) in households (figure 1). Just under 0.2 million (182,497) workers are unemployed (so not included in these figures). Some 2.8 million people are excluded from the definition of the economically active population altogether (see box 3).

Of the 1.44 million non-civil servant workers, 0.11 million (8 per cent) work in the formal sector, 0.66 million (45 per cent) work in the informal sector, and 0.67 million (47 per cent) work in households.

► Figure 1. Composition of the workforce (excluding civil servants) by sector



Source: LFS 2017



Source: LFS 2017

There are thus 1.33 million workers engaged within the informal sector and households. But this does not comprise all workers working under informal conditions. Figure 1 also presents the distribution of informal employment by sector and shows that, of 1.17 million non-civil-servant workers with informal employment status (which represent 81 per cent of the total non-civil-servant workforce):

- ▶ 47 per cent work in the informal sector;
- ▶ <1 per cent (n=1,685) work in the formal sector; and
- ▶ 53 per cent work in households.

The 1,685 informally employed workers in the formal sector represent less than 2 per cent of the total formal sector workforce, indicating that very few workers employed in the formal sector work under informal conditions.

In addition, the LFS data indicate that some 73,900 civil servants (24 per cent) are not covered by social security, despite all civil servants being classified as working in the formal sector by the criteria laid out in section 2.1.1 above. This finding might appear odd, given that all public sector employees should be enrolled automatically in the NSSFC. However, it may be explained by a number of factors, including the potential for underreporting social security coverage noted in section 2.2 above, and/or the contract type some public sector workers may be employed under, such as internships or part-time roles, which mean they could be excluded from social security entitlement.

► Box 3. Subsistence farmers

International statistical standards, as adopted at the 19th International Conference of Labour Statisticians in 2013, exclude from the “economically active population” persons who are engaged exclusively in own-use production, such as subsistence farmers.

Within the LFS, this group is identified using questions determining whether agricultural products from farming, fishing or animal raising are intended wholly or partially for sale or solely for own use. Those answering that their agricultural production is intended solely for own use are considered economically inactive and thus excluded from the estimation of the labour force.

In the Lao People's Democratic Republic, such subsistence farmers form a substantial group, estimated to comprise some 1.5 million people, or 53 per cent of the 2.8 million working age population classified as being outside the labour force. Taken as a whole, they are thus larger than the 1.4 million people making up the non-civil-servant workforce.

While this group are not included in the analysis presented by this report (due to being excluded from the statistical definition of the labour force), they are important to note for two main reasons:

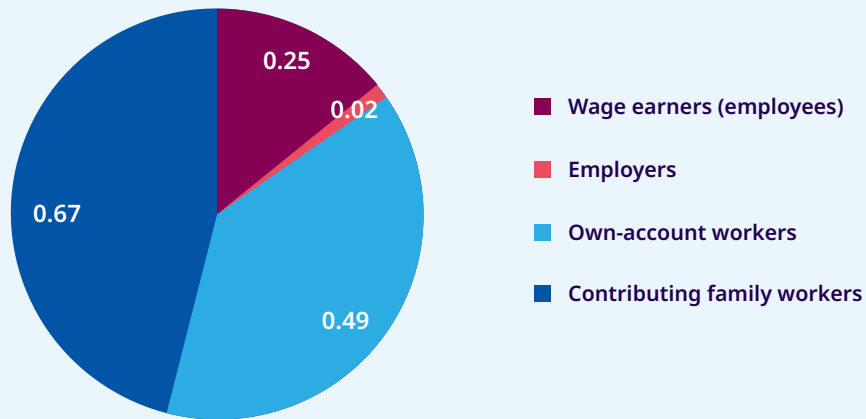
One is that, in practical terms and in reality, they may be difficult to distinguish from economically active farmers. They are also likely to engage in economic activity at certain times during the year, for example in the agricultural offseason. This means that the estimated size of this group will vary depending on when the survey was administered. Data collection for the 2017 LFS was administered between mid-July and the end of August 2017, which was during the agricultural season.

The second reason is that, due to their characteristics, they are very likely to need some form of social protection or assistance. Just over half (53 per cent) of subsistence farmers are women, and subsistence farmers are also concentrated at the poorer end of the income distribution – 38 per cent fall into the bottom national income quintile and some two-thirds fall into the bottom two income quintiles. Average monthly income for subsistence farmers is around two-thirds that of the economically active labour force. Fourteen per cent of subsistence farmers also have outstanding debt, a slightly higher proportion than for the active labour force proper as a whole (13 per cent). One hundred per cent of subsistence farmers are estimated to not be covered by social security.

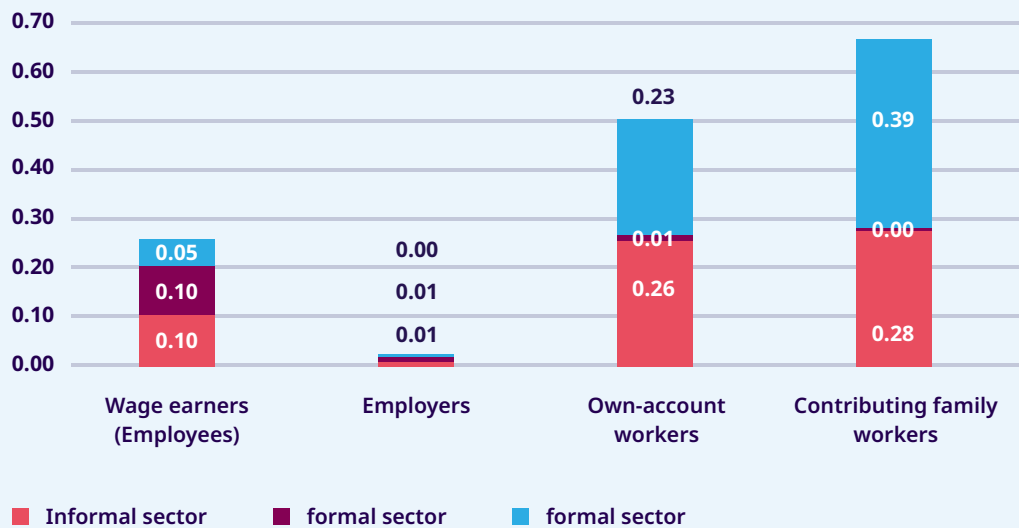
Source: LFS 2017.

► Figure 2. Distribution of the workforce (excluding civil servants) by employment status and sector

Employed workers by employment status (millions)



Distribution of workers by employment status and sector (millions)



Note: 11,382 workers are not classified under any of the four employment statuses, and so are not included in this figure.

Source: LFS 2017

Figure 2 presents the distribution of the non-civil-servant workforce by employment status. It shows that 0.25 million (17 per cent) are wage earners (employees) and 1.18 million (82 per cent) are non-wage earners. Among the non-wage earners, roughly 18,000 (1 per cent) are employers, 0.49 million (34 per cent) are own-account workers, and 0.67 million (47 per cent) are contributing family workers. A further 11,382 (1 per cent) are not elsewhere classified (and so not included in figure). This means that some four-fifths of all workers (81 per cent) are classified as working in vulnerable forms of employment (see box 4 for definition).

The second graph in figure 2 shows that 40 per cent of wage earners (employees) work within the formal sector, whereas this proportion is just less than one-third (30 per cent) for employers and close to zero for own-account workers (1 per cent) and contributing family workers (<1 per cent).

Some 0.25 million non-civil servant workers (17 per cent) are wage-earners (employees) and 1.18 million (82 per cent) are non-wage earners, including 0.02 million (1 per cent) employers, 0.49 million (34 per cent) own-account workers, and 0.67 million (47 per cent) contributing family workers.

► Box 4. Types of employment status under the International Classification of Status in Employment 1993

Wage earners (or waged workers): Those whose employment status is “employee”, including people who work in any economic unit, including family businesses, and who receive regular pay.

Employers: Persons who run a business and engage at least one paid employee on a continuous basis.

Own-account workers: Persons who run businesses but do not engage any paid employee on a regular basis.

Contributing family workers: Persons who work in their family business without receiving any regular pay.

Employers and own-account workers are considered **independent workers**.

Contributing family workers are classified as **dependent workers**, together with wage earners (employees).

An intermediate category is **dependent contractors**. This refers to workers employed for profit but dependent on another entity that exercises control over their productive activities and directly benefits from the work performed by them.

Employees represent the category of status in employment generally associated with more job security and better working conditions, whereas own-account workers and contributing family workers constitute two employment categories regarded as **vulnerable employment**.

An additional category of **non-standard employment** (NSE) is also increasingly prevalent. Non-standard employment, also referred to as diverse forms of work, is an umbrella term for different employment arrangements that deviate from standard employment, understood as work that is full-time, indefinite, and part of a subordinate relationship between employee and employer. Non-standard employment includes temporary employment; part-time and on-call work; temporary agency work and other multiparty employment relationships; and disguised employment and dependent self-employment. As working from home does not take place at the employer's premises, but rather at the worker's home or other location of their choosing, this too is considered a diverse employment arrangement. Non-standard employment features prominently on digital labour platforms.

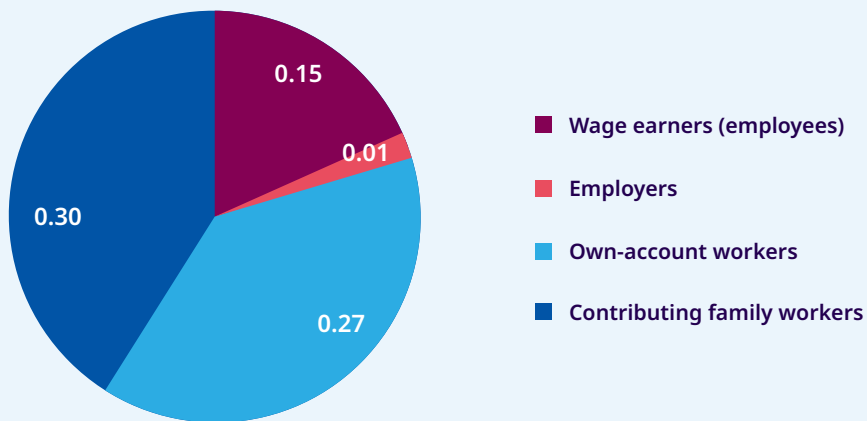
For some, working in non-standard employment is an explicit choice and has positive outcomes. However, for most workers, non-standard employment is associated with insecurity. Non-standard employment can also pose challenges for enterprises, the performance of labour markets, and economies overall, as well as for societies at large.

Source: ILO 2016; ILO 2018a; ILO 2018b.

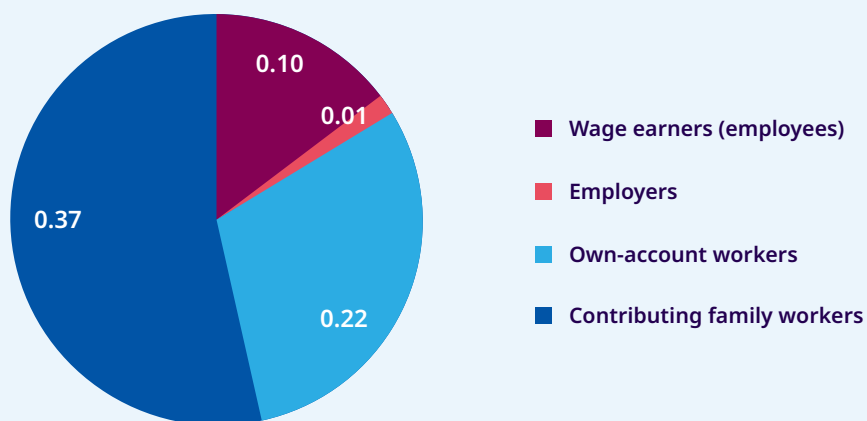
There is a marked difference in the distribution of workers by employment status depending on gender. Figure 3 shows that women are considerably less likely to be wage earners or independent workers (that is, employers or own-account workers) compared to men, and much more likely to be dependent family workers.

► Figure 3. Distribution of the workforce (excluding civil servants) by employment status and sex

Employed workers by employment status – Men (millions)



Employed workers by employment status – Women (millions)

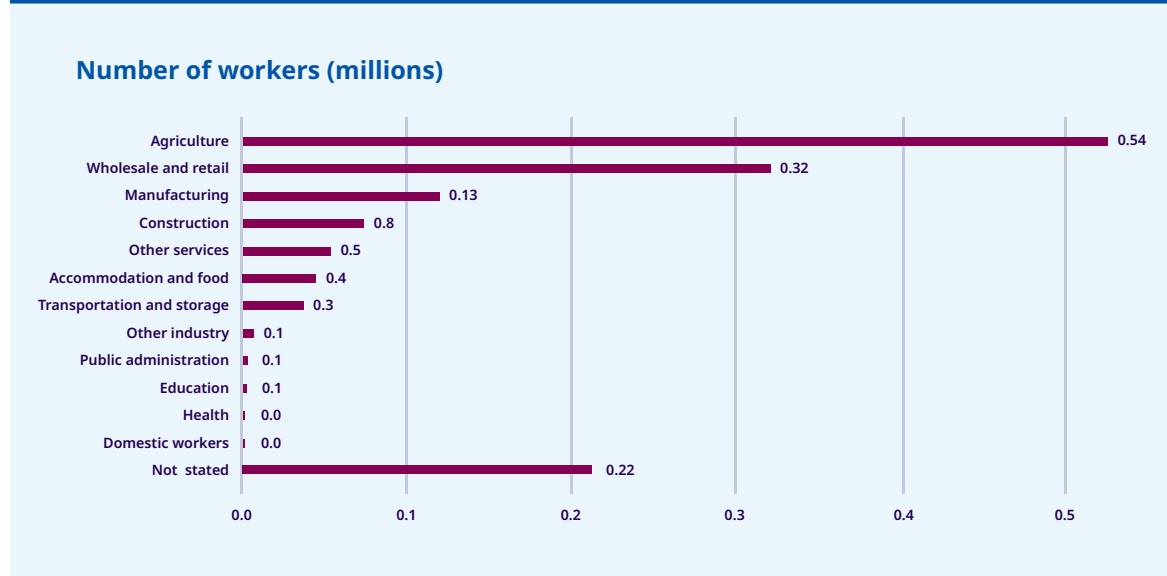


Source: LFS 2017.

This gendered difference in the labour force is reflected in the labour participation rates of men and women. Across the whole working age population, the labour force participation rate is 41 per cent.¹⁶ However, 45 per cent of working age men participate in the labour force, compared to 37 per cent of working age women. The overall unemployment rate in the Lao People's Democratic Republic is 9 per cent, though unemployment among women is lower than it is among men: 8 per cent versus 11 per cent, respectively.

Around 13 per cent of workers hold down multiple jobs, with this proportion being higher among men (16 per cent) than women (10 per cent) and also higher among informal sector workers (8 per cent) and household sector workers (19 per cent) than formal sector workers (5 per cent).

► Figure 4. Numbers of workers (millions) in various economic sectors



Source: LFS 2017.

Looking at how the non-civil servant workforce is distributed across economic sectors (figure 4), we see that the largest cohort – 0.54 million (38 per cent) – are employed in the agriculture sector,¹⁷ 0.32 million (22 per cent) work in wholesale and retail trade, and another 0.13 million (9 per cent) in manufacturing. Of the remaining economic sectors, construction commands the next biggest share (0.08 million; 5 per cent), followed by other services (0.05 million; 4 per cent), accommodation and food (0.04 million; 3 per cent), and transportation and storage (0.03 million; 2 per cent). Education, “other industry”, public administration, health, and domestic workers together employ around 0.03 million and collectively account for 2 per cent of the workforce.

¹⁶ As indicated in box 3, this low participation rate is explained at least in part by the large numbers of subsistence farmers in the Lao People's Democratic Republic, who are not statistically classified as part of the labour force.

¹⁷ This excludes the circa 1.5 million people classified as subsistence farmers (see box 3).

¹⁸ For example, Cambodia's LFS 2019 estimates that there are fewer than 50,000 domestic workers nationally, whereas the ILO and DEFT (2018) estimated some 240,000 domestic workers in Cambodia in 2014.

It is important to note that within the LFS data the economic sector is missing for a significant share (15 per cent) of workers. If this information were known, the above-described distribution may alter somewhat, although agriculture would remain the dominant sector and it is likely that wholesale and retail trade would also stay the second-largest sector in terms of number workers and share of total employment.

Another point to note is that, although the number of domestic workers reported in figure 4 appears to be relatively small, the actual number is likely to be much higher. For example, the LECS-6 data estimate that there are some 66,023 domestic workers in the country, the vast majority of whom (78 per cent) are women. Evidence from other countries in the region also suggests that labour force surveys may underestimate the number of domestic workers.¹⁸ This is important because domestic workers are often considered some of the most vulnerable workers in terms of living and working conditions (ILO 2021c), and women are often overrepresented among this group.

The recent MoLSW Decision No. 4369 on the Management of Domestic Workers (2022) seeks to set out the regulations on management, monitoring and inspection of employers of domestic workers, and to ensure safe and fair work for domestic workers in order to protect their rights under the law. Article 14 of the Decision states that employers are required to register their domestic workers with social security according to the Social Security Law and associated regulations; though it is not completely clear on which scheme (voluntary or enterprise) that domestic workers should be registered with. This issue is discussed further in section 8.1.2 below.

► Box 5. Social security for domestic workers

Domestic workers may be explicitly excluded from legislation as an exempt category of worker or implicitly excluded because they are less likely to comply with certain eligibility criteria, such as minimum working hours or salary thresholds.

For example, in Belgium, domestic workers are excluded from social security if they work less than 24 hours a week. Similarly, in Panama, domestic workers working less than three days per week for the same employer are excluded from medical coverage and the retirement pension. In Brazil, domestic workers who work two days or less for a household are not covered under the social insurance scheme. In Argentina, medical coverage is provided only if a domestic worker works at least six hours for the same employer, which excludes many of those working for shorter hours or for multiple employers.

Even where legislation exists, workers may be excluded from social security coverage in practice because legislation is not enforced. Addressing these challenges requires special measures and approaches for domestic workers.

For example, domestic workers in South Africa were legally granted a number of social protection benefits for the first time in 2003. The Unemployment Insurance Amendment Act includes domestic workers in the Unemployment Insurance Fund, which provides: (a) full or partial unemployment benefits in the case of dismissal, retrenchment, illness, or death of the employer; and (b) maternity benefits for pregnant domestic workers before or after their children are born. Responding to the specific situation of domestic workers, the right to partial unemployment benefits is included in cases when an insured person has lost employment with one employer but still works for another. The implementation of the law was accompanied by the provision of financial and human resources to train and employ additional labour inspectors to strengthen compliance mechanisms. By 2008, the number of registered workers had grown to 633,000 (employed by 556,000 employers), 324,000 of whom have received benefits. By April 2009, an additional 23,000 employers (a total of 579,000) had registered their workers.

Other countries, such as Argentina, Israel and Italy, have taken steps to address the financial barriers faced by domestic workers and their employers: for example, by establishing flexible mechanisms for the collection of contributions or introducing differentiated (and often lower) contributory provisions. In many cases, the role of governments in subsidizing social insurance contributions can be key in extending coverage to domestic workers and other groups of vulnerable workers who have limited contributory capacity. In Costa Rica, for example, a percentage of the social security contributions of domestic workers and their employers to the Costa Rican Social Security Institute is subsidized by the Government. These measures, in combination with effective incentives for registration, such as fiscal incentives, can reduce the cost associated with formalization, and thus encourage enrolment. In Argentina, Finland and France, employers of domestic workers can deduct part of the costs of the services from their taxable income.

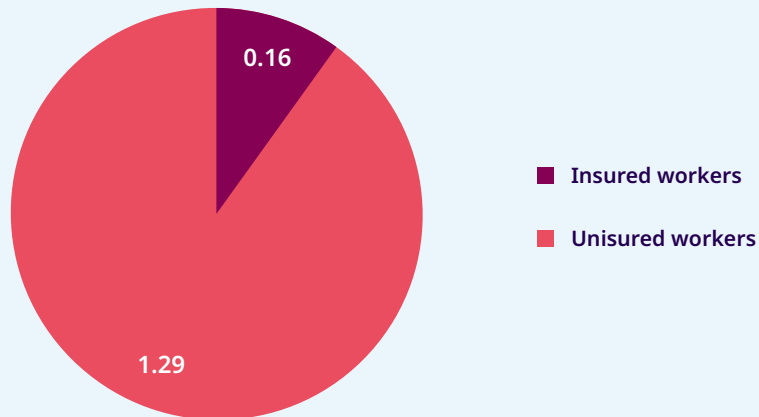
Source: Adapted from ILO 2021a.

According to LSSO administrative data, more than 100,000 members were registered with the NSSF in 2017, representing 7 per cent of the non-civil servant workforce.

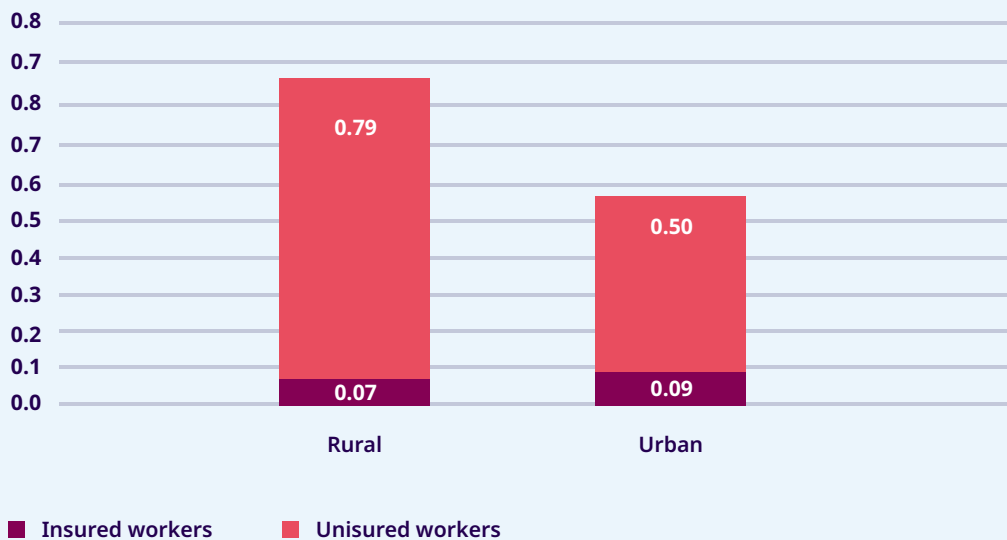
Recognizing that the LFS slightly overestimates the number of insured non-civil servant workers compared to LSSO administrative data (see section 2.2 above), we nevertheless analysed the LFS 2017 data because they enable an insight into the characteristics of different groups of workers. According to these data, of the estimated 1.44 million workers considered, around 1.29 million (89 per cent) are not insured and around 0.16 million (11 per cent) are insured (figure 5 below).

► Figure 5. Number of workers insured or not insured under the NSSF

Distribution of insured and uninsured workers (millions)



Distribution of insured and uninsured workers by geographic location (millions)



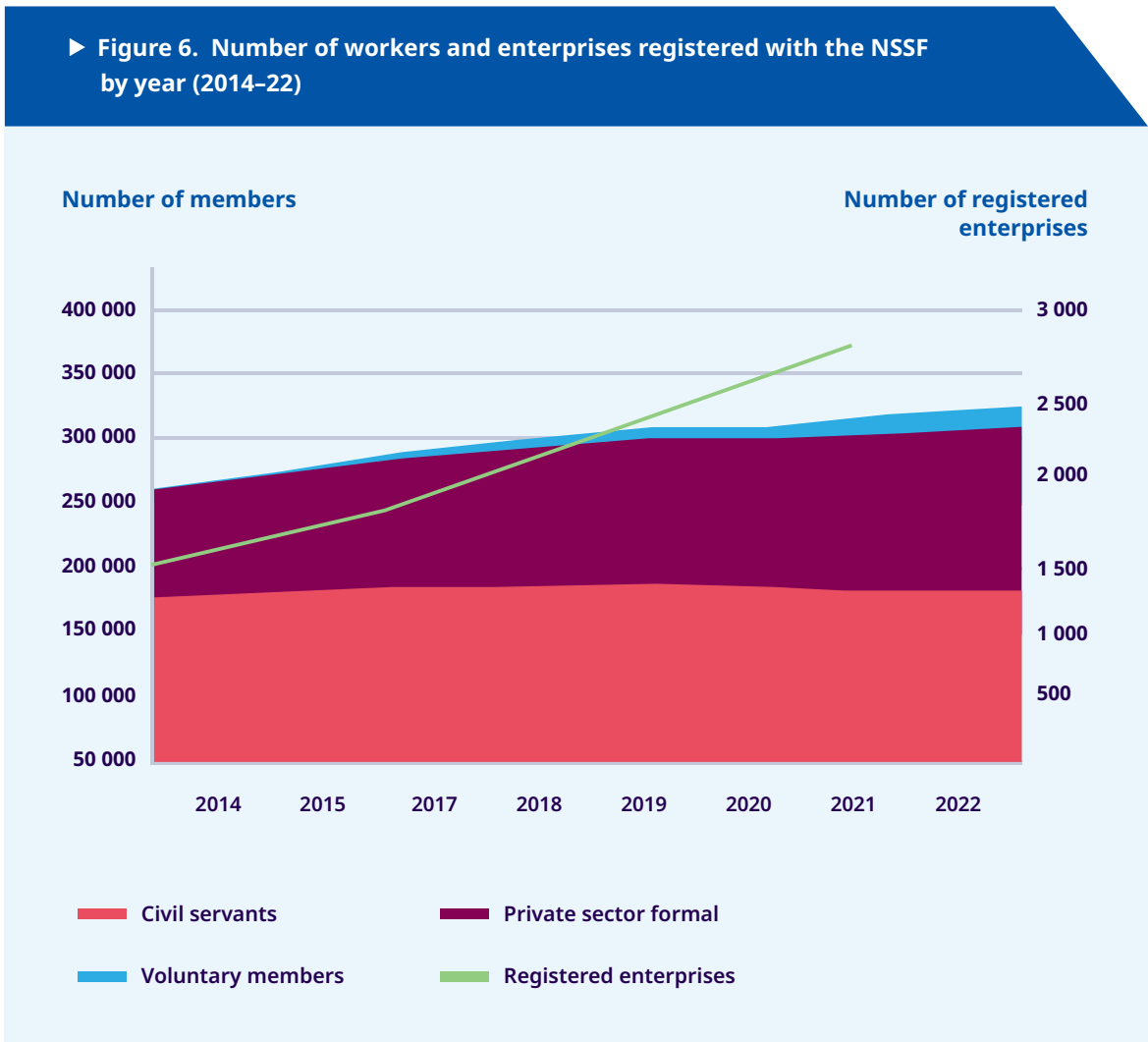
Source: LFS 2017.

¹⁹ A similar trend in coverage by social security across urban and rural locations is found in the LECS-6 data, which estimates the proportion of workers (including civil servants) benefiting from some kind of social security to be 13 per cent in rural areas compared to 34 per cent in urban areas. This trend is similar for employees only, with 37 per cent coverage in rural areas compared to 53 per cent in urban areas (47 per cent overall).

²⁰ The 2,514 enterprises registered with the NSSF in 2020 represent a coverage rate of 2 per cent of the total 133,997 enterprises in the country, as recorded by the Lao Economic Census of that year (ADB 2021).

The second chart in figure 5 considers the distribution of insured versus uninsured by geographic location (rural versus urban, including Vientiane). It shows that the majority (60 per cent) of workers are located in rural areas, but also that a higher proportion of workers in urban areas are insured (16 per cent) compared to in rural areas (8 per cent).¹⁹

As discussed in section 2.2 above, these estimates of coverage are slightly above the rates of coverage given by LSSO administrative data. According to the administrative data, there were 107,042 NSSF members registered in 2017 (comprising 101,273 private sector formal enterprise members and 5,769 volunteer members) in 1,802 enterprises (figure 6 below).²⁰ LSSO administrative data thus suggest an actual coverage rate of just over 7 per cent of the employed non-civil-servant population in 2017.



Source: LSSO administrative data.

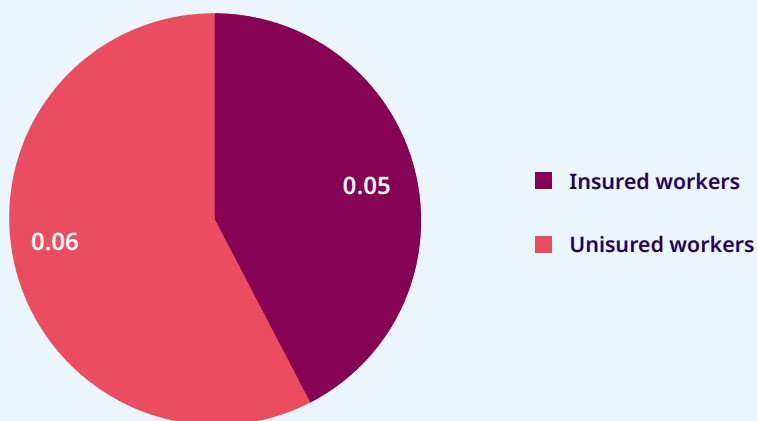
Including the 181,605 civil servants registered in 2017 gives a coverage rate of 16 per cent of the total employed population. Here it should be noted that, according to LSSO administrative data, not all civil servants are covered by the NSSF. This is corroborated by the LFS, which estimates that approximately 24 per cent of civil servants are not insured. However, if one takes the LSSO figure as the number insured, it implies that around 42 per cent of civil servants were not covered by the NSSF in 2017.

In a similar vein, according to the LFS data, not all workers within the formal sector are insured. Figure 7 below suggests that, of the 0.11 million formal sector workers, 0.05 million (c.49,000 or 43 per cent) are insured under the NSSF, while 0.06 million (c.64,000 or 57 per cent) are not covered by social security. Outside the formal sector, the LFS estimates just under 107,000 workers are insured, equating to about 8 per cent of the workforce outside of the formal sector.

Figure 7 also shows that among formal sector employees more than two-fifths (41 per cent) do not have written contracts. Of those that do, close to three-quarters (74 per cent) have permanent contracts and one-quarter (26 per cent) are on temporary contracts. The vast majority (95 per cent) are paid monthly, while fewer than one in fifty (2 per cent) are paid weekly.²¹

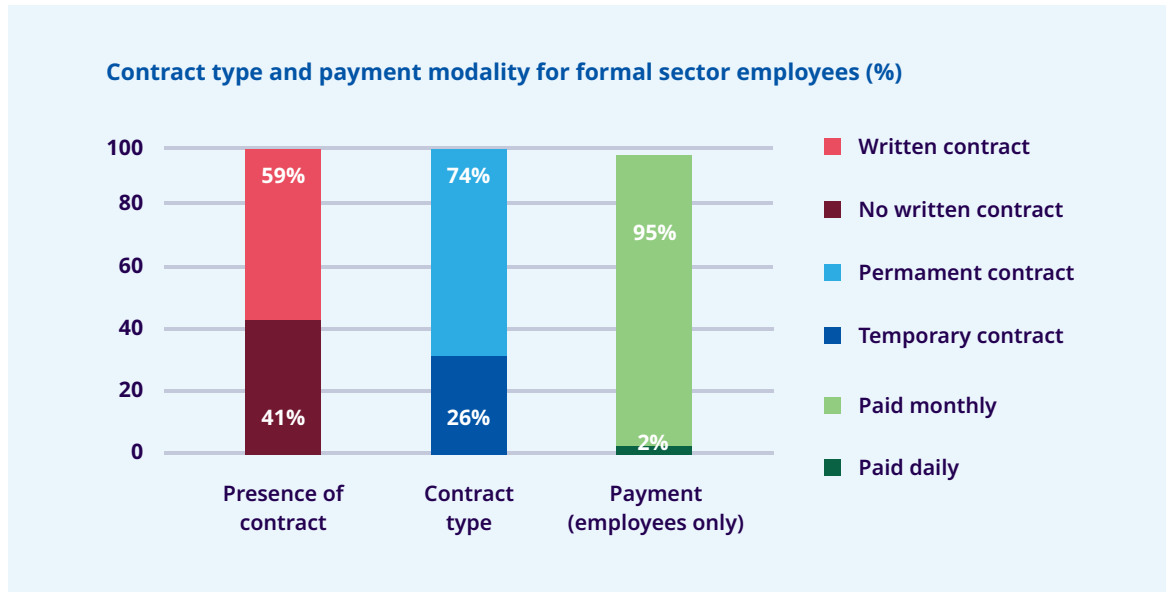
► **Figure 7. Coverage by social security, contract type and payment modalities within the formal sector**

Distribution of insured and uninsured workers in the formal sector (millions)



Source: LFS 2017.

²¹ A further 1 per cent are paid daily, <1 per cent are paid bi-monthly, and 2 per cent are paid on a piece rate or as a one-time payment.



Source: LFS 2017.

These data indicate that a significant number of people working in formal enterprises are not covered by the NSSF; even while the LFS estimates are somewhat higher than the actual number according to LSSO administrative data. According to the Amended Law on Social Security No. 54 (2018), every enterprise and employee are compulsorily obliged to contribute to the NSSF. However, the numbers identified above imply the existence of a large group of workers that should legally be covered by the NSSF, but whose employers do not appear to be complying with the law by contributing to social security on their behalf.

The above statistics indicate both the magnitude and the nature of the challenge involved in expanding coverage of social security to all eligible workers. They not only suggest a lack of coverage and compliance stemming from a large and diverse informal sector, but they also reveal a lack of compliance (and enforcement) within the formal sector.

Below we delve deeper into the characteristics of those workers who are not insured by the NSSF, before looking further at the issue of social security coverage in the context of the enterprise landscape.

Data show that a significant proportion (57 per cent) of workers in the formal sector are not covered by social security.

► Box 6. Incentivizing and enforcing compliance with social security regulations

It is generally recognized that labour and social security inspection approaches need to be adapted to take account of the specific circumstances and needs of employers and workers, particularly in sectors with high levels of informal employment. In order to meet those needs, it may be necessary to adapt the applicable legal framework in order to enhance the human and financial resources available for inspection, as well as to adapt the way inspections are conducted. The Government can also opt to lower compliance costs through simplified tax and contribution assessment. At the same time, it is important to increase awareness among workers and employers about their rights and obligations so they can play their part in ensuring compliance.

IT solutions and good coordination among the different institutions, organizations and agencies involved (at different levels of government) can support the implementation of effective labour inspection mechanisms.

An adequate balance needs to be found between sanctions and incentives in order to promote a sustainable and equitable approach to ensuring compliance and the uniform application of the law.

Examples from several countries around the world help illustrate how these challenges can be met.

Costa Rica's social insurance institution has implemented a range of measures to improve the collection of social insurance contributions by self-employed workers and employers. The institution employs a group of specialized inspectors to oversee the registration of self-employed workers. The inspectors work in several economic sectors and according to different schedules so as to enable both daytime and nighttime supervision. In addition, more administrative staff and inspectors have been hired to enhance the administrative capacity to follow up cases of evasion. The responsible institution has also allocated more resources so as to acquire the physical, material and technological resources needed to successfully implement this strategy, which has allowed the extension of contributory coverage to all parts of the country, including to self-employed workers in rural areas.

In Brazil, a simplified tax regulation for micro and small enterprises was introduced by the Simples Federal Law 9317 in 1996, and further reformed by the introduction of the Simples Nacional Law in 2007. This mechanism allows eligible companies to file a single simplified annual tax declaration, instead of monthly tax declarations for eight different taxes.

In Malaysia, the introduction of a mobile application to verify enterprise registration, plus a mobile application that locates unregistered enterprises with GPS via Google, have significantly reduced the time required to detect and verify unregistered enterprises. Between 2015 and 2016, the total number of enterprises visited increased by 14 per cent, while the number of unregistered enterprises visited increased by 23 per cent.

In Saudi Arabia, the General Organization for Social Insurance implemented a new system to consolidate all inspection data (paper-based and electronic) and reduce the duration of inspection processes by organizing field inspections based on the inspector's geographical location and expertise. This full business intelligence system uses real-time field inspection data and is thus able to calculate information in seconds, allowing for a significant increase in the number of field visits.

Finally, workers' organizations can play a key role in disseminating information and facilitating registration. In the Philippines, a domestic workers' organization arranges trips to social security registration booths, counselling centres and other government agencies.

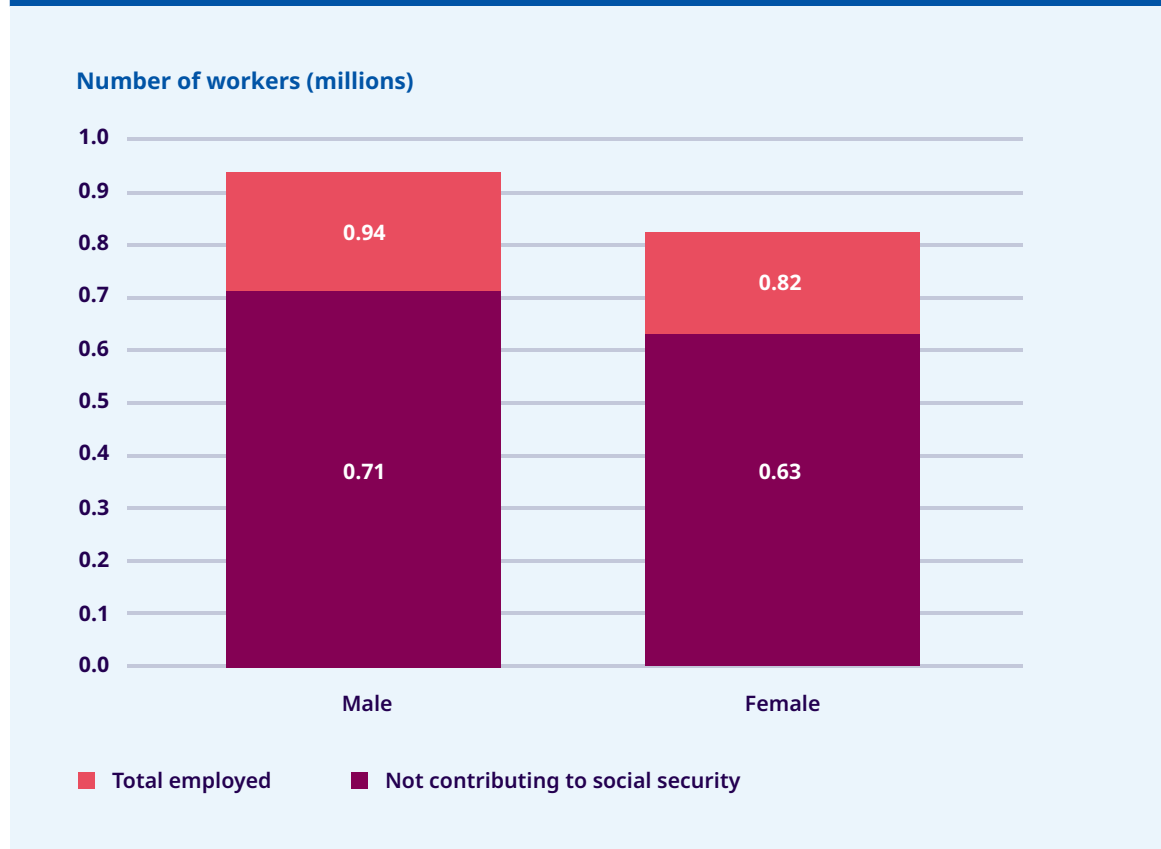
Source: Adapted from ILO 2021a; ILO 2021b.

3.2. Characteristics of workers not covered by social security

This section looks in more detail at those who should be the target of policies to extend social security coverage, namely non-civil servant workers who are not currently covered by the NSSF.

According to the LFS 2017, some 1.34 million workers (including civil servants) – or 76 per cent of the 1.76 million total employed workforce – are not contributing to social security. Overall, a greater number of men than women are uninsured (0.71 million versus 0.63 million, respectively), but women are actually slightly more likely to be uninsured: 77 per cent of female workers are uninsured compared to 75 per cent of male workers (figure 8 below).

▶ Figure 8. Uninsured workers in relation to total employed workers by sex

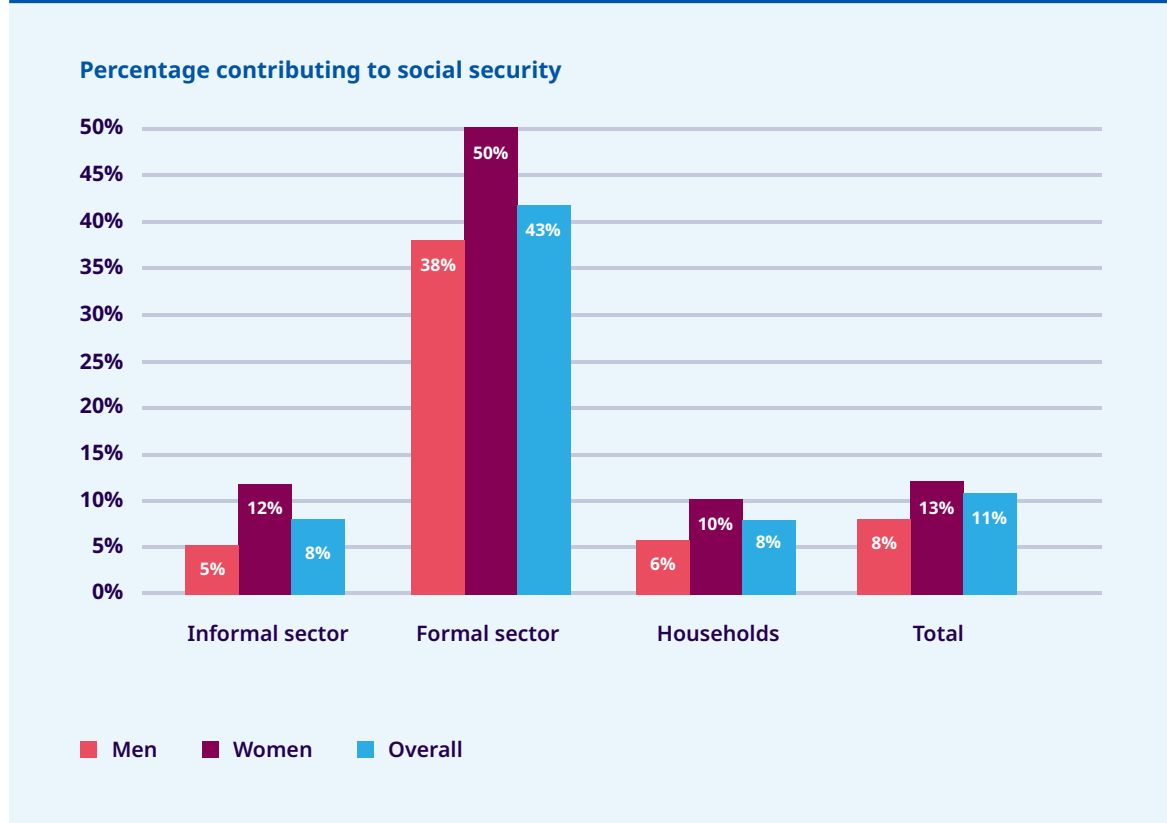


Source: LFS 2017.

If one excludes civil servants, however, women are in fact slightly more likely to be insured than men; a situation that holds across formal, informal and household sectors. Figure 9 shows that, overall, 13 per cent of women are contributing to social security, as compared to just 8 per cent of men, with similar disparities in:

- ▶ Formal sector (50 per cent of women are contributing to social security compared to 38 per cent of men)
- ▶ The informal sector (12 per cent versus 5 per cent); and
- ▶ The household sector (10 per cent versus 6 per cent).

► Figure 9. Percentage of workers contributing to social security, by sector of employment and sex

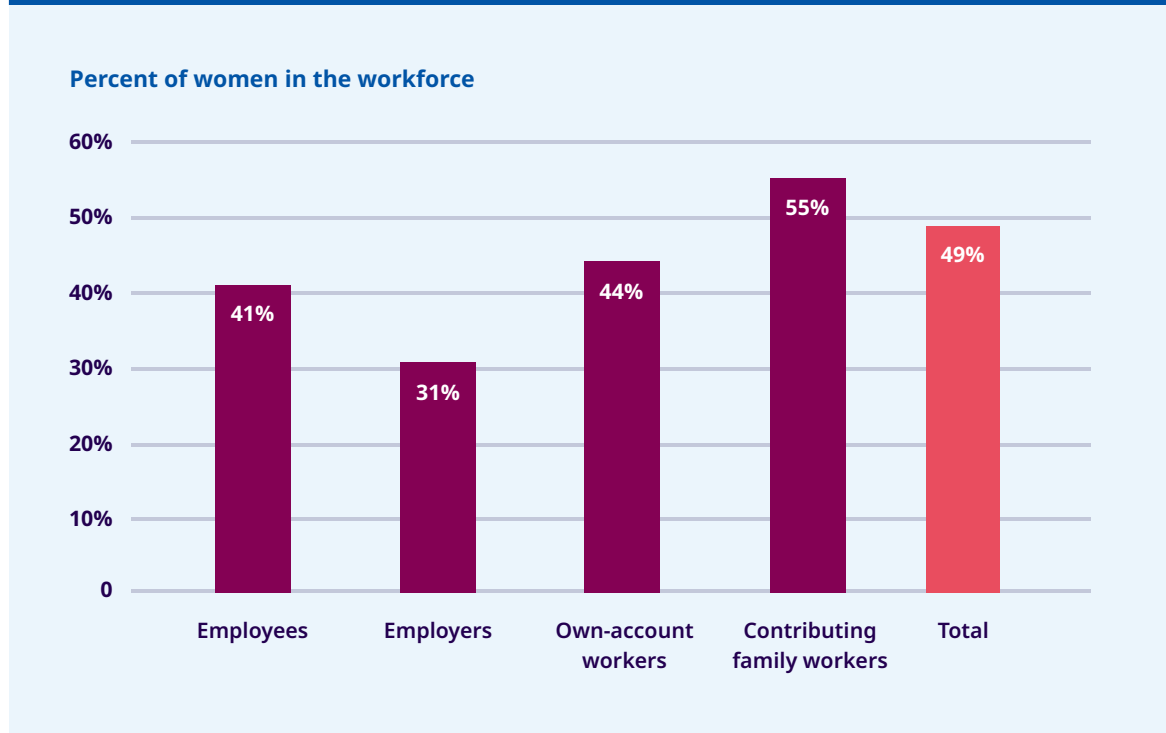


Source: LFS 2017.

However, as indicated in section 3.1 above, these aggregate figures disguise a varied situation for women in certain economic sectors and across different employment statuses.

Across the whole non-civil servant workforce, some 49 per cent (705,000) are women. Women make up half (50 per cent) of all informal sector workers and are more likely than men to be working in the informal sector (47 per cent of women work in the informal sector compared to 44 per cent of men). Women are also less likely to be formal workers (7 per cent of women workers are in the formal sector versus 9 per cent for men, and 44 per cent of formal sector workers are women). Roughly the same proportion of women work in households as men (46 per cent of women work in the household sector compared to 47 per cent of men); while women make up 48 per cent of all household sector workers. Women are also much less likely to be civil servants, constituting just over one-third (36 per cent) of the civil service workforce.

► Figure 10. Proportion of women workers found within various employment statuses (%)



Source: LFS 2017.

The differences between the labour market characteristics of women compared to men can be further illustrated by looking at the distribution of women by employment status (figure 10; see also figure 3). Women are clearly overrepresented among contributing family members, constituting 55 per cent of the workforce in that group (by “overrepresented”, we simply mean that there are more women working in households than their share in the overall non-civil servant workforce) and underrepresented among employers (31 per cent), employees (41 per cent), and own-account workers (44 per cent).

Women workers are overrepresented among contributing family members (constituting 55 per cent of the workforce in that group) and underrepresented among employers (31 per cent), employees (41 per cent), and own-account workers (44 per cent).

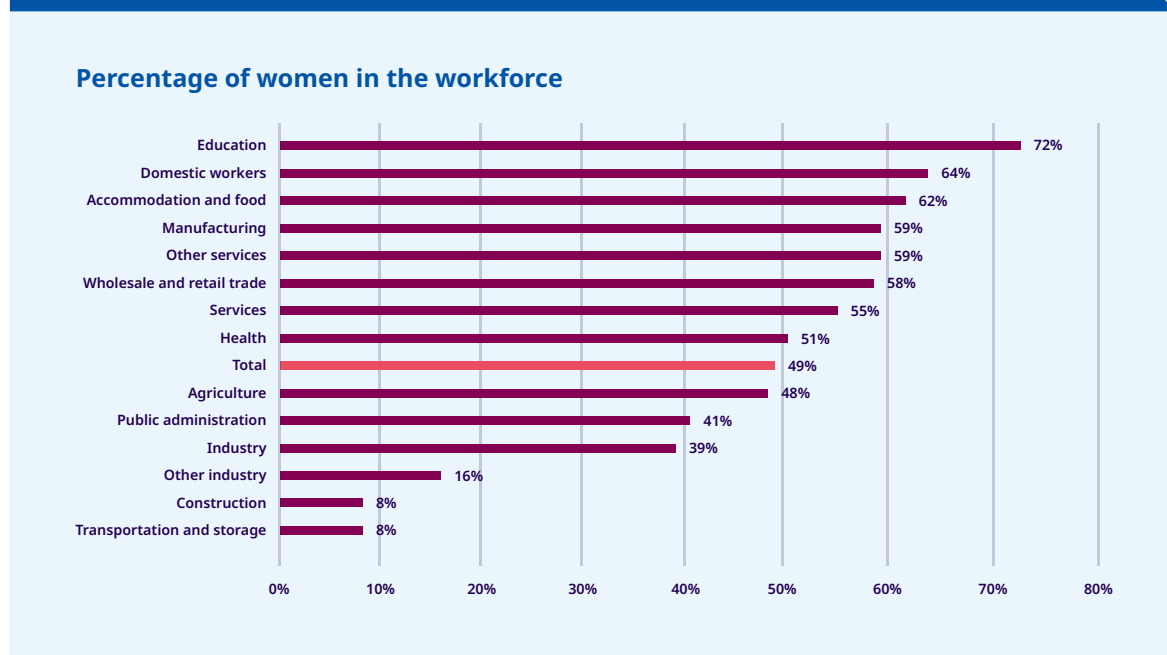
Analysing the location of women in the workforce by economic sector (figure 11), we see that women are significantly overrepresented in particular sectors, especially:

- ▶ Education (72 per cent of education workers are women)
- ▶ Domestic workers (64 per cent)
- ▶ Accommodation and food (62 per cent)
- ▶ Manufacturing (59 per cent)
- ▶ Other services (59 per cent)
- ▶ Wholesale and retail trade (58 per cent)
- ▶ Services (55 per cent)
- ▶ Health (51 per cent)

Women are particularly underrepresented in:

- ▶ Transport (8 per cent)
- ▶ Construction (8 per cent)
- ▶ Other industry (16 per cent)
- ▶ Industry (39 per cent)
- ▶ Public administration (41 per cent)²²

▶ Figure 11. Proportion of women workers found within various economic sectors

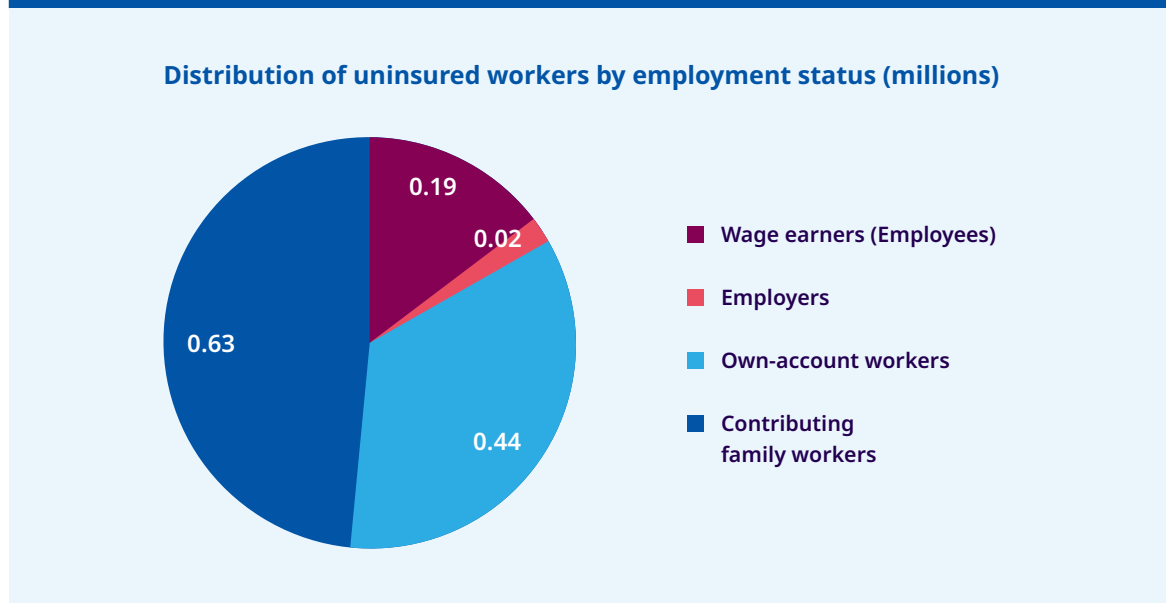


Source: LFS 2017.

The distribution of women in the workforce differs depending upon whether we are looking at the formal, informal or household sector. In formal enterprises, women are somewhat more overrepresented among health workers (61 per cent), but relatively less represented among wholesale and retail trade (31 per cent), agriculture (33 per cent), services (45 per cent), and manufacturing (53 per cent). This indicates that women are particularly more likely to work informally within these sectors.

Certain employment statuses are assumed within the LFS to not be covered by the NSSF.²³ As a result, 100 per cent of contributing family members (0.67 million workers), own-account workers (0.49 million), and employers (0.01 million) are assumed to be uninsured (see figure 12 below). In addition, some of the sectors in which women are overrepresented have both high numbers and high proportions of uninsured workers – for example, the wholesale and retail trade, manufacturing, accommodation and food, and domestic worker sectors represent around 0.49 million workers in total (including 0.29 million women workers), 95 per cent of whom are uninsured (figure 17). Taken together, these findings indicate that addressing gender disparities in coverage by social security becomes more relevant depending on employment status and economic sector.²⁴

► Figure 12. Uninsured workers by employment status

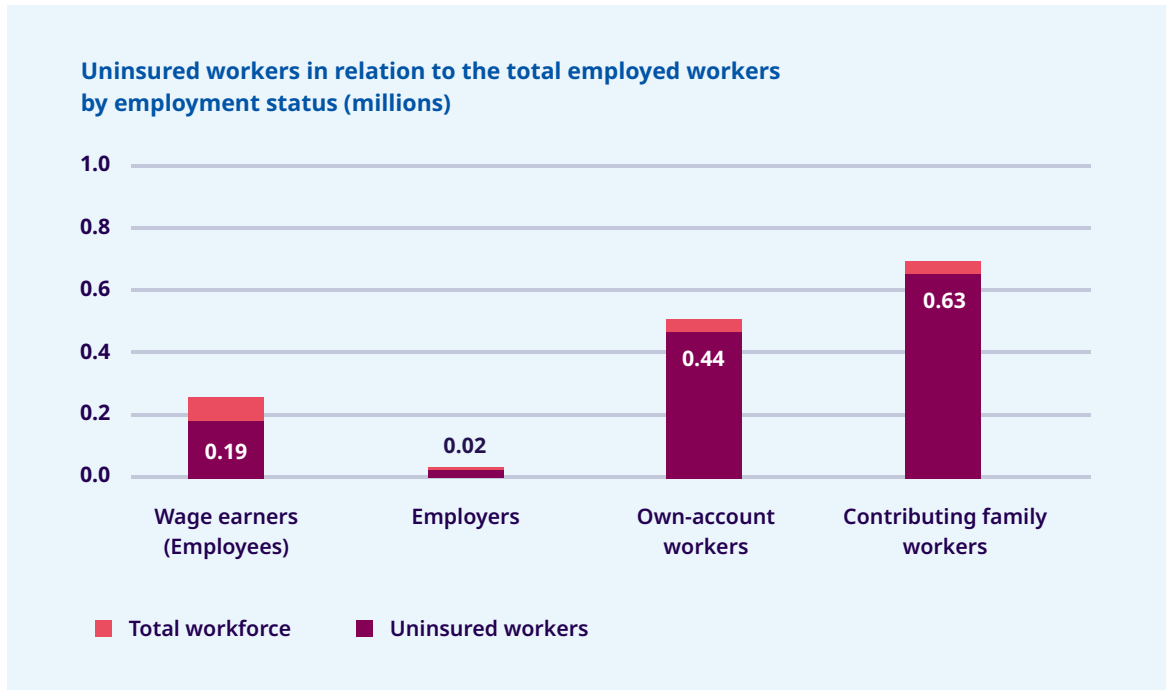


Source: LFS 2017

²² It should be remembered that the economic sector is missing for around 15 per cent of observations in the LFS 2017, so these data do not provide a complete picture of the situation of women in the labour market across economic sectors.

²³ Question AC08 was not asked of them: see section 2.1.2 above.

²⁴ The LECS-6 data paint a somewhat different picture here regarding women, who are seen to be more likely than men to benefit from some kind of social protection in all employment relations bar contributing family workers, who are more or less equal.

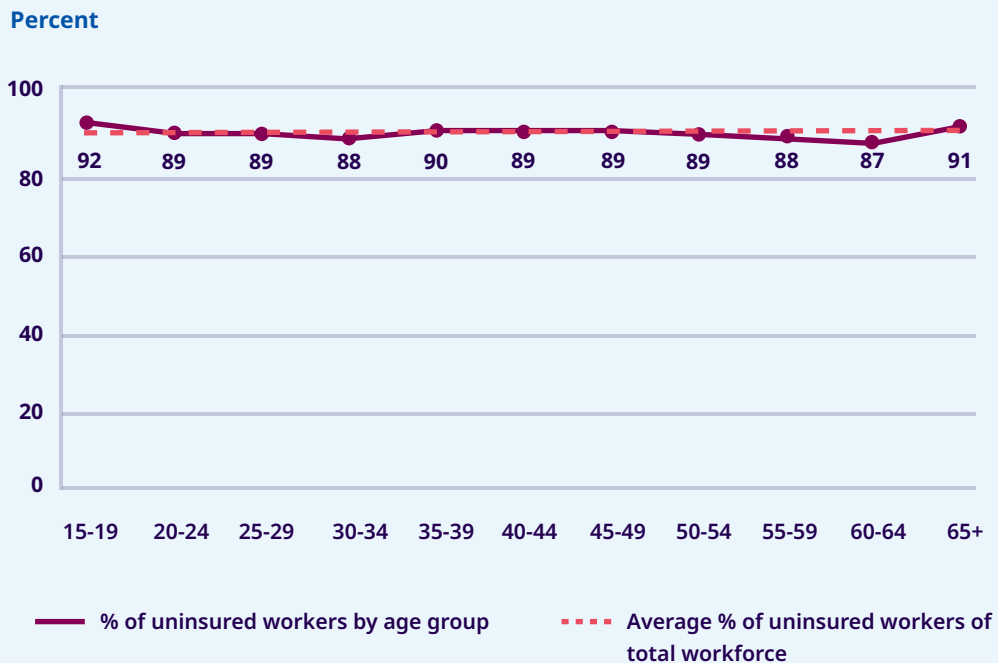


Source: LFS 2017

According to the LFS, some three-quarters (75 per cent) of wage earners were uninsured in 2017 (figure 12); while this figure was 93 per cent for employers, 90 per cent for own-account workers, and 94 per cent for contributing family workers. This indicates that informality is not restricted to self-employment and own-account work, but is also prevalent in wage-earning employment.

Looking at the association of social insurance with other characteristics of workers, we see that the proportion of non-civil-servant workers who were not insured was similar across all age groups (figure 13). However, the rate of uninsured was above the average of 89 per cent for the youngest (ages 15–19) and oldest (ages 65+) workers.

► Figure 13. Uninsured workers as a share of total employed workers, by age group



Source: LFS 2017.

► Box 7. Providing social security to self-employed workers

Several countries, including Argentina, Brazil, Cabo Verde, Jordan, Kenya, Mexico, the Philippines, and Uruguay, have included the self-employed in their general social protection schemes. Such an approach has the advantage of allowing workers to remain in the same scheme regardless of their employment status, and provides adequate coverage in cases where workers change their employment status or combine (part-time) paid employment and self-employment.

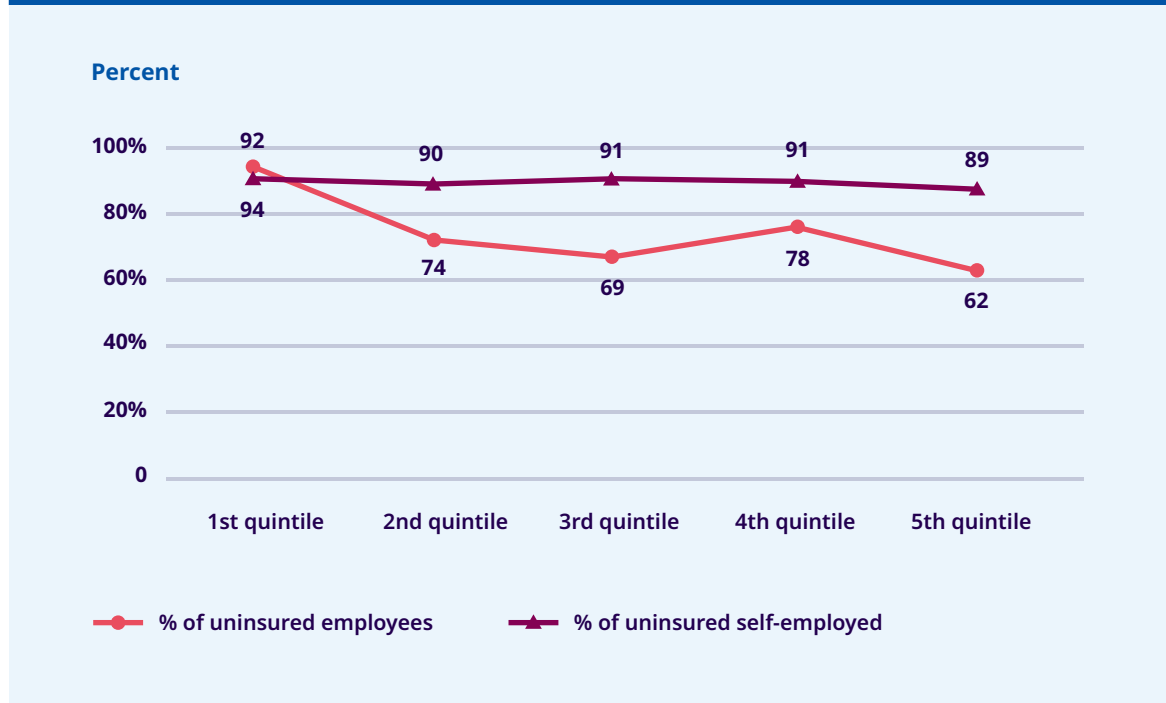
A pertinent example is the Microempendedor Individual (MEI) programme in Brazil, which facilitated the creation of the legal category of self-employed micro-entrepreneurs in 2008 through the Complementary Law No. 128. This law defined micro-entrepreneurs as self-employed persons with a maximum gross annual income of 81,000 Brazilian real (about US\$20,800) who do not participate in another company as a partner or shareholder and who have no more than one employee. The law simplified social security registration and contribution payments by combining tax and social security contributions into a single (“monotax”) payment. While the law is part of the Simples Nacional Law 9317, which addresses micro- and small enterprises, it foresees lower contribution rates for micro-entrepreneurs than those applied under the regular scheme. The MEI programme has contributed to social security coverage increasing among self-employed workers by just under 10 percentage points between 2009 and 2015, as well as increasing the number of registered small- and medium-sized enterprises (SMEs) from about 3 million in 2009 to 5 million in 2018.

Some countries have moved from voluntary to mandatory coverage through adapted mechanisms that take into account capacity to contribute and other characteristics of self-employed workers. For example, Costa Rica and Cabo Verde reformed their laws to mandate the participation of self-employed workers in pension and/or health insurance schemes. To facilitate their coverage, contribution levels were reduced and benefits were adapted to better correspond to those of salaried workers. These measures have proven to be successful: in Cabo Verde, for example, coverage increased from 0 to 9 per cent within one year of implementation.

Collective registration agreements are another useful mechanism to facilitate the registration of self-employed workers. Organizations of self-employed workers (such as trade unions, cooperatives or producers’ associations) can operate as an intermediary between workers and social security institutions. Examples of such collective agreements are found in Ecuador, Costa Rica and the Dominican Republic. In the latter, for example, the trade union-supported association AMUSSOL was founded in 2005 to facilitate access to the social insurance scheme for self-employed and other vulnerable categories of workers. AMUSSOL acts as an intermediary between the social security institution and workers in the informal economy by collecting social security contributions from its members and transferring them to the social security institution. AMUSSOL has covered 60,000 workers to date. The fact that workers are ready to pay an additional 1 per cent fee for AMUSSOL’s operating expenses on top of their social security contributions shows how much they value social security coverage.

Source: Adapted from ILO 2021a.

► Figure 14. Proportion of women workers found within various employment statuses (%)



Source: LFS 2017.

Coverage by the NSSF appears to be related to income. The LFS 2017 data enable us to analyse social security coverage rates by income quintile for employees, employers and own-account workers. Figure 14 presents these data for both the self-employed and employees. Looking at the latter group, we see that poorer wage workers are less likely to be covered than those higher up the income distribution: 94 per cent of those in the bottom income quintile are not insured, compared to 62 per cent in the fifth quintile.²⁵ Meanwhile, for the self-employed, the relationship between income and social insurance is relatively unmarked, with some 92 per cent in the bottom income quintile being uninsured, compared to 89 per cent of those in the top income quintile.

Monthly average earnings for insured employees (excluding civil servants) are 2.7 million Lao kip, compared to 1.8 million kip for uninsured non-civil-servant employees (47 per cent higher). This same pattern of higher earnings among insured workers persists for self-employed workers as well, albeit to a slightly less marked degree (insured employers earn on average 45 per cent more than uninsured employers; while insured own-account workers earn on average 21 per cent more than their uninsured counterparts). Overall, insured workers earn 26 per cent more on average than uninsured workers (table 1 below).

Disparities in earnings are more marked for men, compared to women, within these groups, with insured male non-civil-servant employees earning some 65 per cent more than their non-insured counterparts, and women insured non-civil-servant employees earning on average 35 per cent more per month than women employees who are not insured. Male employees tend to earn more than female employees, whether insured (men earn 56 per cent more than women) or uninsured (men earn 27 per cent more). Overall, across all workers – whether employees or self-employed, insured or uninsured – male non-civil-servant workers earn on average nearly one-third (31 per cent) more per month than women non-civil-servant workers.

Further disparities in workers' average monthly incomes exist between the formal and informal sectors. Across all workers (including employees, employers and own-account workers), informal sector workers earn around 20 per cent more on average per month than formal sector workers. This difference is the same for men and women (20 per cent). However, the picture differs depending on the employment relation. Employees in formal enterprises tend to earn around one-third (31 per cent) more than informal sector employees – with this difference being higher for women (48 per cent) than for men (29 per cent). Whereas employers and own-account workers in the formal sector tend to earn about half as much those in the informal sector (average monthly income for informal sector employers is 214 per cent of income for formal sector employers, while for own-account workers this figure is 202 per cent). This suggests the current costs of formalization may be a significant barrier to independent workers, incentivizing them to remain informal.²⁶

Once again, men earn more than women, whether in the formal sector (28 per cent more) or in the informal sector (28 per cent more). This indicates that women likely face structural barriers to income equality (for example social norms and gender biases determining what work is acceptable for women to perform, thereby reducing their participation in higher-earning jobs), although further research is required to properly understand this issue.

²⁵ LECS-6 data show a similar trend, with the proportion of workers (including civil servants) benefiting from some kind of social security increasing from 8 per cent in Quintile 1 to 38 per cent in Quintile 5.

²⁶ This implication is corroborated by evidence from enterprise owners (section 3.3).

► Table 1. Average monthly income of non-civil-servant workers by employment status, sector and insured status (kip)

Employment category		Employees	Employers	Own-account workers	Overall
Formal	Men	2 557 670	2 230 519	1 528 441	2 460 000
	Women	1 920 490	2 366 734	1 187 083	1 917 617
	All workers	2 268 540	2 282 944	1 447 201	2 222 448
Informal	Men	1 987 594	5 363 609	3 239 237	2 946 990
	Women	1 294 460	3 802 943	2 570 632	2 305 661
	All workers	1 726 848	4 875 988	2 927 472	2 666 157
Insured	Men	3 308 299	7 201 418	4 660 613	3 832 621
	Women	2 121 861	3 426 930	1 751 617	1 951 371
	All workers	2 700 087	5 502 884	2 732 813	2 748 354
Not insured	Men	2 005 756	4 018 043	2 436 993	2 356 272
	Women	1 573 563	3 260 412	2 003 723	1 913 169
	All workers	1 882 864	3 915 211	2 301 178	2 176 988
Overall average	Men	2 274 257	4 204 566	2 567 288	2 516 334
	Women	1 743 995	3 277 992	1 967 309	1 920 648
	All workers	2 056 364	3 915 211	2 301 178	2 260 381

Note: Employers, own-account workers and contributing family workers are automatically classified as uninsured within the LFS. Income data are not gathered for contributing family workers who are assumed to be unpaid.

Source: LFS 2017.

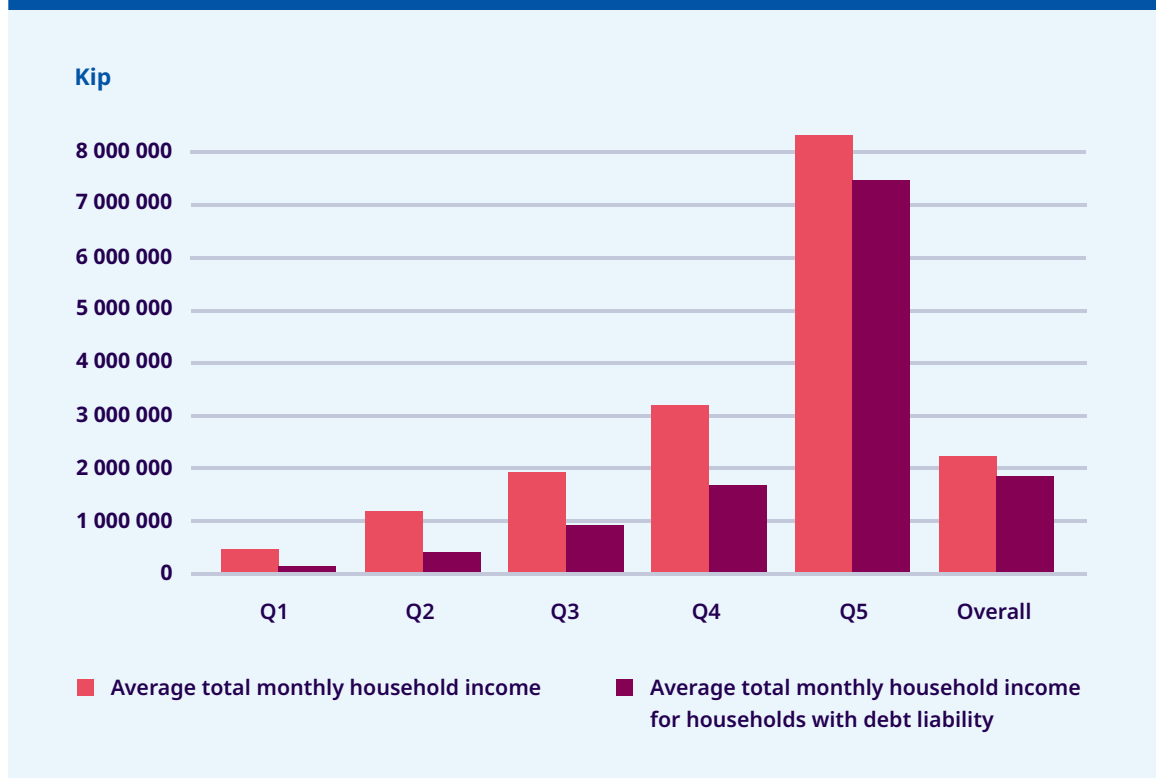
3.2.1. Ability to contribute to social security

To explore the extent to which limited participation in the NSSF is due to a worker's ability to pay, we analysed LECS-6 data, which contain both consumption expenditure and income data (at least for all employees), as well as information on the level of household debt. This analysis enabled us to estimate the potential level of surplus income employees may have to contribute to social security. Due to data limitations, we were not able to estimate ability to pay for those who are self-employed.

First, among households containing an employee (including civil servants²⁷), we observed that over nine out of ten (92 per cent) have surplus income after paying for total household consumption. This figure does not account for household debt, however, which is present for some 13 per cent of households. The distribution of households with outstanding debt liabilities is fairly even across consumption quintiles, with the highest proportion of households with debt in the middle consumption quintile (15 per cent) and the lowest in the poorest quintile (11 per cent). However, households with outstanding debt tend to have lower average total monthly income than households overall (figure 15).

The LECS-6 data also indicate a high level of inequality across consumption quintiles. The average total household monthly income in the highest consumption quintile is almost 20 times greater than that for the lowest consumption quintile.

► Figure 15. Average total household monthly income for all households and households with debt liability, by income quintile (kip)



Source: LECS-6 2019.

Furthermore, LECS-6 data indicate that, beyond employees, households on average tend to have around three income earners in total. In households with employees, the total number of income earners is 2.7 on average, 0.7 of whom are employees. Assuming that the total burden of household consumption (excluding debt) is split evenly between income earners (given that we do not have income data for the self-employed), we can construct an indicator of an employee's ability to contribute towards social security using the following logic:

- ▶ The ability to contribute is equal to 1 if an employee's surplus income is greater than 9 per cent of their income.²⁸
- ▶ Surplus income is calculated by taking the employee's income and subtracting their share of total household consumption, which is given by the household size divided by the total number of income earners in the household.

This measure relies on the assumption that household expenditures are split evenly between income earners. In order to assess an employee's ability to contribute to social security in cases where this assumption does not hold, we construct an alternative measure based on the following logic:

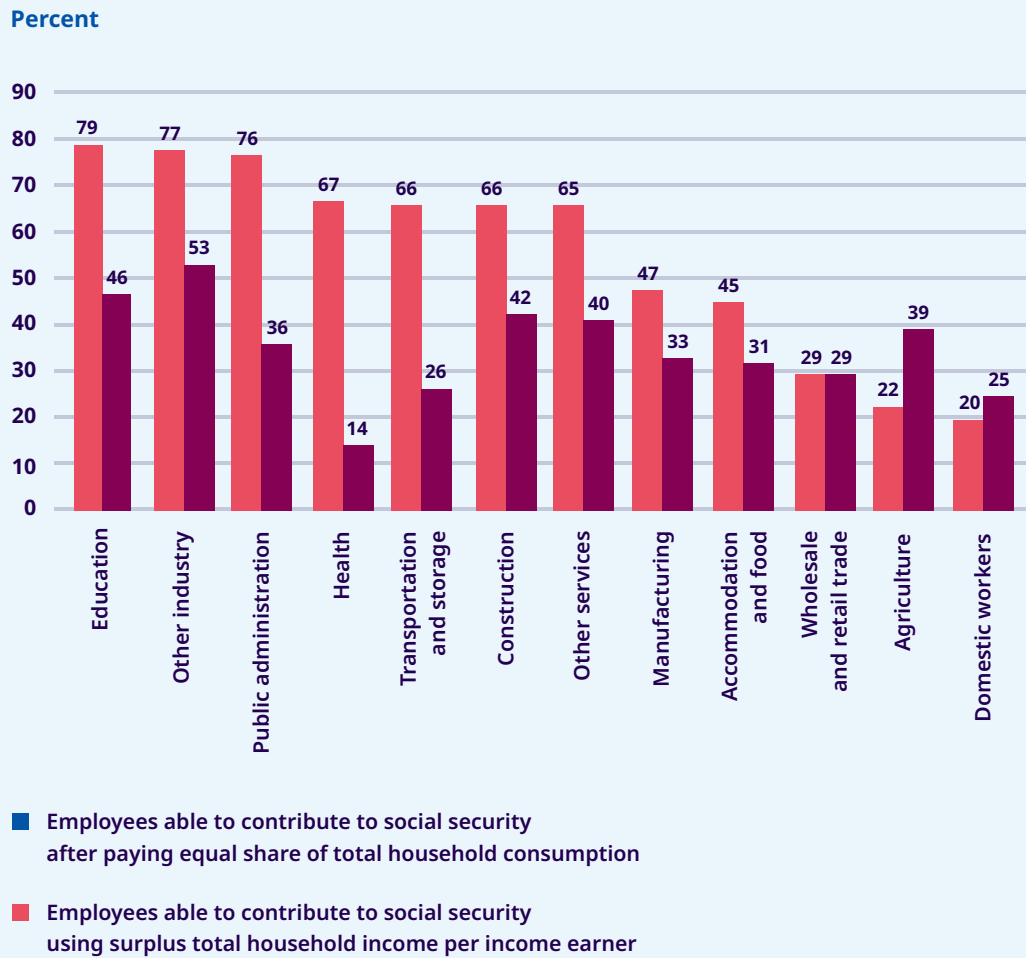
- ▶ The ability to contribute is equal to 1 if total household surplus income per income earner is greater than 9 per cent of an employee's income.
- ▶ Total household surplus income per income earner is calculated by taking the residual of total household income from all sources minus total household consumption, divided by the total number of income earners in the household.

Using these measures, we see that some 52 per cent of employees could potentially afford to contribute the maximum 9 per cent share of their income required for the full complement of benefits under the NSSF voluntary scheme. However, this proportion drops to 36 per cent if we assume that household expenditures are not split evenly between income earners, but that an employee's contributions may be paid for from the surplus total household income per income earner. If we assume that employees are only responsible for their own consumption expenditure, the data indicate that over 91 per cent could potentially afford to contribute to social security.

The proportion of employees who could potentially contribute to social security according to these measures differs across economic sectors. Figure 16 shows that the highest proportion of workers with the ability to contribute to a pension are found in the education, other industry, and public administration sectors, where close to four-fifths of employees (79 per cent, 77 per cent, and 76 per cent, respectively) could potentially afford to contribute. The sectors with the lowest proportion of workers able to contribute are wholesale and retail trade, agriculture, and domestic work (29 per cent, 22 per cent, and 20 per cent, respectively).

Interestingly, for these three latter groups of workers, the proportion of employees that might be able to contribute is actually the same or higher by the second measure, indicating that earnings from employees in these sectors are low on aggregate, relative to other sectors. This is borne out by the fact that the average number of employees per household is low in relation to the total number of income earners in the household in these sectors (0.9 wholesale and retail trade employees, compared to 2.8 total income earners in those households; 0.2 agriculture employees, compared to 3.2 total income earners in those households; and 0.6 domestic worker employees, compared to 3.3 total income earners in those households).

► Figure 16. Share of employees in various economic sectors that are able to contribute to social security



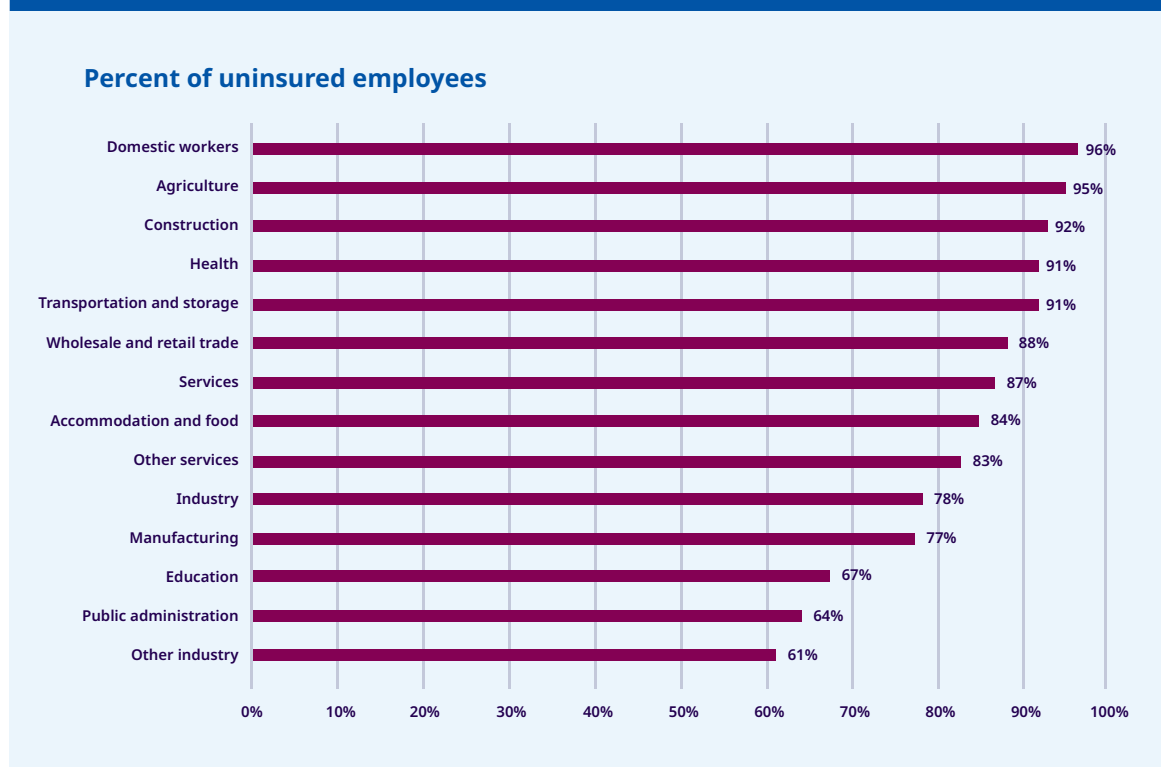
Source: LECS-6 2019.

²⁸ The contribution rate of 9 per cent is based on the rate covering maximum level of benefits under the current NSSF voluntary scheme (section 1.1). The Amended Law on Social Security stipulates that all employees in private sector formal enterprises employing one or more workers are required to be registered under the NSSF scheme for formal private sector employees. For these employees, the contribution rate is 5.5 per cent of the insured salary. However, as the vast majority of enterprises in the Lao People's Democratic Republic are informal (section 3.3), most employees are de facto eligible to be covered under the voluntary scheme. As the voluntary contribution rate is higher than both the civil servants' contribution rate and the private sector formal enterprise employee contribution rate, this measure provides an indication of the potential ability of all employees to contribute to social security, no matter which scheme they may be eligible for.

These patterns closely reflect the varying coverage of social security across economic sectors as captured by the LFS 2017 dataset (figure 17). The sectors with the lowest proportion of uninsured workers are other industry, public administration, and education (61 per cent, 64 per cent, and 67 per cent, respectively), with manufacturing coming fourth (77 per cent). In contrast, the sectors with the highest proportion of uninsured workers are domestic work, agriculture, and construction (96 per cent, 95 per cent, and 92 per cent, respectively). Wholesale and retail trade has 88 per cent uninsured, in line with the average across all sectors (89 per cent).²⁹

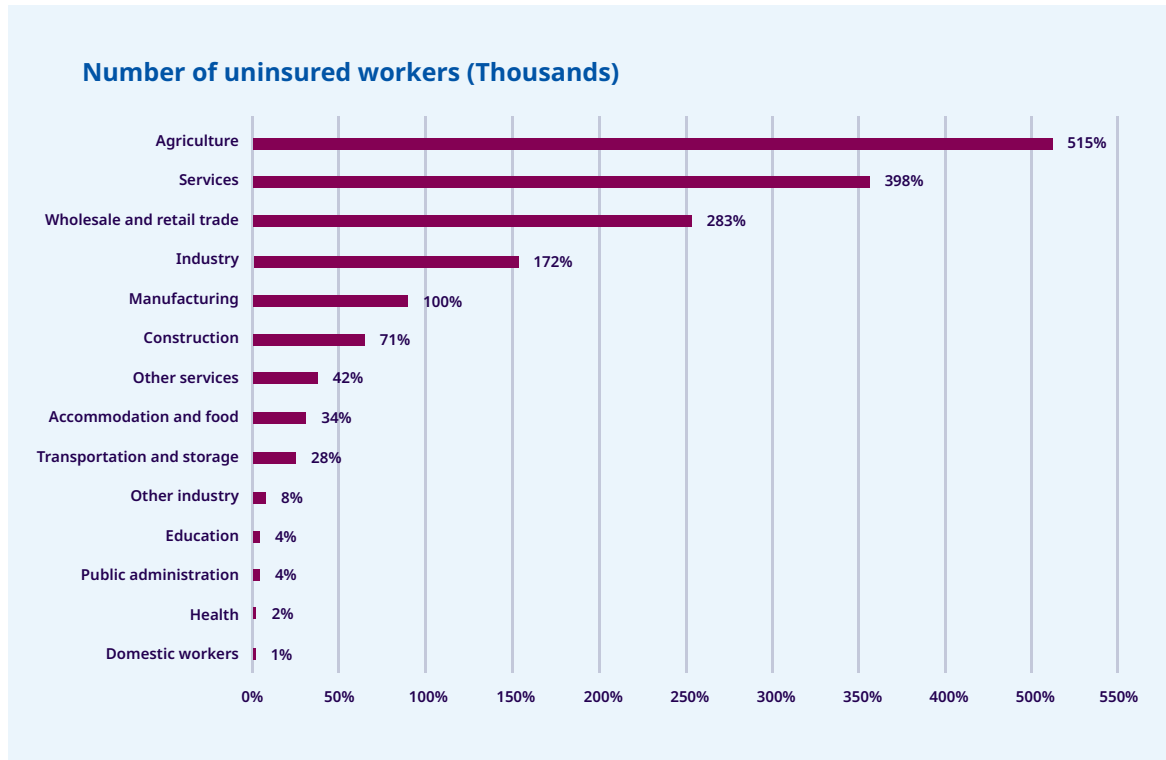
The agriculture sector has the highest number (and joint-highest proportion) of workers not covered by social security. Social assistance or government-subsidized social security contributions may be required to provide social protection for this group.

► Figure 17. Number and proportion of uninsured workers in various economic sectors



Source: LFS 2017.

²⁹ The LECS-6 data present a broadly similar picture. The sectors with the highest proportion of workers benefiting from some kind of social security are health (90 per cent), public administration (83 per cent), and education (78 per cent); other industry is fourth with 33 per cent. The sectors with the lowest proportion of workers benefiting from some kind of social security are agriculture (8 per cent), construction (8 per cent), and wholesale and retail trade (19 per cent); domestic workers are fourth (19 per cent).



Source: LFS 2017.

In absolute terms, the sector with the highest number of uninsured workers is agriculture (approximately 515,000 uninsured). Significant numbers of uninsured are also present in the services sector (398,000), wholesale and retail trade (283,000), industry (172,000), manufacturing (100,000) and construction (71,000).

► **Box 8. Extending social security to agricultural workers and rural populations**

International experience shows that there are various strategies that can be effective for extending social security to agricultural workers and rural populations in different contexts. For example, in order to facilitate increased coverage of agricultural workers in the social security system, the Peasants' Social Insurance Scheme in Ecuador introduced lower contribution rates for agricultural workers than those in the general social insurance scheme. In accordance with the principle of solidarity in financing, the scheme is also cross-subsidized by the contributions of workers and employers registered in the general insurance scheme, alongside contributions by public and private insurance entities and a state subsidy.

Incentives to promote the participation of agricultural workers can also be created by designing schemes and benefits that better respond to the needs and specificities of rural populations. This can be achieved by integrating new services and benefits into existing schemes: for instance, by including insurance against risks or events that represent significant financial burdens in rural areas, such as funeral grants, education grants, or loans for higher education. An important complement for rural populations is the link with agricultural insurance. Given the importance of agriculture for rural livelihoods and the exposure of the sector to large covariate shocks, agricultural insurance can fulfil important social protection functions and should ideally be better linked with social protection systems to ensure better coverage of poor and vulnerable rural populations in particular.

Adapting the regulations according to specific conditions can greatly help agricultural workers. Colombia is one example of a country that has implemented such an adaptive approach. Law No. 100 of 1993 and Law No. 797 of 2004 determine the legislative framework for Colombia's social security system. However, since it has been recognized that many of the guidelines in these laws are not practicable for certain groups of workers, subsequent decrees have led to regulatory changes in order to facilitate access for agricultural workers, including:

- ▶ Allowing insured persons to declare their income throughout the year (instead of only at the beginning of the year, as was previously the case) in order to take account of the productive cycles and variations in economic activity throughout the year.
- ▶ Introducing the option to inform the social insurance system of changes in their circumstances to allow the insured self-employed, employees or their employers to adjust their contribution.
- ▶ Allowing own-account workers to temporarily opt out of pension insurance if they do not have the contributory capacity to contribute to both health and pension insurance.

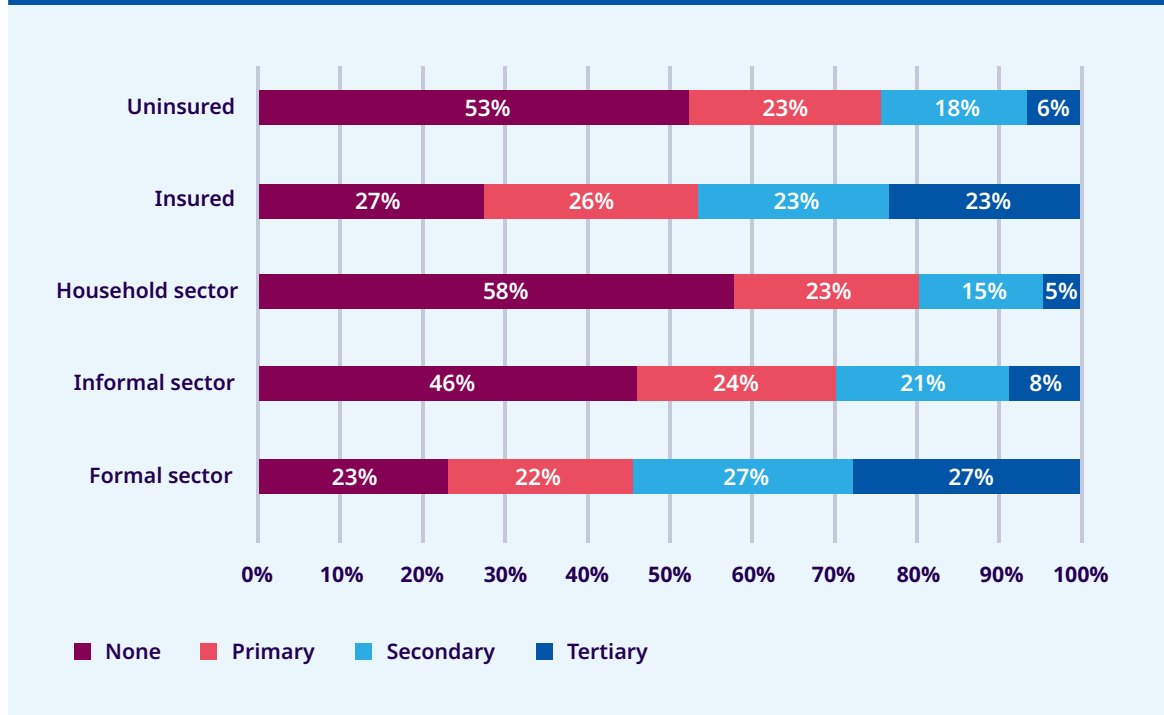
Source: Adapted from ILO and FAO 2021 and ILO 2021a.

3.2.2. Literacy and educational levels

Another possible barrier to accessing social security is the administrative procedure required to become registered. In one study (Oxfam 2020), informal workers who were not members of the LSSO voluntary social security scheme mentioned that they were concerned about their ability to fill in forms and about their lack of ID and other documentation needed to complete the registration.

Analysing the LFS 2017 dataset, we find that the likelihood of being uninsured is highly correlated with level of educational attainment. In 2017, only 24 per cent of uninsured workers had a secondary education or higher, compared to 46 per cent among those covered by the NSSF. A similar pattern is observed for those working in the informal sector, where 29 per cent of workers have secondary education or higher, compared to 54 per cent in the formal sector. Meanwhile, the vast majority of workers in the household sector have no education (58 per cent) or only a primary education (23 per cent) (figure 18).³⁰

► Figure 18. Distribution of workers by level of educational attainment, insured status and sector of employment



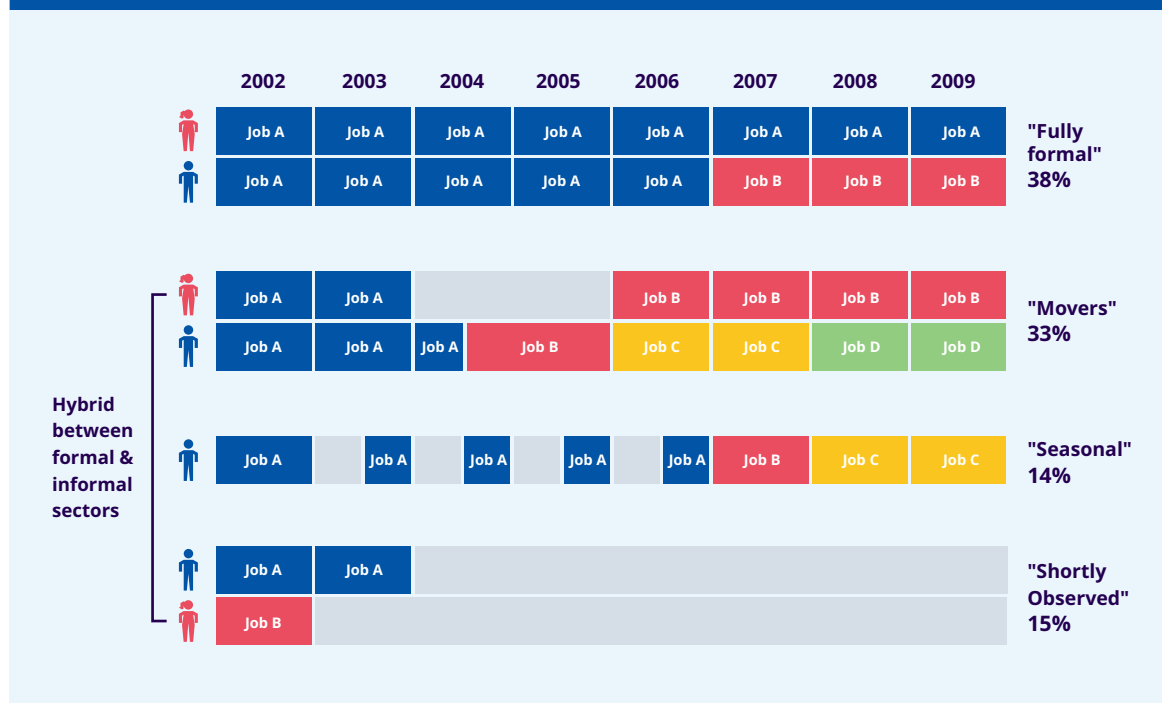
Source: LFS 2017.

3.2.3. Career paths of workers

Across economic sectors, those in the labour force often have a varied employment history. Workers move between jobs, in and out of different employment relations, and across economic sectors, as well as in and out of formal production units. Research conducted in Thailand (Wasi et al. 2021) via a cohort analysis of millions of individual employment histories using machine learning techniques on administrative data from the Thailand Social Security Office illustrates this varied nature of many workers' career paths. The authors found that more than half of workers registered with the Social Security Office leave the formal sector either temporarily, seasonally or permanently long before their retirement age, thus jeopardizing their social security benefits (illustrated in figure 19 below). Their analysis demonstrates that the formal and informal sectors are closely connected in Thailand, raising the question of whether that country's social security system, which is currently designed to provide separate programmes for "formal" and "informal" workers, is fit for purpose.

³⁰ Once again, LECS-6 data support these trends, with the proportion of workers benefiting from some kind of social security rising by education level: 72 per cent of workers with a tertiary education are covered, as are 36 per cent of those with a secondary education, 10 per cent of those with only a primary education, and just 4 per cent of those with no education.

► Figure 19. Visualization of the work patterns of formal sector Thai workers (ages 15–44), 2002–09



Note: This visualization is adapted from a study that selected workers registered under Thailand's Social Security Article 33 on a particular date (that is, they were in formal employment at that time) and then followed their social security registration histories for 96 months to determine changes in their employment and/or their participation in the formal sector. The four clusters depicted in the figure can be described as follows:

Fully formal refers to workers who stayed in the formal sector for the entire 96 months.

Movers refers to those workers who typically had two to four formal sector jobs over the period, with each transitions from one formal sector job to another tending to involve a temporary exit from the formal sector for a period of 2 to 15 months.

Seasonal refers to workers who had 2 to 8 months out of the formal sector each year, before returning to the same employer.

Shortly observed refers to workers who stayed in the formal sector for the first 7 to 28 months of the observation period before leaving and never returning.

Source: Wasi et al. 2021.

The results of Wasi et al. (2021) pertain to Thailand's labour market, which has some important differences compared with the Lao context. However, it also shares some features with the labour market in the Lao People's Democratic Republic – including high rates of informality, the preponderance of vulnerable employment statuses (own-account workers and contributing family workers), a similar distribution across economic sectors, and a high proportion of workers not covered by social security. It is therefore possible that similar patterns of employment history among the labour force may also be found in the Lao People's Democratic Republic.

The analysis conducted by Wasi et al. thus indicates a need to explore the employment histories of workers in the Lao People's Democratic Republic, as well as the barriers they face in accessing social security. It also hints at the need for deeper integration of tax revenue and contributions in the financing of social security and other social protection benefits, especially given the large numbers of workers in varying sectors with limited ability to afford contributions. This is also because, similar to the situation in the Thai labour market, many Lao workers are likely to move in and out of formal employment relations throughout their career history, jeopardizing their ability to accumulate enough contributions to provide (for example) an adequate pension and/or other benefits to which they would otherwise be entitled and which are required to support them throughout their life course.

► Box 9. Integrated funding for social security

Considering the challenges that some workers face to accumulate enough contributions¹ to allow them to qualify for an adequate level of benefits, one solution some countries have adopted is the development of integrated funding strategies that combine revenues from contributions with general government revenue. Some countries use government resources to fund contributions (subsidization), while others use those resources to directly fund the benefits.

In Portugal, the National Institute of Social Security combines two sources of funding: (i) revenues from contributions; and (ii) funds from the general government budget. The law provides clear rules regarding the use of the two sources of funding. Funds from contributions can only be used for entitlements that result directly from contributions; while funds from the general government budget are used to cover benefits (or top-up benefits) that do not directly result from contributions: for example, the payment of minimum pensions for workers who, while reaching the minimum years of contribution to qualify for a contributory pension, do not have a level of contributions that entitles them to reach the level established for the minimum pension. In these cases, the difference between what would be their entitlement (when considering exclusively their contributions) and the amount established as the minimum pension is covered from general government revenue. The (social) pension of those who do not accumulate enough years to qualify for a contributory pension is also funded from this source. The balance from the contributions that are not used in a particular year is transferred to a reserve fund. The law clearly states that this balance cannot be used to cover deficits resulting from non-contributory measures, which must be covered by general revenue. Another example is given by the social security unemployment insurance component. While the immediate benefits are paid from the contributory pool, the long-term unemployment assistance is funded from general revenue.

¹ Both in relation to their level of earnings and the duration of their contributions.

Source: ILO, UNICEF, IOM, and UN Women 2022.

3.3. Enterprise landscape

Microenterprises dominate the enterprise landscape in the Lao People's Democratic Republic. According to the Lao Economic Census of 2020, 94 per cent of the 133,997 enterprises in the country were microenterprises, and the rest were mostly small enterprises (4.9 per cent). Medium and large enterprises accounted for less than 1 percentage point (0.7 per cent and 0.2 per cent, respectively) of the enterprise landscape (ADB 2022). Altogether, micro-, small- and medium-sized enterprises (MSMEs) (see table 2 for definitions) accounted for 82 per cent of total employment in the Lao People's Democratic Republic in 2018 (ADB 2021).

► Table 2. MSME definition in accordance with Prime Minister's Decree No. 25 of 2017

Sector	Item	Micro	Small	Medium
Production of commercial goods	Annual average number of employees	1-5	6-50	51-99
	Total assets (in kip)	Not exceeding 100 million	Not exceeding 1 billion	Not exceeding 4 billion
	Annual turnover (in kip)	Not exceeding 400 million	Not exceeding 2 billion	Not exceeding 4 billion
Trade	Annual average number of employees	1-5	6-50	51-99
	Total assets (in kip)	Not exceeding 150 million	Not exceeding 1 billion	Not exceeding 4 billion
	Annual turnover (in kip)	Not exceeding 400 million	Not exceeding 3 billion	Not exceeding 6 billion
Service	Annual average number of employees	1-5	6-50	51-99
	Total assets (in kip)	Not exceeding 200 million	Not exceeding 1.5 billion	Not exceeding 6 billion
	Annual turnover (in kip)	Not exceeding 400 million	Not exceeding 1.5 billion	Not exceeding 4 billion

Source: ADB 2021.

Regarding how MSMEs are distributed across economic sectors, data from 2020 show that the majority (63 per cent) are located in the wholesale and retail trade sector, although these enterprises employ a smaller share (47 per cent) of the total MSME workforce in the country. By comparison, while 15 per cent of MSMEs are in the manufacturing sector, these businesses employ almost one-quarter (23 per cent) of the MSME workforce. A much smaller proportion of MSMEs operate in other sectors: 3.2 per cent in transportation and communication, 1.7 per cent in construction, and 1.4 per cent in agriculture, forestry and fisheries (ADB 2021).

Despite their prominence in the enterprise landscape, the level of productivity of Lao MSMEs is relatively low and has even declined in recent years. MSMEs only contributed to 16 per cent of GDP in 2016 (IMF 2019), a low percentage compared to the Lao People's Democratic Republic's regional peers: 40 per cent in Thailand and 32 per cent in Malaysia and the Philippines (World Bank 2017). Even when just focusing on formal SMEs, the World Bank Enterprise Survey for 2018³¹ revealed that sales per worker – a measure of labour productivity – was US\$4,493 in 2018, 6 per cent lower than in 2016 (World Bank 2018). The decline was especially steep for the manufacturing and retail services sectors (World Bank 2019).

One reason for this low productivity is that few enterprises make use of information and communication technology (ICT) tools and modern accounting methods in their operations. As revealed by the Lao Economic Census 2020, only 6.6 per cent of the enterprises were then using ICT tools to aid their business operations. Almost all enterprises (96 per cent) were not practising any kind of accounting, and only 3.3 per cent were following general accounting systems. This may be partly associated with the low education level of the business owners, two-thirds of whom did not achieve beyond a high school degree (ADB 2022).

A large and expanding proportion of enterprises are informal. According to the Lao Economic Census 2020, around 70 per cent of enterprises were not registered, an increase from 65 per cent in 2013. Nearly nine out of ten enterprises (87 per cent) did not have a tax identification number, a slight rise from 85 per cent in 2013 (ADB 2022).

Enterprises felt that they were constrained by the business environment. In the Lao Economic Census 2020, enterprises reported that the two main constraints they faced were market access and the country's business environment. Formal SMEs interviewed as part of the World Bank Enterprise Survey of 2018 highlighted that access to finance, practices of informal competitors (which do not have to follow the same rules and regulations as formal enterprises), and the reliability of electricity supplies were the main constraints on their businesses. The issue of access to finance and the practices of informal competitors were raised by both small- and medium-sized firms, while more small firms raised the issue of reliability of the electricity supply than medium-sized firms (World Bank 2018; World Bank 2019).

To address these and other factors affecting the enterprise landscape, the Lao Government has been implementing a series of reforms to support business growth and formalization over the past few years. Most notably, in 2016 the Government approved the SME Development Plan 2016–20, which aimed at increasing SME access to finance, their contribution to exports, and their usage of computers for business operations, as well as aiming to reduce the costs of business registration (World Bank 2019; IMF 2019). In 2018 the Government introduced a reform under Prime Minister Order No. 02/2018 that aimed at improving the business environment by encouraging business registration through simplifying procedures, as well as by implementing an Investment One-Stop Service (ADB 2022). Immediately before the outbreak of the COVID-19 pandemic, in January 2020, the Government issued Prime Minister Order No. 03, which sought to further improve the issuance of investment and business licences, as well as to establish a single online database of licences and tax registration certifications (ADB 2022).

Despite these reforms, enterprises have continued to be burdened by a challenging regulatory environment and informal practices. Comparing the period before and after Prime Minister Order No. 02/2018, the average cost to complete business registration reduced from 2.6 million kip to 1.7 million kip, and the average time from 27 days to 17 days. While these indicated improvements, the time taken was still longer than the 10 days mandated by the MoIC. In addition, around two-thirds of the surveyed enterprises reported needing to pay informal payments for business registration or operating licences. Some 69 per cent of the surveyed enterprises admitted that tax negotiations were common.³² As acknowledged by the Government, the policies and orders it had issued were not adequately carried out, and “there remains many areas that lack transparency which hinders development ... and the promotion of local entrepreneurs, especially MSMEs is not yet sufficient. Most local enterprises lack self-development and efficiency in competition” (Lao People's Democratic Republic, Government of the Lao People's Democratic Republic 2021, 36).

Most recently, the Government launched the Ninth Five-Year National Socio-Economic Development Plan for 2021–25. Approved in March 2021, it puts emphasis on economic diversification and recovery from the COVID-19 pandemic. One of the key outputs is to achieve “better quality, robust and regionally and internationally competitive micro, small and medium enterprises”. The targets include increasing the number of new MSMEs by 2 per cent per year and increasing the MSME contribution to GDP to 18 per cent per year. Proposed policies are also aimed at connecting MSMEs to value chains and improving access to finance to enhance business management practices and market access (Lao People's Democratic Republic, Government of the Lao People's Democratic Republic 2021, 57).

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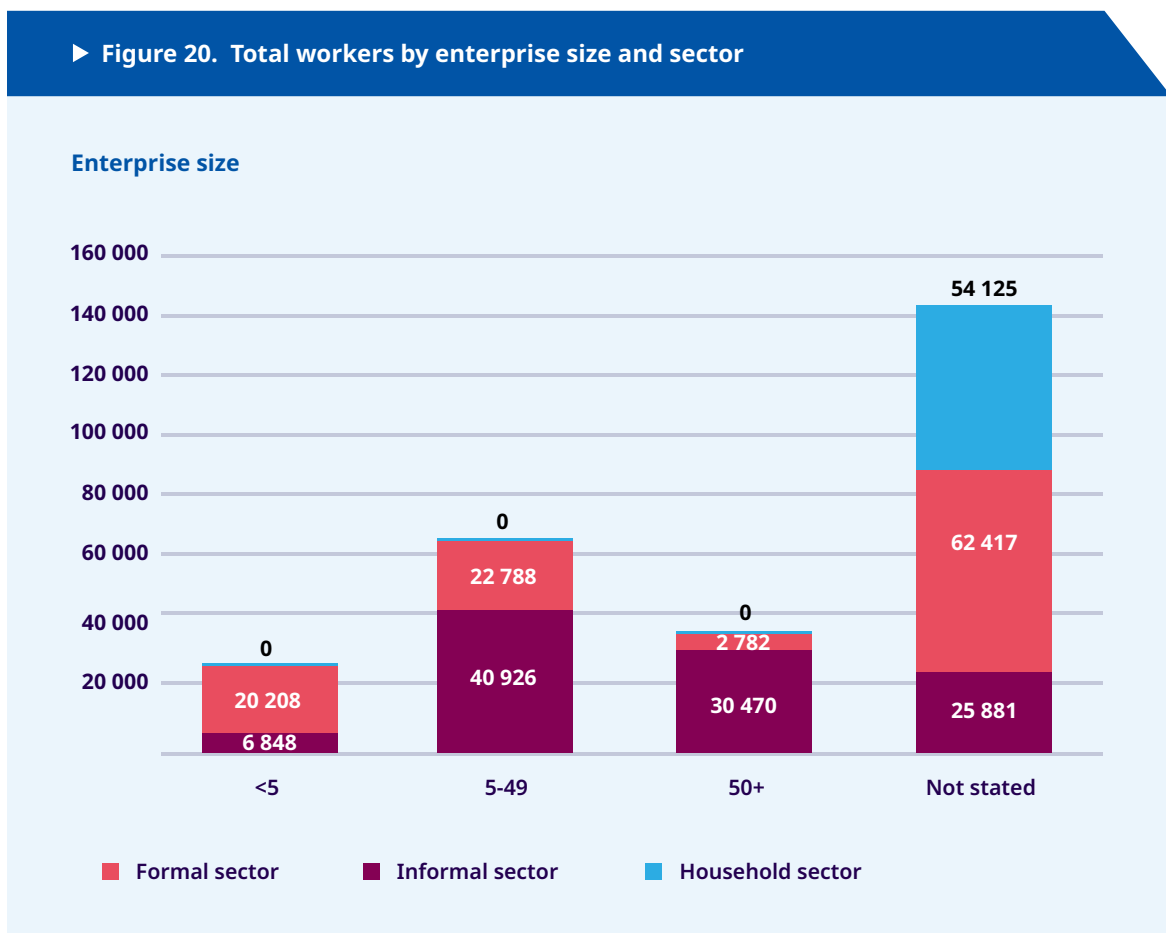
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³¹ The World Bank Enterprise Surveys excluded enterprises with fewer than five employees (microenterprises) and informal firms. As such, the surveys only capture a small proportion of enterprises in the Lao People's Democratic Republic.

3.3.1. Workers in MSMEs

Given the importance of MSMEs – and microenterprises in particular – to the labour market and enterprise landscape in the Lao People's Democratic Republic, we look at the distribution of workers across enterprises by size, using LFS 2017 data.

Note that we adopted a “best-fit” version of the national MSME definition (given in table 2) for the analysis of the LFS data, describing as microenterprises all businesses with fewer than five employees; small enterprises as those with 5–49 employees; and medium-to-large enterprises as all those with 50+ employees. This is because the LFS data on enterprise size is grouped into given bands according to the number of employees (fewer than four, 5–9, 10–49, 50–99, 50–99, and 100+) and does not provide information on the value of assets held by an enterprise.



Source: LFS 2017.

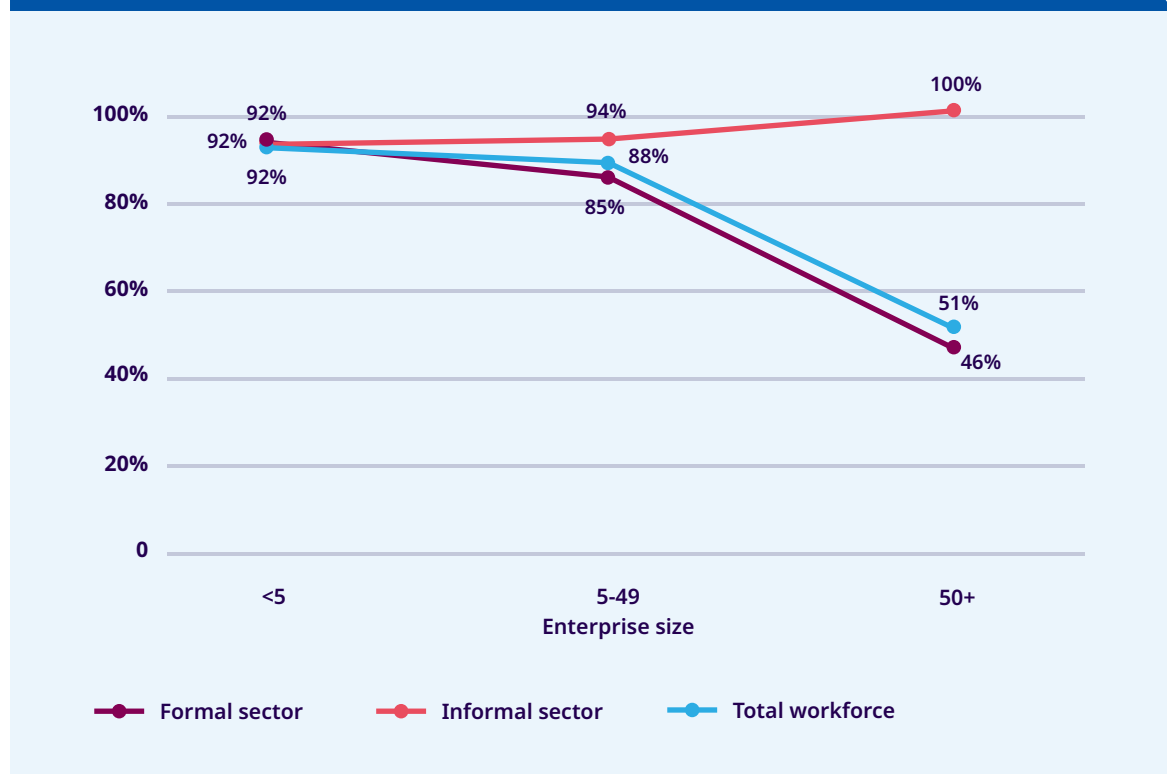
³² These results are from survey responses from the Provincial Facilitation for Investment and Trade Survey conducted in 2019. The survey sample comprised 1,357 enterprises across 17 provinces (ADB 2022).

Figure 20 shows that, despite the predominance of microenterprises in relation to the number of registered enterprises nationally, small, medium and large enterprises appear to account for a larger share of employment. Small enterprises (5–49 employees) collectively employ 63,713 workers (24 per cent of all employees and employers), while medium and large enterprises (50+ employees) account for 33,252 workers (13 per cent of all employees and employers). This compares to the 27,055 employees and employers (10 per cent) employed by microenterprises (under 5 employees).

Here it must be noted that enterprise size is missing in the LFS 2017 data for 54 per cent (142,423) of all employees and employers.

Figure 20 also shows that the smaller the enterprise, the more likely a worker is to be employed by an informal (that is, non-registered) enterprise. Three-quarters (75 per cent) of workers in microenterprises work in informal enterprises, compared to around one-third (36 per cent) in small enterprises and under one-tenth (8 per cent) in medium and large enterprises. In enterprises where the size is unstated, 82 per cent of workers either work in informal economic units or in the household sector.

► Figure 21. Uninsured workers as a share of the total workers, by establishment size and sector

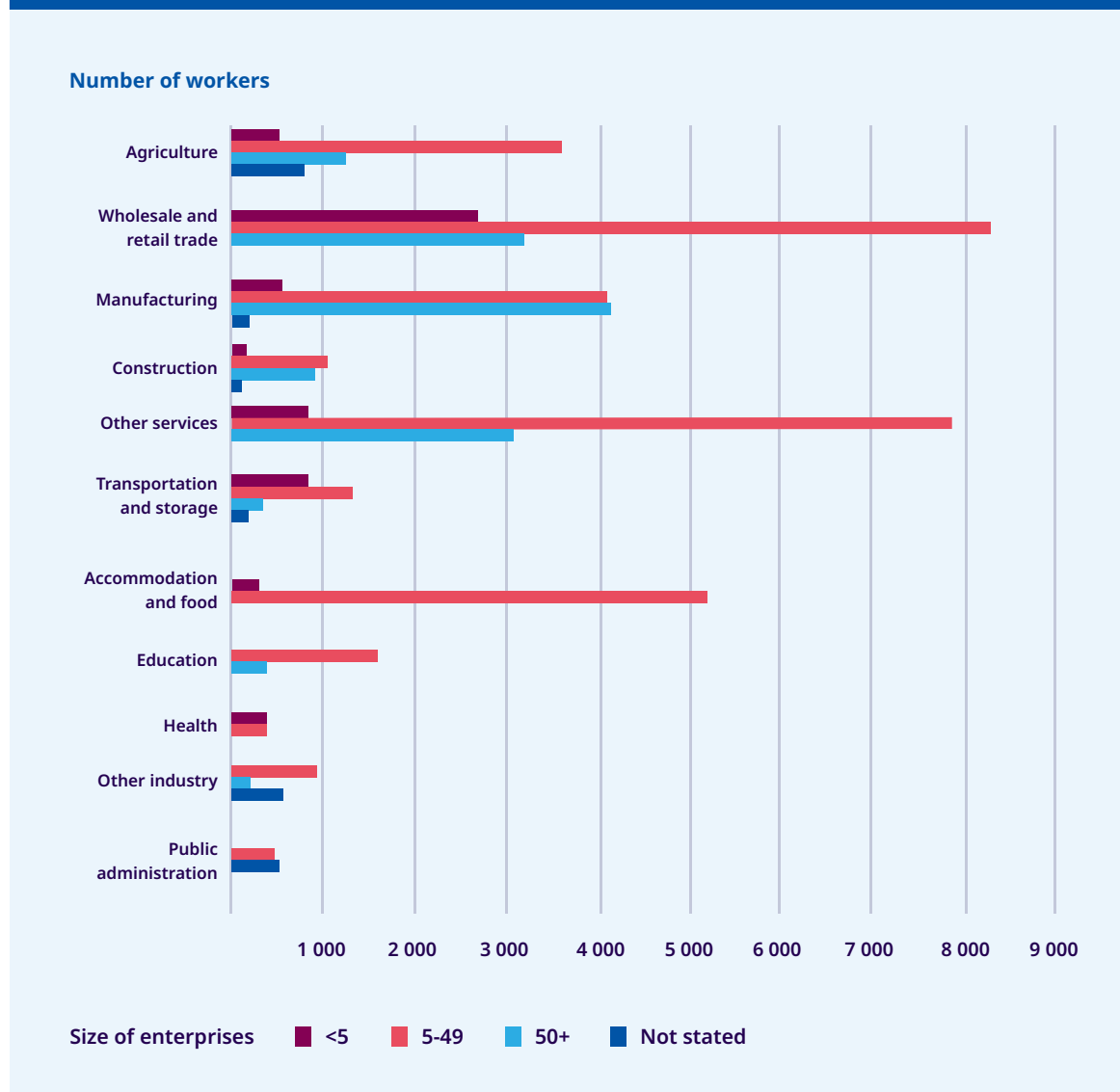


Source: LFS 2017.

Figure 21 shows that workers in medium and large enterprises (50+ employees) are more likely to be insured than those working in smaller enterprises: 51 per cent of workers in enterprises with 50 workers or more are not insured, compared to 88 per cent of those working in small enterprises (5–49 workers), and 92 per cent for those working in enterprises with fewer than 5 workers (microenterprises). This distribution is driven by the formal sector, where 46 per cent of workers in medium and large enterprises are not insured, 85 per cent of workers in small enterprises are not insured, and 92 per cent of workers in microenterprises are not insured. Of workers in informal sector enterprises, 100 per cent in medium and large enterprises are not insured, as are 94 per cent in small enterprises and 92 per cent in microenterprises. For those employees and employers for whom enterprise size is not stated, 90 per cent are estimated to be uninsured overall.

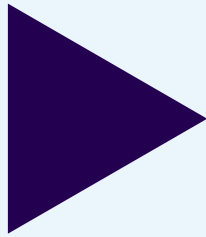
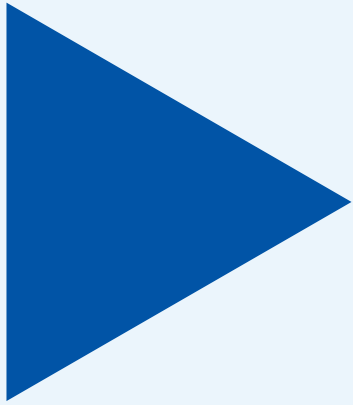
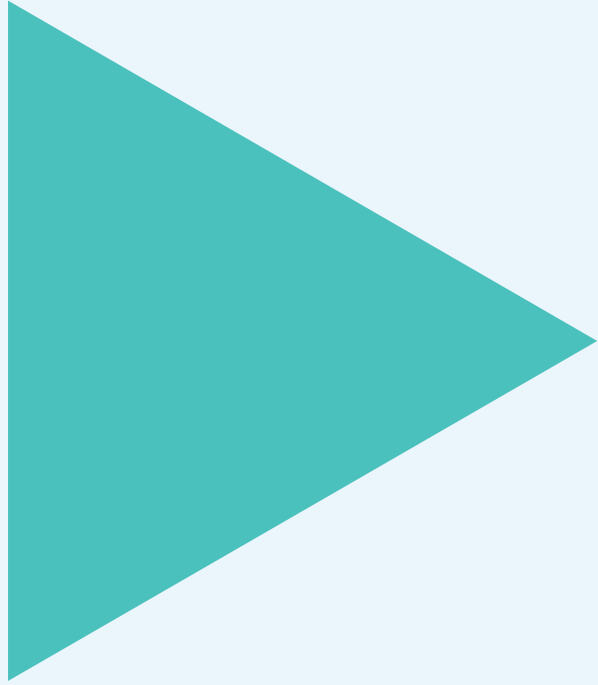
Of workers (employees and employers) in formal sector enterprises, 54 per cent (approximately 56,000) are estimated to be uninsured. Figure 22 below presents the distribution of these uninsured formal sector workers across economic sectors. It shows that the sector with by far the largest number of uninsured workers in medium-to-large formal enterprises (50+ employees) is manufacturing. The wholesale and retail trade and “other services” sectors also contain relatively high numbers of formal sector workers in medium-to-large enterprises that are not insured. The sectors with relatively large numbers of uninsured formal sector workers in small enterprises (5–49 employees) are wholesale and retail trade, other services, accommodation and food, and agriculture.

► Figure 22. Uninsured workers (employees and employers) in the formal sector by economic sector and establishment size



Source: LFS 2017.

Note: Domestic workers are excluded by definition as they do not work in enterprises.

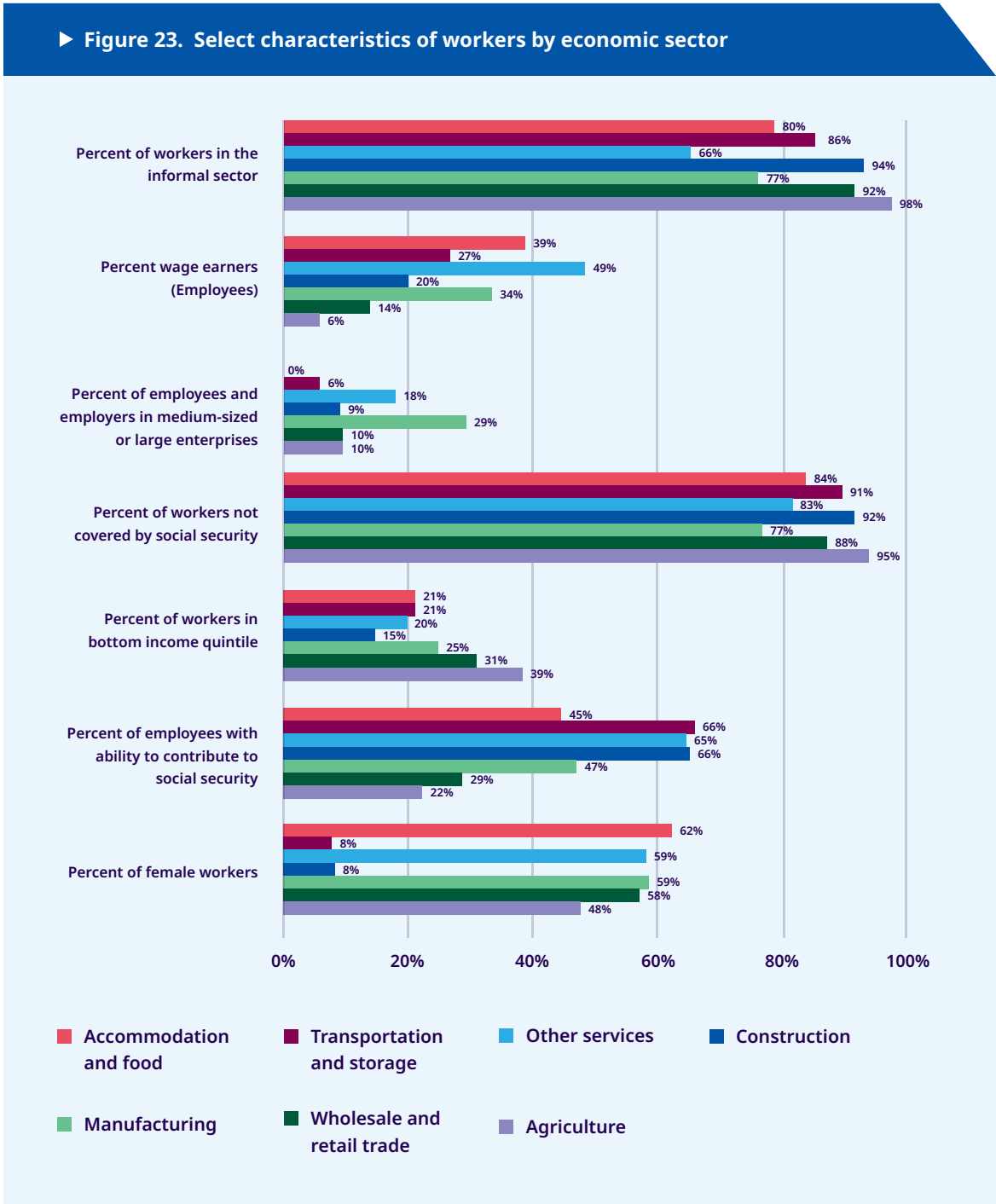


04

**Characteristics of
workers in selected
economic sectors**



The analysis conducted in Section 3 above shows that workers in particular economic sectors and subsectors are especially challenged when it comes to securing social security coverage. This suggest that for some workers social assistance or government subsidies for social security contributions will be required to provide protection against many economic and life-cycle risks. Below, we provide a brief comparative analysis across economic sectors (these are complemented by a set of figures in Appendix I providing a holistic overview of the characteristics of workers in these key selected sectors). The purpose of this analysis is to aid thinking about tailored strategies for expanding social security coverage among these groups.



Source: LFS 2017 and LECS-6 2019.

Figure 23 compares selected characteristics of workers across key selected economic sectors. It shows that the sectors with the highest proportions of informal sector workers are agriculture (98 per cent), construction (94 per cent), wholesale and retail trade (92 per cent), and transport (86 per cent). Additionally, although the sample size for domestic workers is relatively small within the LFS, the data indicate that 100 per cent of domestic workers are in the informal sector or household sector. The key sectors with the lowest rates of informal sector workers are other services (66 per cent), manufacturing (77 per cent), and accommodation and food (80 per cent).

Figure 23 also shows that the sectors with the highest proportions of waged workers (employees) are other services (49 per cent), accommodation and food (39 per cent) and manufacturing (34 per cent). The sectors with the lowest proportions of waged workers are agriculture (6 per cent), wholesale and retail trade (14 per cent) and construction (20 per cent). In the transportation and storage sector, 27 per cent of workers are employees.

In addition, figure 23 shows that all of these key sectors tend to have low shares of employees and employers working in medium or large enterprises. Although, manufacturing (with 29 per cent) and other services (18 per cent) sectors stand out as having greater shares of employees and employers in medium or large enterprises.

Given the high rates of informality, it is not surprising to see large proportions of workers not covered by social security across all economic sectors. The estimated proportion of workers not covered by social security ranges from 95 per cent in agriculture³³ to 77 per cent in manufacturing.

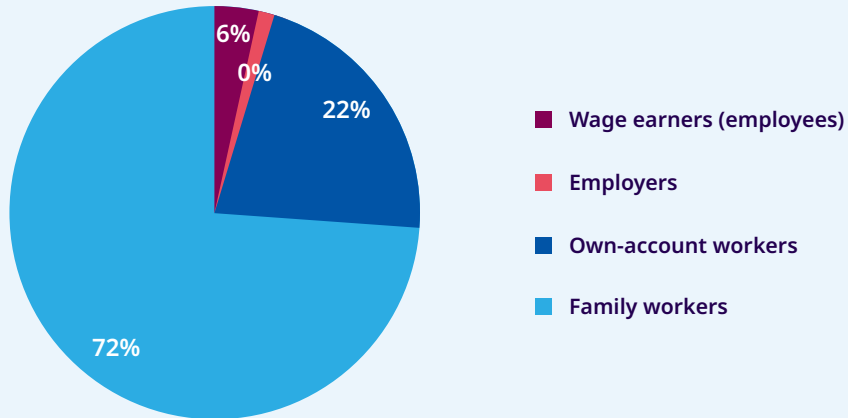
The agriculture sector also has the highest proportion of workers in the bottom national income quintile (39 per cent) and the lowest proportion of workers who are able to contribute to social security (22 per cent), indicating that government subsidies or social assistance will likely be required to cover social protection benefits for this group. Domestic workers are another group with relatively low capacity (20 per cent) to contribute to social security. Other sectors with workers with low capacity to contribute are wholesale and retail trade (29 per cent of workers are able to contribute), accommodation and food (45 per cent), and manufacturing (47 per cent). Wholesale and retail trade also has a relatively high proportion of workers in the bottom national quintile (25 per cent).

Certain sectors also have a high proportion of women workers, implying that focused efforts will be required in order to ensure gender equity in terms of coverage by social protection benefits and labour rights. The sectors with the highest proportion of women workers are accommodation and food (62 per cent), other services (59 per cent), manufacturing (59 per cent), and wholesale and retail trade (58 per cent). Agriculture has a lower proportion of female workers (48 per cent), while transport and construction have very low proportions (8 per cent in both cases).

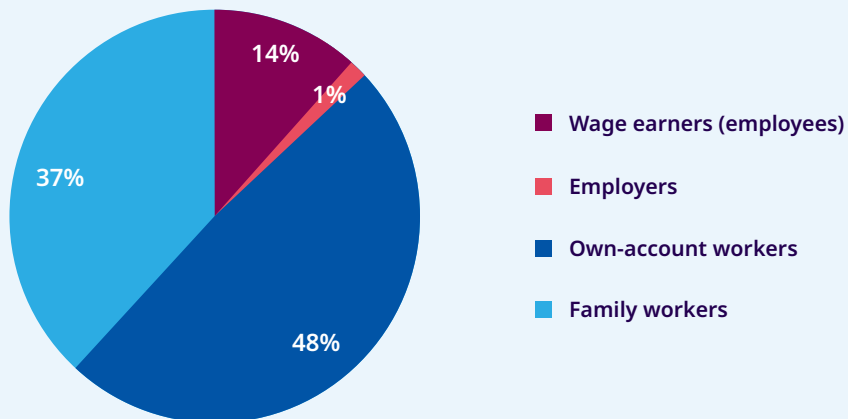
³³ It is actually even higher among domestic workers (96 per cent), but as noted above the sample size for this sector is very small in the LFS.

► Figure 24. Distribution of workers by employment status and economic sector

Agriculture workers by employment status

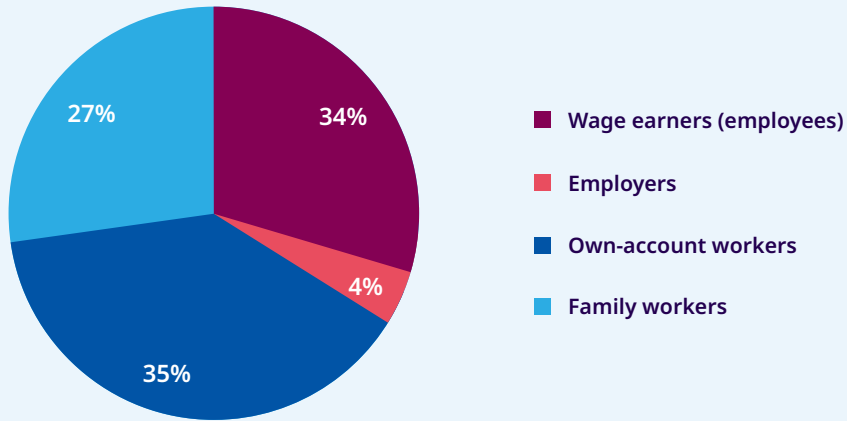


Wholesale and retail trade workers by employment status

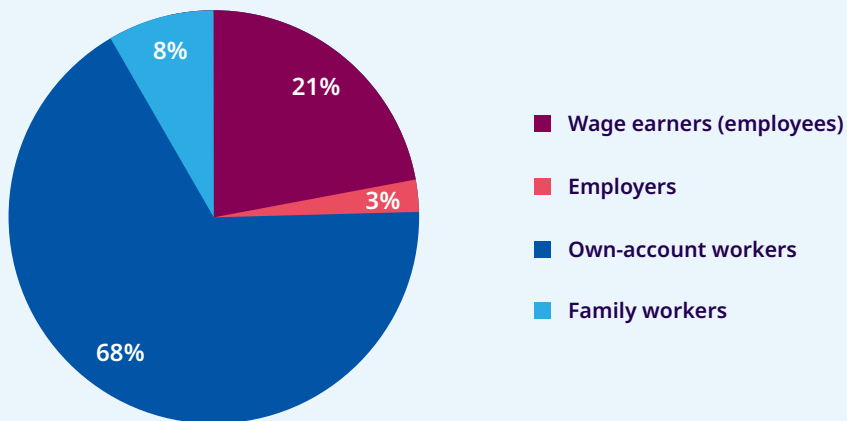


Source: LFS 2017.

Manufacturing workers by employment status

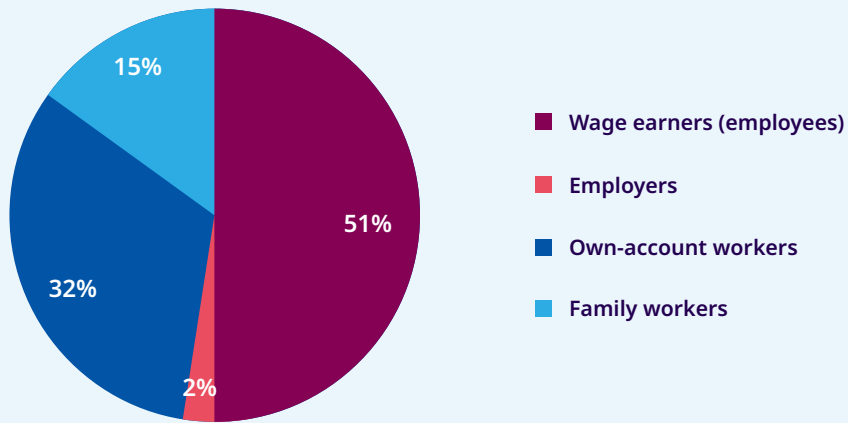


Construction workers by employment status

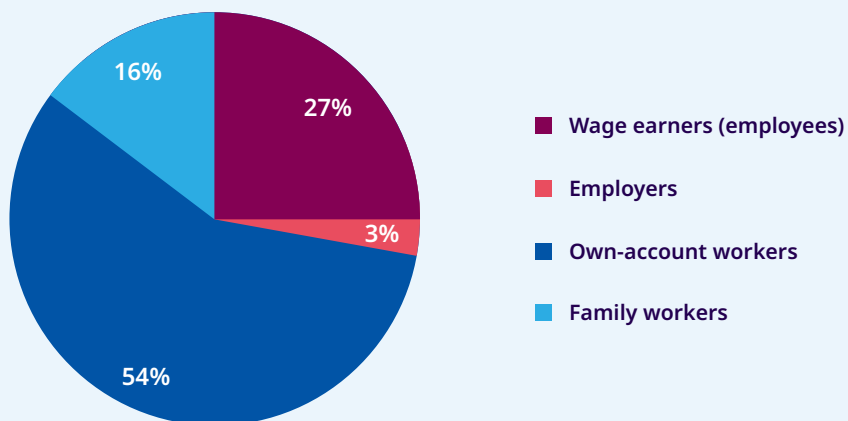


Source: LFS 2017.

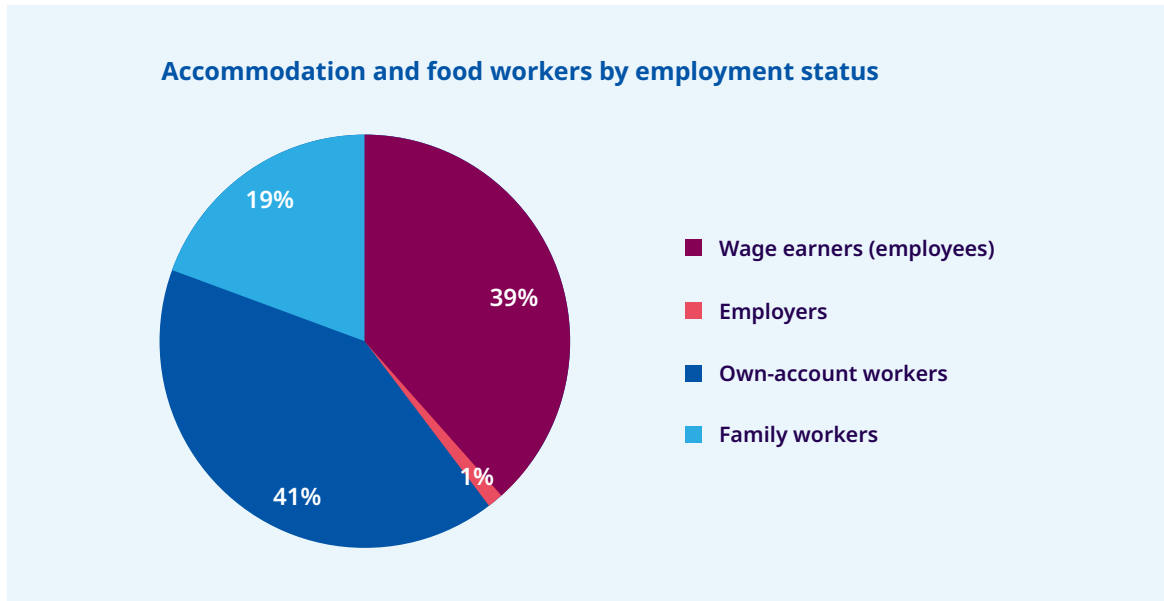
Other services workers by employment status



Transportation and storage workers by employment status



Source: LFS 2017.



Source: LFS 2017.

Figure 24 presents a breakdown of workers by employment status across selected economic sectors. It shows that the sectors with the largest proportion of workers who are family workers or own-account workers are agriculture, wholesale and retail trade, and construction. In the agriculture sector, the largest shares of workers are family workers (71 per cent) and own-account workers (22 per cent). Wholesale and retail trade is another sector with a relatively high proportion of workers who are non-employees (37 per cent are family workers, and 47 per cent are own-account workers). A large proportion of workers in the construction sector (67 per cent) are own-account workers, with a further 8 per cent being contributing family workers. This is also the case for transport workers, where 54 per cent are own-account workers and 15 per cent are contributing family workers. Especially for agriculture and wholesale and retail trade workers, who appear to have a low ability to contribute to social security themselves, the Government should consider providing contribution subsidies for non-employee workers and/or provide social assistance. The social security system will also need to allow for workers who are only able to make intermittent contributions.

Two sectors have a relatively high proportion of wage workers: other services (51 per cent) and accommodation and food (40 per cent). Manufacturing also has a relatively high proportion (34 per cent). In these sectors, effort should be focused on formalizing enterprises and on tailoring legislation and enforcement of regulations to ensure employment practices do not enable businesses to evade their contributions (for example, through the use of short-term/temporary contracts or subcontracting).

A high proportion of transport workers are own-account workers (54 per cent) and employees (28 per cent). Transport workers seem to have high capacity to pay social security contributions; so policy here could be directed at ensuring enterprises comply with legislation for employees (for example, through hinging operating licences on registration with the LSSO) and incentivizing voluntary membership (for example, through tying access to business support services to LSSO registration).



05

Part One conclusions



Informality is a major condition of the Lao labour market and enterprise landscape, with some 92 per cent of non-civil-servant workers employed in informal sector enterprises or in the household sector (83 per cent across all employed), and some 81 per cent of the non-civil-servant workforce are employed under informal conditions. Own-account workers and contributing family workers make up 81 per cent of the non-civil-servant workforce (34 per cent and 47 per cent, respectively), with women workers some 6 percentage points more likely than male workers to be in vulnerable employment. It is estimated that fewer than one-third (30 per cent) of all enterprises are formally registered. In addition, the labour force participation rate was just 41 per cent in 2017, meaning a large share of the working age population remained outside the labour force altogether (over half of whom were engaged in subsistence agriculture).

This high level of informality and vulnerability means the vast majority of workers are not covered by key labour rights or social protections, which exposes them to a variety of economic and life-cycle-contingent risks, which in turn can hinder productivity and exacerbate poverty. The low level of formality among workers and enterprises also negatively impacts government revenue through diminished social security contributions and tax receipts.

Coverage by the NSSF in 2017 was 7 per cent of the workforce (non-civil-servant), according to LSSO administrative data (16 per cent, if including civil servants), with estimates of coverage by any form of social insurance within the LFS data being somewhat greater (11 per cent). This implies that around nine out of every ten non-civil-servant workers are not covered by social security. Even within the formal sector, over half (57 per cent) of the workforce is not insured. Meanwhile, the practical pathway for the self-employed to participate in social insurance remains limited, despite current legislation making explicit provision for this group.

In relation to social assistance, there are currently no regular, large-scale cash transfers in place; although (in accordance with the National Social Protection Strategy 2025) the Government is piloting cash transfers for pregnant women and children in some parts of the country, looking to cover at least the first 1,000 days of life for some children.

Not being insured by social security appears to be weakly related to age (older and younger workers are slightly less likely to be insured), and strongly related to income (poorer workers are much less likely to be insured) and education (those with lower levels of education are less likely to be insured), as well as conditioned by the sector in which a worker is located. The vast majority of agriculture workers remain outside the social security system, with large numbers of uninsured also found in the services, wholesale and retail trade, industry, manufacturing, construction, other services, accommodation and food, and transport sectors.

The barriers to coverage by social security are both financial and non-financial. While the ability to contribute is a significant barrier for many, it is not the only, or even perhaps the main obstacle to accessing social security. National survey data indicate that around half (52 per cent) of all employees are potentially able to contribute towards social security, although this differs across different economic sectors – for instance, wholesale and retail trade, agriculture, and domestic workers have relatively low capacity to contribute. Some 13 per cent of households have outstanding debt obligations, and households with debt tend to be poorer on average than those without. There is significant income inequality between men and women, with women earning less than men in both the formal and informal sectors. There is also significant income inequality across wealth quintiles, with average monthly income of those in the wealthiest quintile being nearly 20 times greater than the average income of those in the poorest quintile.

For these reasons, social assistance and/or government-subsidized social security contributions will likely be required to provide social protection to certain groups of workers, especially agriculture and domestic workers. Special efforts will also be required to mitigate some of the structural prejudices women face in the labour market.

Beyond financial obstacles, another key barrier to accessing social security on the demand side appears to be the administrative complexity of the registration process. Informal workers indicate that two big concerns they have are: (i) their ability to fill in forms and (ii) lack of identification and other documentation required to complete the registration process. These and other issues regarding barriers to accessing social security are discussed in further detail in Part Two of this report.

Within the formal sector, 57 per cent of workers (employees and employers) are uninsured. The economic sector with by far the largest number of uninsured workers in medium-to-large formal enterprises is manufacturing. Wholesale and retail trade and other services also contain relatively high numbers of formal sector workers in medium-to-large enterprises who are not insured. The sectors with relatively large numbers of uninsured formal sector workers in small enterprises are wholesale and retail trade, other services, accommodation and food, and agriculture.

These conditions mean that workers in the formal sector and in medium and large enterprises are significantly more likely to be insured than those in the informal sector and in micro and small enterprises. This, in turn, implies that formally registering enterprises is key to increasing coverage by social security. Given the enterprise landscape is dominated by micro and small enterprises, which at last count together constituted 99 per cent of all enterprises in the country, a cross-ministerial strategy to increase formalization could be beneficial.

Finally, it is worth noting that the both the LFS and LSSO administrative data suggest that not all civil servants and state enterprise employees are insured or working under formal conditions.

5.1. Implications for policy

The above analysis of the 2017 LFS data and living standards measurement survey data identifies certain economic sectors and subsectors, and/or groups of workers within them, where there is potential to increase the coverage of social security. This may be because there are:

- ▶ High numbers and/or proportions currently uninsured
- ▶ High proportions of waged workers
- ▶ Significant numbers working in medium or large enterprises
- ▶ Relatively high proportions working in the formal sector
- ▶ Employees have a reasonable ability to afford contributions

Licensing requirements are an additional factor (not present in the survey data) that may influence the potential to increase social security coverage. Below we highlight five economic sectors that show potential in one or more of these dimensions.

5.1.1. Agriculture

Workers in the agricultural sector constitute the largest group among all economic sectors, and an estimated 95 per cent are currently uninsured. Increasing coverage among this group can therefore potentially have a significant impact on the overall coverage rate. However, conditions for doing this are not straightforward. The vast majority of agricultural workers are contributing family workers or own-account workers (94 per cent taken together), and just 2 per cent are employed in the formal sector. Agricultural workers also tend to be among the poorest members of the labour force, with low ability to contribute to social security relative to workers in other sectors, indicating that government subsidies for social security contributions and/or social assistance are likely to be required for many in this group. This being said, around 3,500 agriculture waged workers are employed in medium or large firms (50+ employees), with a further 12,500 in small enterprises (5–49 employees). There is potential to increase compliance with existing social security legislation among these two subgroups.

Further research could be conducted to look into agriculture subsectors to identify opportunities for extending social security coverage, for example, among producers of domestic or export market crops, who may be relatively wealthier and have greater ability to contribute. (See Part Two of this report for an analysis of the coffee producers subsector.)

5.1.2. Manufacturing

The manufacturing sector has one of the highest proportions of waged workers (34 per cent) among all economic sectors. It also has the largest number of workers (employers and employees) in medium or large enterprises (about 14,000). In addition, it has the highest proportion of workers employed within the formal sector, and their ability to contribute to social security is also high relative to workers in other sectors. Given that licences are required to operate in many parts of this sector, the potential to increase compliance and extend coverage to many workers is relatively high, as the issuance/renewal of licenses can potentially be tied to compliance with LSSO registration.

Further research could be conducted to look into different subsectors to identify practical opportunities for increasing formalization and extending social security coverage among small, medium and large firms. (See Part Two of this report for an analysis of the drinking water manufacture subsector.)

5.1.3. Transport

Another sector with a relatively high proportion of waged workers (27 per cent) is transport. Most transport workers are own-account workers, with only around 4,700 working in micro or small enterprises (and fewer than 1,000 working in medium and large enterprises). Given their relatively high ability to contribute, there is likely potential to exploit the need for operating licences to increase formalization, improve compliance, and/or pilot mandatory social security participation.

Further research could dig deeper into specific groups of workers within the transport sector, for example among storage enterprises with fixed premises or particular types of transport operators, to devise pilot approaches to increase formalization and extend participation in social security. (See Part Two of this report for an analysis of the logistics subsector.)

5.1.4. Accommodation and food

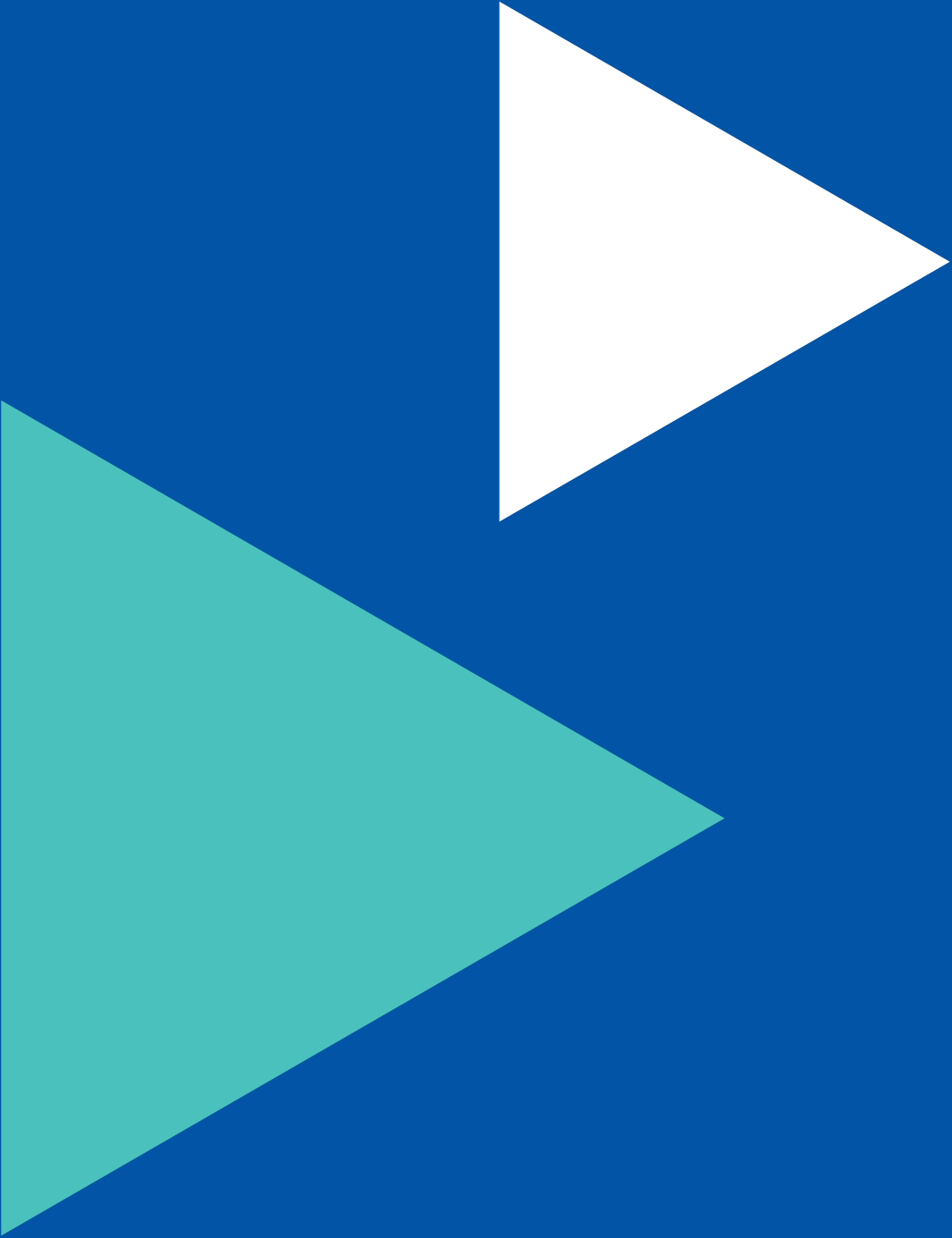
The accommodation and food sector has the highest proportion of waged workers (39 per cent) among all economic sectors, as well as one of the highest proportions of formal sector workers (20 per cent). The ability to contribute to social security is also relatively high among this group. Given that many enterprises in the accommodation and food sector are likely to have fixed premises and require operating licences, there is again potential to leverage these factors in order to increase formalization and improve social security coverage.

Further research could look into the accommodation subsector, on the one hand, and the food and beverage sector on the other, considering hotels and other accommodation providers as distinct from caterers, bars and restaurants in order to identify opportunities for increasing compliance and extending coverage among micro and small enterprises.

5.1.5. Wholesale and retail trade and other services

Two further sectors that require more detailed research are wholesale and retail trade and other services. Each has close to 5,000 workers employed in medium or large enterprises. Among other services workers, 34 per cent are employed within the formal sector and their ability to contribute to social security is very high relative to other sectors. The opposite is the case for wholesale and retail trade, where just 8 per cent of workers are employed in the formal sector and their ability to contribute is low (second only to agriculture workers).

Further research could dig into these sectors to identify subsectors and subgroups of workers where opportunities are best to improve formalization and compliance with social security legislation (for example, street vendors compared to shopkeepers with fixed premises, or different types of wholesalers).



Part Two



06

Qualitative research methodology



In Part Two of this study we conduct qualitative research to better understand the barriers to formalization and participation in social security in three subsectors across three main pillars of the economy: agriculture, manufacturing and services. The purpose of this study is to describe, document and analyse the key institutional and operational processes relevant to delivery of social security services and enterprise formalization in the country. On the supply side, this involves an examination of LSSO organizational structures and relationships with:

- ▶ Other parts of government, such as:
 - Ministry of Labour and Social Welfare (MoLSW)
 - Ministry of Finance (MoF), including its Tax Department
 - National Health Insurance Bureau (NHIB)
 - Hospitals under the Ministry of Health (MoH)
 - Ministry of Industry and Commerce (MoIC)
- ▶ Mass organizations, such as the Lao Federation of Trade Unions (LFTU)
- ▶ The private sector, such as the Lao National Chamber of Commerce and Industry (LNCCI)
- ▶ Civil society, such as the Informal Worker Advancement Association (IWAA)

The qualitative research is primarily based on a legislation and literature review plus KIIs and FGDs, with the aim of identifying key challenges to and opportunities for expanding coverage of social security across the labour market. It focuses on administrative processes and barriers, contributions and payments architecture, enterprise registration and formalization, and institutional and legislative context.

Along with the supply side, our research also covers the demand side in order to understand the knowledge, preferences, ability to contribute, and user experiences of both NSSF members and potential members vis-à-vis social security and enterprise formalization, over three economic subsectors.

6.1. Selection of economic subsectors and research sites

The study focuses on three economic subsectors covering the aforementioned three broad pillars of the economy: agriculture, manufacturing, and services. These subsectors are coffee production, manufacture of drinking water, and logistics, which were agreed upon between the researchers and the ILO based on a variety of factors. These include: availability of relevant quantitative data; areas of known interest to the Lao Government; potential for expanding social security; and identified research needs of key stakeholders. The targeted enterprises within each subsector were selected based on consultation between the LSSO and the research team.

- ▶ **Coffee production:** For this subsector we aim to cover a spread of different types of workers and production units, including wage workers for large producers and small/household producers, especially those organized in cooperatives.
- ▶ **Manufacture of drinking water:** For this subsector the emphasis is on small and medium enterprises, rather than the large international producers like Coca-Cola, as these larger outfits are routinely inspected by the LSSO and are therefore much more likely to already be compliant with social security, labour, and industry and commerce legislation.
- ▶ **Transportation and storage:** In this subsector we focus on logistics. This is due to the high degree of growth in this subsector since the COVID-19 pandemic, and the large number of wage earners it employs across a range of SMEs.

In all of these subsectors, operating licenses are required, which thus provides an opportunity for the LSSO to leverage the licensing process in order to encourage compliance with social security legislation. As well as covering a selection of subsectors across the three pillars of the economy, the research was designed to cover a spread of geographic locations across the three regions of the country: North, South and Central. In the North, we visited Luang Prabang Province (drinking water manufacture), in the South, Champasack Province (coffee production), and in the Central region we focused on Vientiane Capital and its industrial hinterlands (logistics companies). These locations were selected based on pragmatic considerations, including the need to cover a range of geographic contexts and the location of activity for the economic subsectors of interest, as well as feasibility of access.

► Table 3. Characteristics of interviewed enterprises in selected subsectors

Sector	Employment status	Enterprise	Enterprise structure and type of workers		Notes
Logistics/ express delivery	Enterprise workers	Company A	1 HQ 92 branches	Permanent: 650 Part-time: daily wage	300–350 franchisees, 3 workers per franchisee
		Company B	1 HQ 23 branches	Permanent: 107 Part-time: 200–300	459 franchisees, 3 workers per franchisee 80% of transport vehicles are outsourced
Drinking water production	Enterprise workers	Factory A	1 office 1 factory	Permanent: 44	Trucks: 5 Sales subcontractors: 6
		Factory B	1 office 1 factory	Permanent: 6 Part-time: 8	
Coffee	Enterprise workers	Plantation A	1 office 1 plantation 1 plant	Permanent: 73 Part-time: daily wage	
	Self-employed	Village A	Family workers: 3 on average (Min: 2, Max: 8)		
			Outside family: 6 on average (Min: 0, Max: 15)		Production based, paid daily
		Village B	Family workers: 3 on average (Min: 2, Max: 5)		
Outside family: 8 on average (Min: 0, Max: 20)			Production based, paid daily		

6.2. Data collection

As indicated above, the primary methods of data collection were qualitative in nature and comprise a combination of KIIs and FGDs. Data collection was predominantly conducted from February to April 2023.³⁴ Two instruments for KIIs were developed: one for government agencies, mass organizations, representatives of the private sector, and civil-society associations; and another for enterprises or coffee cooperatives. Two FGD guides were also developed: one for employees working at enterprises; and another for self-employed coffee farmers (including cooperative members). These data collection tools were designed to cover five key dimensions: (i) policy and legislative framework; (ii) administrative systems; (iii) ability to pay; (iv) communication and awareness of social security; and (v) existing social protection and risk coping mechanisms.

Below we detail the respondents interviewed and the number of KIIs and FGDs we conducted at both national and subnational levels:

Vientiane Capital: 22 KIIs and 2 FGDs were conducted. Respondents include:

- ▶ 10 government agencies at the national level:
 - LSSO headquarters
 - Department of Enterprise Registration and Management (DERM) under MoIC
 - Department of Planning and Cooperation under MoLSW
 - One-Stop-Service/Department of Investment Promotion under the Ministry of Planning and Investment (MPI)
 - NHIB and the Food and Drug Department under MoH;
 - Tax Department under the MoF;
 - Department of Business Registration and Enterprise Management under the MoIC;
 - Department of Planning under Ministry of Agriculture and Forestry (MoAF);
 - Department of Land Transport under Ministry of Public Work and Transport (MoPWT).
- ▶ 4 local government agencies:
 - LSSO
 - Department of Labour and Social Welfare
 - Department of Industry and Commerce
 - Department of Public Works and Transport
- ▶ 2 offices of the LFTU (central level and Vientiane Capital level)
- ▶ 1 international non-governmental organization (Oxfam)
- ▶ 3 associations: LNCCI; ECCDA; and IWAA
- ▶ The management teams and human resources (HR) departments of two selected logistics enterprises, each employing more than 100 workers.
- ▶ FGDs: 19 workers from the selected logistics enterprises participated in two FGDs. Of these participants, seven are currently NSSF members, and three had experience joining the NSSF in previous workplaces.

Luang Prabang: 9 KIIs and 2 FGDs were conducted. Respondents include:

- ▶ 6 provincial organizations
 - LFTU
 - Department of Labour and Social Welfare
 - Department of Industry and Commerce
 - Department of Planning and Investment
 - Department of Health
 - Luang Prabang provincial hospital

- ▶ The management teams and HR staff of two selected factories that produce drinking water, one employing 14 workers and the other employing 44 workers.
- ▶ FGDs: 10 workers from the selected drinking water factories participated in two FGDs. Of these participants, five were NSSF members under the enterprise scheme and one was an NSSF member under the voluntary scheme.

Champasack Province: 11 KIIs and 4 FGDs were conducted. Respondents include:

- ▶ Six provincial organizations:
 - LFTU
 - Department of Labour and Social Welfare
 - Department of Industry and Commerce
 - Department of Planning and Investment
 - Department of Agriculture and Forestry
 - Champasack Provincial Hospital
- ▶ The management teams and HR staffs of one coffee cooperative and two coffee plantations. The coffee cooperative is a member-owned business and executes a coffee plantation of 3,000–4,000 hectares. Of the private coffee plantations, one is Lao-owned with an area of 300 hectares and the other is foreign-owned with an area of 750 hectares.
- ▶ FGDs: 4 FGDs with 26 self-employed coffee farmers were conducted in two villages of Paksong District. Of these participants, seven are members of the coffee cooperative that we interviewed, and two participated in social security promotional activities. Only one participant reported being a member of the NSSF as now retired government worker. The research team were not able to meet with employees of the two privately owned coffee plantations.

6.3. Limitations

The study focused on specific subsectors where potential for expanding social security was felt by key stakeholders to be relatively pronounced. This means it is not possible to generalize the findings to a larger population or to other economic subsectors.

In the selected private enterprises and coffee plantations, the mission was able to interview staff in positions such as director or division chief, but were unable to meet with employees. This was due to the enterprises not wanting to disturb production. The information thus received does not represent the views and experiences of the employees, such as those in the warehouse or on the production line.

This study covers business operations in three subsectors by enterprises located in three provinces of the country, regardless of their legal status. However, it does not provide insight or information on informality and access to social security in Special Economic Zones (SEZs; see box 10).

³⁴ Some follow-up KIIs with national-level stakeholders were conducted as part of the validation workshop in July 2023.

► Box 10. Special Economic Zones (SEZs)

The Government of the Lao People's Democratic Republic established the first SEZ in 2003 with the expectation that SEZs could become one of the driving forces of economic development and modernization in the country. The idea is for SEZs to not only provide an especially enabling business environment to encourage both foreign direct investment and local private investment, but also to spur cross-border cooperation with neighbouring countries by offering complementary services and stimulating the creation of regional value chains.

According to the 9th National Social Economic Development Plan, in 2020 SEZs hosted some 153 companies' industrial investment projects, with total investment of US\$1.67 billion. The projects include petrochemical processing and the production of goods such as hard-disks, electronic spare parts, Nikon camera lenses, airplane spare parts, and Toyota car seats. There are currently 12 SEZs located throughout the country.

The SEZ Promotion and Management Office (SEZO) under the MPI is tasked with overall supervision of SEZs. Provincial SEZ Management Authorities (SEZAs) in each province where an SEZ is located are responsible for approving and facilitating business operations in each SEZ. To start a business and obtain an investment and operating license in SEZs, investors must apply through the OSS within the SEZO or SEZA. This means that all SEZ business operators must obtain an ERC, TIN and related operating licenses and permissions before starting business operations. Businesses operating in SEZs are eligible to receive a large set of investment incentives such as tax exemptions.

Guided by the Law on Investment Promotion (No. 32 of 2016), business operators in the SEZs follow a specific Decree on SEZ (No.188, 2018) under which the zone developer is obligated to promote the employment of Lao labour, especially female and ethnic labour, as well as to provide professional upgrading and transfer of skills and technology to Lao workers (article 21(7)). SEZA, in cooperation with zone developer and investors, shall define the needs of labour in each period and coordinate with labour and social welfare and other sectors to develop skills and supply adequate labour to the zone (article 36). In addition, SEZA shall cooperate with the zone developer to collect labour statistics in the SEZs in each period, and protect and train local labourers and the surrounding community as specified in the relevant laws (article 37). Supervisory authorities include the MPI, SEZO, SEZA, provincial and capital administration, and other sectors. These authorities also have mandates regarding inspection of SEZs (articles 54 and 60).

Although business operators in SEZs are expected to adhere to all relevant Lao laws, including the Law on Social Security, inspections by SEZO and SEZA are structured around monitoring adherence to the terms of their business operating contracts, which do not explicitly mention or include conditions related to participation in the NSSF. The research conducted for this study did not include any data collection in SEZs, and explicitly excluded SEZs as an area of focus. Nevertheless, key informants suggested that, as adherence to the relevant laws is a requirement of the SEZ business contract, most companies operating in SEZs should be registered with the LSSO (for example, Champasack LSSO reported that most of the investment projects in Champasack SEZ were registered with under the enterprise scheme). Nor is exemption from participation in social security part of the incentives package provided to SEZ business operators. However, as neither the 2016 Investment Promotion Law nor the 2018 Decree on SEZ explicitly mention the Labour Law or Law on Social Security, it is possible that adherence to these regulations is not comprehensive. At present, there are no active data links between the MPI and LSSO to facilitate inspection or compliance with the law.

There is also a lack of published literature to assess how far business operators in SEZs are adhering to the Labour and Social Security Laws, or to assess the general working conditions of workers in SEZs, which anecdotal and other limited evidence suggest can vary depending on the industry type. For example, SEZs with export-oriented manufacturing may be likely to provide better working conditions compared to those provided in SEZs focused on tourism activities such as casinos. However, given the lack of literature on these topics and the focus of our own research not covering SEZs, we cannot provide any substantive evidence on these areas.

Sources: Lao People's Democratic Republic, Government of the Lao People's Democratic Republic 2021; Lao People's Democratic Republic, MPI, IPD, n.d.; key informant interviews.



07

Employment and enterprise formalization



The analysis conducted in Part One of this study clearly demonstrated the scale of informality in the Lao labour market and enterprise landscape. At the time that analysis was conducted, the most recent available LFS data were from 2017. Since then, findings from the LFS 2022 have been released and show that, while labour force participation has risen from 41 per cent in 2017 to 47 per cent in 2022, informality has also increased, from 83 per cent to 86 per cent (Lao Peoples' Democratic Republic, LSB 2023). Given that the enterprise landscape is dominated by micro and small enterprises, within which workers are much more likely to be informally employed and without social protection, formalizing enterprises will necessarily be a key component of any strategy to increase coverage of social security.

In 2016 the Lao People's Democratic Republic adopted the Vientiane Declaration on Transition from Informal Employment to Formal Employment towards Decent Work Promotion in ASEAN (ASEAN 2016). However, as yet there remains no single definition of informal employment, with different organizations and agencies applying different definitions. For example, officially, the overall measure of informal employment is provided by the LFS, which employs a statistical definition following the international standards adopted by the 15th International Conference of Labour Statisticians (see box 1 in section 2.1.1 above). At the same time, according to the 2013 Labour Law, informal workers are legally classified as those who work in labour units that are not registered according to the law (article 3(7)). The Law on the LFTU also designates the self-employed as informal.

7.1. Enterprise data management information systems

Information on the number of enterprises and enterprise registration remains partial and fragmented across different ministries. Interviews conducted for this study show that different line ministries responsible for different economic sectors and subsectors each operate their own data collection system, but these are not all formally connected yet. Even within ministries, access to data between vertical structures can be a challenge. Registration information is often kept in Excel spreadsheets and irregularly exchanged offline. Monitoring of enterprises under given line ministries' supervision is through text reporting from the subnational vertical organizations. On the plus side, the two largest existing national databases containing information on enterprises are linked: the National Enterprise Database (NED), maintained by the MoIC, and the Tax Revenue Management Information System (TaxRIS), maintained by the MoF's Tax Department. Activities to develop databases and linkages between them are ongoing in several of the ministries consulted for this study.³⁵

7.1.1. The National Enterprise Database

The NED is a centralized database of all registered enterprises in the Lao People's Democratic Republic, and a key tool for the Government to promote the country's economic development and business environment. It was launched in 2011 by the DERM within the MoIC. The NED contains a wide range of information about registered enterprises, including name, registration number, type (private, state, mixed or cooperative), ownership structure (individual, partnership, company), address, contact information, business activities, and tax payment information. The database can be viewed online at: <http://www.ned.moic.gov.la/>.

According to the NED Office, 187,964 enterprises were registered between 2008 and 2022. In 2022, 18,076 new enterprises were registered, with the majority being individual enterprises (71 per cent), followed by sole limited companies (21 per cent) and limited companies (8 per cent). The majority of these enterprises are in the wholesale and retail trade and repair of motor vehicles and motorcycles sector (32 per cent), the financial and insurance services sector (13 per cent), and the electricity, gas, steam and air conditioning sector (11 per cent) (Lao People's Democratic Republic, MoIC, DERM, NED 2023).

In order to link with TaxRIS the NED includes registered enterprises' Tax Identification Numbers (TIN), which are generated by the Tax Department for tax collection purposes.

7.1.2. TaxRIS

TaxRIS was launched in 2017 by the MoF to improve the efficiency and transparency of the tax system. TaxRIS allows taxpayers to file their taxes online, pay their taxes electronically, and track their tax payments. To log in to TaxRIS, taxpayers require a TIN. For enterprises, the TIN can be obtained during the business registration process. Self-employed workers can apply for a personal TIN (or P-TIN) at the provincial or municipal Tax Department or through the TaxRIS website.³⁶ Enterprises that are exempt from registering with the MoIC (such as microenterprises with an annual income less than 50 million kip) still need to pay tax and therefore to acquire a TIN.³⁷

The Law on Income Tax (No 67. Of 2019) provides tax exemptions for some microenterprises and self-employed persons, including for:

- ▶ Microenterprises with annual revenue below 50 million kip are exempted from income tax
- ▶ Microenterprises with annual revenue of 50 million kip to 400 million kip are taxed at reduced rates: 1 per cent for production, 2 per cent for trading, and 3 per cent for service activities
- ▶ Self-employed persons earning less than 1,300,000 kip per month
- ▶ Income of people with disabilities
- ▶ NSSF contributions
- ▶ Protective clothes and equipment for occupational safety

Key informants consulted for this study report that estimation of annual revenues, which is undertaken by the special task force assigned by the district governor, is particularly challenging when it comes to microenterprises and the self-employed, as there is no inspection mechanism in place and access to information from personal bank accounts is extremely limited.³⁸ Registration for a P-TIN can be done at the Tax Department, though only a small portion of independent workers apply for one.

³⁵ These include: the MPI has recently completed a project supported by the United Nations Development Programme (UNDP) to develop a database to house information for all their projects and is currently preparing to link with the MoLSW MIS to exchange data on both national and foreign workers. They are now looking for further support to link with the NED and TaxRIS. The MPI is also currently working to improve datalinks and systems within their vertical structures. The Tax Department is engaged in a project to increase the number of self-employed workers with a personal Tax Identification Number (TIN). The MoPWT plan to develop datalinks with the TaxRIS and MoIC is under a project supported by the World Bank's International Finance Corporation.

³⁶ Available at: <http://taxservice.mof.gov.la/>

³⁷ Key informants indicate that, in practice, many micro and small enterprises that do pay tax also voluntarily acquire an ERC in order to better gain access to financing and other forms of business support.

³⁸ Only in the case of suspected criminal activity may authorities potentially access private bank accounts.

7.1.3. LSSO MIS

The LSSO relies on two management information systems (MIS): My SQL and Fox Pro. MySQL is used for managing government members' data and Fox Pro for managing data on enterprise and volunteer scheme members. MySQL is open-source, server-based, and more scalable. Fox Pro's functionality is more limited, which is why on-site registration (that is, at a worker's place of business) for the enterprise and volunteer schemes is not possible. Investment is required to upgrade the MIS for the enterprise and volunteer schemes, or to bring all members under a single MIS with requisite functionality. According to the LSSO 2021 Annual Report, MySQL for these schemes has been developed and is currently in the process of being linked with the government scheme (Lao People's Democratic Republic, MoLSW 2022).

For public relations (PR) and monitoring purposes, the LSSO receives data on enterprises that are registered and have paid tax from the MoIC and the Tax Department, and data on enterprises that do not have social security certification from the MoLSW's labour inspection unit. Data sharing is done through paper-based systems and soft files, rather than through automatic linkages between databases. The LSSO sends updated data on social security beneficiaries to the NHIB once a week, which the NHIB is supposed to send on to hospitals. The NHIB is also supposed to share monthly reports on utilization of benefits by NSSF members, though key informants indicate these reports are not regularly submitted.

7.2. Enterprise registration

According to the Law on Enterprises (No. 33 of 2022, article 15), all persons intending to conduct business in the Lao People's Democratic Republic shall give notice by submitting an application for enterprise registration to the registrar of the relevant Industry and Commerce Sector³⁹. Exemptions to this rule are provided for certain types of micro and small enterprises, namely:

- ▶ Family businesses producing agriculture and handicraft products, and operated only by family members.
- ▶ Petty traders, including small shop operators, vendors and hawkers, who earn regular income of less than 100,000 kip per day.
- ▶ Small service providers that earn regular income of less than 100,000 kip per day.
- ▶ Seasonal traders or service providers operating on an irregular basis, except for those businesses regulated by separate legislation, such as pharmacies or consultancy services.⁴⁰

Despite the law, and even accounting for the exemptions provided, available data show that the vast majority (around 70 per cent) of enterprises go unregistered (see section 3.3 above). To understand the barriers or other determining factors contributing to this low level of registration, we detail below the various rules and processes required to be followed for enterprises to formalise.

Pursuant to the 2018 Prime Minister's Decree on Improving the Business Environment, economic activities in the Lao People's Democratic Republic are divided into two groups:

- i. economic activities that are not on the controlled business list or related to concessions (the general list).
- ii. economic activities that are on the controlled business list or related to concessions.

Controlled businesses are those that may have impacts on national security, social order, norms and culture, or the environment, or that could detrimentally affect social and economic stability. Examples of controlled business activities include mining, storing of hazardous materials, courier services, private insurance services and auditing. Concession activities include investment in concession land, development of SEZs for exporting, mine exploitation, development of energy sources, air travel and telecommunications.

7.2.1. Economic activities on the general list

The timeline for registering a business for economic activities in the general list depends on whether an operating license is required. Enterprises first apply to the DERM under the MoIC. If the required documents are complete and accurate and the application is accepted, the enterprise should receive an Enterprise Registration Certificate (ERC) and TIN after no more than ten working days. Following this, the enterprise must submit an application to the Ministry of Public Security. If successful, the enterprise should receive a company seal within five working days.

The next step differs depending on whether an operating licence is required. For economic activities that do not require an operating licence, an enterprise can start operating immediately once they have their ERC and TIN, and must thereafter obtain a tax payment certificate each year. For economic activities that do require an operating licence, the enterprise must apply for this from the relevant line ministries once they have obtained their ERC, TIN and company seal, and can only start operating once they have the operating licence. The timeframe for receiving an operating licence varies depending on the government sector that issues the licence. Operating licence issuers have sole authority to renew the licences annually.

For the subsectors we focus on in this study:

- ▶ Enterprises operating logistics/express delivery services require operating licences from the MoPWT for the use of vehicles and transport by road, and from the Ministry of Technology and Communications for providing delivery services.
- ▶ Enterprises manufacturing drinking water must obtain operating licences from the MoIC for using machinery and product packaging, and from the Department of Food and Drugs of the MoH for product quality.
- ▶ Enterprises producing coffee must obtain operating licences from the MoAF for growing coffee and Ministry Natural Resources and Environment and/or MoF for using private or state land.

³⁹ Within the context of the Lao Government the word “sector” is used to refer to the vertical organizational structure of areas within government covering a national authority and its related subnational units. For example, the Commerce and Industry Sector would refer to the Ministry of Commerce and Industry (national), the provincial Departments of Commerce and Industry, and the district Commerce and Industry Offices, all of which carry out related duties in line with decentralization policies. In this report, sectors of this type will be explicitly referred to as “government sectors” or will be capitalized, so as to distinguish them from sectors of the economy.

⁴⁰ As per MoIC Notification No. 2037 on Business Operations that Are Not Required to Apply for a Business Registration Certificate (2014).

With regard to the first two subsectors – logistics and drinking water production⁴¹ – enterprise respondents reported favourably regarding the enterprise registration process taking less than ten days. This was corroborated by the actors we interviewed on the supply side in the MoIC. However, our key informants also noted that many investors and enterprise owners are not aware of recent improvements in the procedure because they do not undertake the registration process themselves but instead hire agents to do it on their behalf. This provides opportunities for these agent middlemen to take advantage by applying informal charges. As a result, the DERM is now trying to organize meetings with investors and enterprise owners through the LNCCI to mitigate this risk.

Regarding operating licences, drinking water producers are required to seek approval from a special committee by submitting a business plan. The approval committee includes representatives from multiple government sectors, including Public Works and Transport, Industry and Commerce, Natural Resources and Environment, Health, as well as the head of the village where the factory will be established. This requires field investigation and laboratory testing for drinking water products according to national food safety standards. Consequently, according to the Luang Prabang Department of Industry and Commerce (DoIC), it takes approximately five months for a drinking factory to obtain a licence and officially start to operate. Registered drinking water factories are also subject to periodic inspections by both the MoH, for hygiene, and the MoIC, for factory machines and packaging.

Applicants for logistics operating licences need to seek approval from two government sectors: Public Works and Transport, and Technology and Communications. The application procedure requires submitting a business plan to each of the relevant government sectors, but does not involve field investigation. According to Vientiane Capital's Public Works and Transport Department, only big businesses in this sector volunteer to register themselves to obtain an ERC and operating licences. Key informants stated that high levels of informality in the sector lead to leakage of state-revenue, weaken the Government's administrative control, and reduce competitiveness in the sector by disadvantaging formal enterprises.

According to the MoPWT's Department of Transport, as the Public Works and Transport Sector does not have any units dedicated to inspecting enterprise vehicles, they currently cooperate with related agencies, such as traffic police, to conduct such inspections. As a result, both of the logistics companies we interviewed for this study complained that their freight frequently gets damaged during inspections and there is no recourse to compensation.

Other issues reported by the logistics companies we interviewed included:

- ▶ Difficulty drafting the business plan required for the operating licence application.
- ▶ Long waiting times for the outcome of the operating licence (currently it takes about 14 days to obtain the operating licence if all documents are complete and accurate).
- ▶ The need to pay informal charges to speed up the process.

Yet a further challenge uncovered by the research relates to the legal status of logistics franchises. The DoIC encourages franchised enterprises to obtain enterprise registration and pay tax. However, from the perspective of the companies, the headquarters already pay tax for all parcels transported, so there is an issue of being double-taxed.

⁴¹ The coffee subsector is considered in subsection 7.2.2 below.

► Box 11. Unclear legislation for franchised enterprises

A franchise is a business model in which a company (franchisor) grants another party (the franchisee) the right to use its name, branding and business model in exchange for a fee. The franchisee typically pays an initial franchise fee, as well as on-going royalties and fees. In the Lao People's Democratic Republic, franchise businesses are commonly found in the logistics/express service sector, as well as in other economic sectors. In this study, the two logistics enterprises we interviewed each had 300–400 franchisees. For them, the franchisees act as distribution units at the provincial and district levels and tend to employ around three workers each. The companies reported supporting the franchisees to recruit and train workers, whereas salary and other welfare benefits are solely defined by the franchisee owners.

In terms of legal status, it appears that the regulations are not clear-cut for franchised enterprises. For example, the two logistics companies interviewed for this study both issue a Franchise Certificate, including a Franchise Identification Number, to their numerous franchisees, and allow these franchisees to use a copy of their ERCs. However, these companies report being advised by district authorities that franchisees must register themselves as individual enterprises with individual tax liabilities accordingly; whereas the companies believe they already pay tax for all parcels delivered.

Industry and Commerce officials admitted that legislation regarding the legal status of franchises is now being discussed. Currently, it is the operating licence issuer that has responsibility to approve expansion of branch offices proposed by enterprises under their supervision.

Under the Law on Enterprises, any business, whether or not it is a franchisee, is required to register according to the criteria laid out in the law regarding its size and operations (except those small and family businesses that are exempt). Similarly, the Law on Taxation simply calculates or estimates the revenue of the enterprise and taxes it accordingly. Meanwhile, the LSSO consider a franchisee as separate if it operates a separate payroll.

The franchise business model is increasingly prevalent in the Lao People's Democratic Republic. Apart from the logistics/express subsector, franchises frequently operate in other economic subsectors such as retail, for example, coffee shops/stands, mini-marts and gas stations. Even though franchisees may be relatively small in terms of the size of each labour unit, as the number of franchisees increases the question of how to ensure adequate working conditions for franchise employees or workers, including coverage by social security, becomes ever more important.

7.2.2. Economic activities on the controlled list or related to land concessions

According to the Law on Enterprises, economic activities on the controlled business list⁴² or those related to land concessions⁴³ must follow the application procedure spelled out in the 2016 Law on Investment Promotion. The granting of permission to these economic activities is supervised by the Committee for Investment Promotion, which is technically supported by the One-Stop Service (OSS). The OSS covers six government sectors: (i) Planning and Investment; (ii) Industry and Commerce; (iii) Finance; (iv) Foreign Affairs; (v) Public Security; and (vi) Labour and Social Welfare. Two of the economic subsectors that we focus on in this study are part of the controlled list: (i) private and concession coffee plantations; and (ii) logistics companies that also provide parcel delivery services.

According to the Law on Investment Promotion, economic activities on the controlled business list can be operated within 25 working days of submitting complete and accurate documents to the OSS at the MPI. Similarly, economic activities related to land concessions can be operated within 65 working days after submitting complete and accurate documents to OSS. Detailed procedures are described in table 4 below.

► **Table 4. Procedure and timeline for business registration of economic activities on the controlled business list and related to land concessions (excluding investment in SEZs)**

Step 1	Submit application to OSS at Planning and Investment Sector office	OSS checks submitted documents and coordinates with focal point in each government sector		2 days
		Relevant government sector considers the application/document based on their technical area and reply to OSS	Controlled business list	8 days
			Land concession	30 days
Step 2	OSS proposes to or organizes meetings with the Committee for Investment Promotion to approve or reject the investment project (twice a month)	Controlled business list	10 days after government response	
		Land concession	30 days after government response	

⁴² There are 44 activities listed as controlled businesses, including: business in agriculture and forestry sector; mine exploitation and processing; manufacturing; water supply, drainage system and renovation; transport and warehouse; accommodation and restaurants; information and communication; finance and insurance; professional, science, and technical service; support and management service; security and audit; education, healthcare and social work; and art, entertainment and leisure (Prime Minister's Decree No. 03 on Accepting Economic Activities under Controlled Business List and Related to Land Concession (2019)).

⁴³ There are 21 activities listed as land concession-related, including: business in agriculture and forestry sector; mine exploitation and processing; electricity; public-private partnerships; development of SEZs; concession of state land for other business; and other services related to state ownership (Prime Minister's Decree No. 03 on Accepting Economic Activities under Controlled Business List and Related to Land Concession (2019)).

Step 3	→ If project approved by the Committee		Time varies by relevant government sector
	Controlled business list	Finalize required documents for ERC and operating licence	
		Issue investment permission	
		Issue ERC and TIN	
		Issue operating licence	
		Start operating business	
	Land concession	Open negotiation contract agreement	Time varies by relevant government sector
		Sign MoU with relevant government sector	
		Conduct feasibility study	
		Conduct socio-economic and environmental impact assessment	
Place concession deposit			
→ Final approval in 30 days after submission			
OSS calculate concession cost, prepare concession contract			
Receive concession licence, ERC and TIN in 3 days after signing concession contract.			
Start operating business			
→ If project rejected by the Committee Repeat the process based on the Committee's recommendations		Inform within 3 days after each decision made	
After service	Visas, resident permits and work permit for investors, family and foreign workers, as needed	OSS	
	Renew operating licence annually Submit annual import plan and other required documents for relevant exemptions	Relevant government sector	

MOU = memorandum of understanding.

Source: Law on Investment Promotion (amended in 2016)I.

Approved enterprises are eligible to receive several investment promotions and exemptions. Promotion policies are granted to priority sectors (such as new and advanced technologies, clean agriculture and eco-friendly manufacturing) and priority areas/zones (such as remote areas, areas lacking infrastructure, and SEZs). Promotions and exemptions include: tax exemption (mainly profit tax, import tax and value-added tax); access to credit; land lease exemptions or concessions; policies on land use; and access to information, among others. Investment in priority sectors eligible for receiving investment incentives are those with capital of more than 1.2 billion kip or employment of at least 30 national technicians or at least 50 national workers per one year term or more.

In practice, the time required for starting business activities under the controlled list or related to land concessions depends on the size of the project. At the national level, the OSS at the MPI reported timeframes of 15 days to three months for businesses on the controlled list, and 6–12 months for business related to land concession. At the subnational level, the OSS in Luang Prabang reported being able to facilitate starting business operations within the timeframes stated in the law (25 days and 65 days).

Similar to the comments cited above from Industry and Commerce authorities regarding the enterprise registration process, provincial OSS noted that most investors perceive the procedure to be complicated, and thus hire agents to process the applications on their behalf. In response, the Department of Planning and Investment in Luang Prabang has implemented a German-funded project to organize regular meetings between government and investors to increase understanding.

The two private coffee plantations in Bolaven Plateau that we interviewed are also categorized under the controlled business list and land concessions. They did not cite the process of starting the business as a significant problem during our interviews. Instead, they mentioned the negative impacts of other factors, namely: labour shortages due to outbound migration of young workers to Thailand; increasing transportation costs due to regulations on using transport services from the dry port operator (Lao–Thai border in Champasack Province); and lack of agriculture extension support for coping with climate change and coffee disease, which lead to reduction in coffee yields.

► Box 12. Selected initiatives aimed at improving informal workers' access to labour rights and social security

The **Lao Federation of Trade Unions** (LFTU) plays a key role in improving the working conditions of workers in the Lao People's Democratic Republic, raising wages, improving access to social security benefits, and promoting the development of workers' skills and knowledge. LFTU operations are guided by the LFTU Social Protection Strategy (2021–2030) and the LFTU Five-Year Development Plan (2021–2025). Using government budget and support from development partners (for example, Oxfam in Laos), the LFTU has reported establishing and supporting around 50 groups of informal workers throughout the country. Of those, nearly half are in Luang Prabang and Champasack provinces.

The **ILO** is currently collaborating with the Lao Government to promote and advance decent work through a national Decent Work Country Programme (DWCP). The DWCP aims to contribute to national efforts to ensure that people, especially the most vulnerable and marginalized, benefit from more inclusive, resilient, transformative and sustainable

socio-economic opportunities, including decent work and social protection for all, to reduce poverty and inequality. The DWCP supports a national tripartite forum comprising the MoLSW, representing government; the LNCCI, representing employers; and the LFTU, representing workers, and focused on five key areas: (i) international labour standards and the Decent Work Agenda; (ii) social protection; (iii) migration policy; (iv) rural development; and (v) the private sector and skills development, employment promotion, and digitalization. In addition, the ILO is currently implementing the SOLAR project (2021–2024), which is funded by the European Union and jointly implemented with Oxfam, MoLSW, LFTU and LNCCI. The SOLAR project aims to increase the realization of workers' labour rights, especially those of informal workers, in 34 villages on the Bolaven Plateau in the south of the country. It also aims to improve workers' access to social protection and occupational safety and health (OSH). SOLAR activities include piloting interventions to increase the number of tea and coffee farmers insured under social security in the project site.

Oxfam is a non-governmental organization (NGO) working with informal workers at the grassroots level in partnership with international organizations, mass organizations, and civil society organizations (CSOs). Currently, Oxfam provides technical support to the LFTU on defining the minimum wage, as well as supporting the creation of informal worker networks at regional and international levels through knowledge-sharing activities. In addition to the SOLAR project described above, Oxfam is currently implementing a second project related to informal workers, funded by the Belgian Directorate-General for Development Cooperation and Humanitarian Aid, that aims to support the establishment of approximately 200 groups of informal workers in 17 provinces between 2022 and 2026. The project is being implemented by the LFTU and selected CSOs in each province.

Oxfam has also conducted two participatory research activities with informal workers. The first took place in 2019 and focused on the impact of the new Law on National Health Insurance, under which all health insurance funds, including the NSSF, were merged into one. The second was conducted in 2021, building on the first study to deepen understanding about the willingness and ability of informal workers to join the NSSF voluntary scheme.

The **Environment Conservation and Community Development Association (ECCDA)** is an association registered with the Ministry of Home Affairs and based in Vientiane Capital. ECCDA is currently working with 15 groups of informal workers in Vientiane Capital, Luang Prabang and Huaphanh. With support from partners such as Oxfam, the association and LFTU have developed several materials for informal workers, including manuals for labour negotiation and group formation. The impact of ECCDA's support for these workers is illustrated by the case of a banana plantation in NamBak District of Luang Prabang, when the district government established a special inspection taskforce and forced the plantation owner to improve the workplace environment after workers' health was negatively impacted by the use of chemical fertilizer.

The **Informal Worker Advancement Association (IWAA)** is also registered with the Ministry of Home Affairs and operates within Vientiane Capital supporting 12 groups of informal home-based workers. IWAA organizes various activities for their groups such as dissemination of social protection information, skills and group management training, and advocating on behalf of workers with relevant government agencies and other stakeholders.

7.3. Institutional roles and responsibilities

The Lao People's Democratic Republic is implementing the Three Builds Directive⁴⁴ which is a decentralization policy introduced in 2011 for promoting local ownership. The directive has been implemented in all government sectors, including Industry and Commerce and Taxation. Some government sectors, especially Taxation, have delegated responsibilities down to village level. Table 5 below presents the division of responsibility between the vertical organizations of the two key government sectors related to enterprise registration and taxation. Whichever level of the authority that issues the ERC and TIN is responsible for administration and collecting information regarding that enterprise.

The two government sectors are coordinated in so far as the DERM will temporarily terminate an enterprise's ERC if they violate tax legislation, or permanently terminate it on non-operation or business closing. Each year, all registered enterprises must renew their tax payment certificate to continue operating.

► Table 5. Division of responsibility among national and subnational organizations

Level	Industry and Commerce Sector			Taxation Sector	
	Enterprise type	Location	Investment / Registered capital	Business size	Investment / Registered capital
Central level	Foreign entity; State-owned enterprise; Joint venture; Company; Individual enterprise	Vientiane Capital and other provinces	>500 million kip	Large-scale business unit; Large-scale concession	>50 billion kip
Capital/provincial level	State-owned enterprise; Joint venture; Company (except public company); Individual enterprise	Within the capital / province	<500 million kip	Large- and medium-scale business units; Project assigned by Tax Department	5–50 billion kip
District level	Cooperative; Individual enterprise	Within the district	<500 million kip	Medium- and small-scale business units; Project assigned by Tax Department or provincial tax section	<5 billion kip
Village level	n/a			Income collection assigned by district tax office	

n/a = not applicable.

Source: Lao People's Democratic Republic, MPI 2015 and key informant interview.

Relevant government sectors responsible for approving operating licenses also divide responsibilities among their vertical organizations (central, provincial and district level).

Table 6 provides an example of how enterprises registered in Vientiane (in 2022) are administered by different levels of the Industry and Commerce Sector. The central level is less likely to administer microenterprises (seven units), while district offices are less likely to administer medium and large enterprise.

► **Table 6. Number of registered enterprises in Vientiane in 2022, by administrative level and enterprise size**

Administrative level	Enterprise size			
	Micro	Small	Medium	Large
Central	7	786	414	1 332
Capital/provincial	23	501	226	500
District	2 542	643	9	5

Source: Vientiane Department of Industry and Commerce.

Tables 5 and 6 indicate how different parts of the MoIC and MoF's vertical structures are responsible for administering enterprise registration and taxation depending on the size and location of the enterprise. This implies that data links and coordination between administrative functions have to work both vertically within ministries as well as horizontally between them.

7.4. Enterprise inspection and monitoring

7.4.1. Operating licence monitoring

According to our key informants, business operations are supposed to be monitored and inspected by operating licence issuers to ensure that enterprises are fulfilling the terms of their operating licences. The OSS at both the national and subnational levels relies on operating licence issuers for these inspections. Furthermore, despite an inspection budget allocated for OSS, not all businesses in controlled and concession lists are regularly inspected. The OSS will form a multi-agency inspection team only in special cases, such as for inspection of mining or hydropower projects, or where conflicts are reported. Working conditions are not covered by these inspections, as this is the responsibility of the MoLSW (see below). While the DERM monitors enterprises via reports from the Tax Department and operating licence issuers, they can temporarily or permanently terminate the ERC if enterprises are found not to operate according to legal standards.

⁴⁴In the Lao People's Democratic Republic, "three builds" politically means building a province as a strategic unit, a district as a strong comprehensive unit and a village as a development unit.

Drinking water producers

The Industry Office in Luang Prabang reported setting up a WhatsApp group to interact with drinking water factories and work with them through the Association of Drinking Water Factories. Meanwhile, officers from the Food and Drug section at the Provincial Health Office responsible for certifying Food Safety and Good Manufacturing Practice visit the factories periodically to conduct inspections. Pursuant to the given standards, workers in packaging units are required to get medical checkups once a year.

Logistics enterprises

The Department of Transport has recently removed onsite inspection from the operating licence application process. Moreover, they currently do not have an inspection unit. In order to monitor enterprises under their remit, they thus collaborate with other government sectors, such as traffic police, who are able to inspect vehicles on each transport route, and the Tax Department, who are required to issue a tax payment certificate for annual renewal of the operating licence. The authorities thus have limited direct knowledge about the operating conditions of logistics companies. As in many other economic sectors, logistics companies form associations whereby they can share information and provide support among themselves.

Coffee plantations

A government official overseeing agricultural plantations interviewed for the study reported they occasionally inspect some coffee plantations when there are reports of law violation or when the plantations are observed to not be following the approved business plan (for example, by the village authority where business is located, the district agriculture office, or through reports by people impacted by any violation). Such monitoring is undertaken through reporting from district and provincial offices (weekly, monthly and yearly). At the provincial level, the MoAF reported granting eligible coffee plantations an import tax exemption once a year. Enterprises applying for this exemption must be actively operating and an onsite inspection is conducted before issuing the exemption. This inspection covers some information about the working conditions of the workers in plantation areas. Most of the coffee plantations are members of the Lao Coffee Association, which operates under the LNCCI. The Government can interact with enterprises either directly with individual producers or collectively through this association.

7.4.2. Labour inspections

As discussed in the subsection above, monitoring and inspection by operating licence issuers is conducted solely for technical purposes such as road safety for transport vehicles and food safety for drinking water products. Such inspection does not directly or explicitly include working conditions for workers – the only related information recorded by these inspections is the total number of workers employed by the enterprise, regardless of employment status, earnings or registration with the LSSO. For labour conditions, the MoLSW is responsible.

Within the MoLSW, the Department of Labour Management is responsible for labour inspection, with actual inspection tasks delegated to provincial and district authorities.

As guided by the Labour Law, labour inspection covers various aspects of working conditions, such as the presence of labour contracts, minimum wage, working hours, occupational safety and health (OSH), and access to social security.

In each district, there should be at least two or three provincial inspectors and one district inspector. However, key informants report limitations in terms of budget for inspection (for example, to cover travel costs and per diems for officers). District inspectors are also said to be limited in number and insufficiently trained. Training manuals for district inspectors are not yet available.

In 2022, the MoLSW reported that they inspected some 2,500 enterprises across the country. Nearly 100 per cent of large enterprises were inspected; while labour inspection of small and medium enterprises was carried out only occasionally and at random. Based on information collected during this research, the selection of enterprises for labour inspection appears to vary from province to province. In Vientiane, targeted enterprises are those employing at least three workers outside the family. While employment of at least 5–6 workers and 15–20 workers are criteria of enterprises to be inspected in Luang Prabang and Champasack provinces, respectively.

In Champasack, cases were reported in which inspected enterprises were found to have violated the labour law and then did not implement the inspector's recommendations within the stipulated two to three months, which led to punishment and further legal action. However, MoLSW staff state that enforcing the law can be a long and challenging process that does not always result in enterprises having to pay fines or face other sanctions.

The lack of cooperation from enterprises is frequently cited as a challenge by provincial inspectors, including that enterprise managers do not present themselves at the inspection and repeatedly postpone inspection appointments.

Another reported challenge is that, despite the presence of a workers' representative or trade union representative within the enterprise, these people do not, in practice, appear to provide much protection for workers in terms of ensuring they can access their rights and entitlements. According to authorities, this is due to reluctance on the part of these representatives because their salary is paid by the enterprise.⁴⁵

It is also reportedly common for enterprises to exclude seasonal workers, daily-wage workers, and interns from the list of insured persons. This is because such practices are not covered by the Labour Law. In addition, monitoring the enterprise's payment of social security contributions is also beyond the scope of labour inspections. Provincial inspectors say they have no legal powers to sanction enterprises if they are found to violate social security legislation, and can only educate them vis-à-vis the requirements of the law. For example, labour inspectors reported that they were not directly trained on implementing the Social Security Law because it does not yet appear to have been complemented with sub-legislation needed to guide enforcement.

⁴⁵In KIIs, the LFTU remarked on the conflict of interest in a situation where the union representatives' salaries are paid by enterprises.

► Box 13. Employment categories not covered by the Labour Law

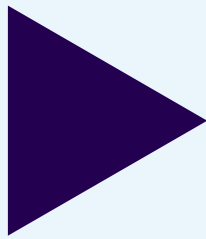
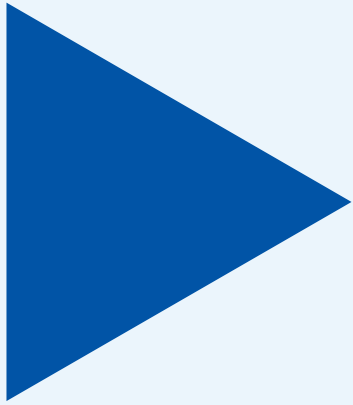
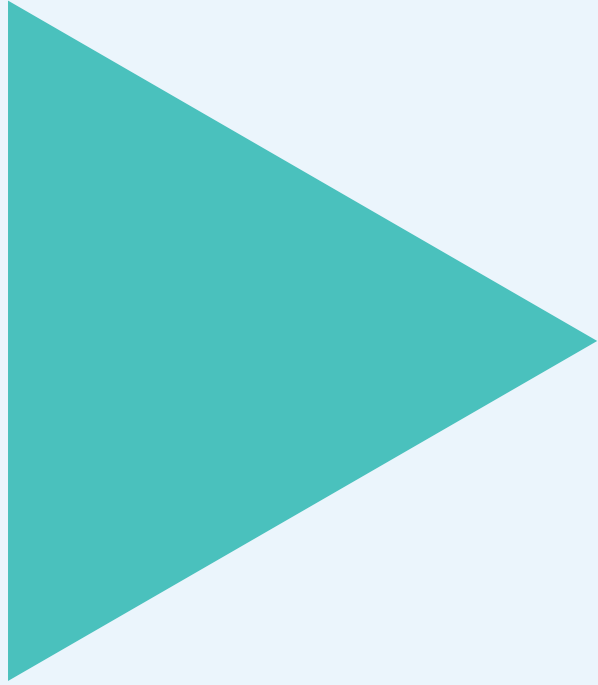
In order to reduce costs for managing human resources, all the enterprises interviewed for this study hired some part-time workers and/or interns or subcontractors (see table 3 in section 6.1 above). This is economically justifiable if the work is seasonal, for example during peak times such as the international and Lao traditional New Year celebrations (logistics sector) or harvesting time (coffee sector), or where division of labour makes subcontracting more efficient. However, authorities report that some enterprises use these practices as an excuse to reduce costs in violation of labour and social security legislation.

For example, labour inspectors in Vientiane cited that the legal period for internships should not be longer than two months. However, interns in many enterprises often work as such for much longer before becoming permanent employees.

Similarly, some enterprises tend to outsource some routine functions to subcontractors to reduce the cost of their management. For example, in our selected enterprises, one logistics company outsources 80 per cent of parcel transport to their former workers, and one drinking factory provides sales-based payments to six subcontractors for selling their 20-litre water products. According to interviewed labour inspectors, an agreement between subcontractors and enterprises does not amount to a legal labour contract and, therefore, if the subcontracted enterprise is itself not registered (including with the LSSO), people working for the subcontractor are considered to be informal.

As discussed in section 7.4.2, these types of employment are not yet regulated by the Labour Law; therefore, labour inspectors cannot respond when these kinds of issues are found.

Source: Key informant interviews.





08

Accessing social security



The analysis conducted in Part One of this study showed that coverage by social security in the Lao People's Democratic Republic is relatively low. Coverage by the NSSF in 2017 was 7 per cent of the non-civil-servant workforce according to LSSO administrative data, or 16 per cent of the total workforce when including civil servants. Estimates of coverage among non-civil servant workers by any form of social insurance within the LFS data are around 11 per cent. This implies that some nine out of every 10 non-civil-servant workers are not covered by social security. Even within the formal sector, over half (57 per cent) of the labour force is estimated to be uninsured. Furthermore, the data indicate that not even all civil servants are insured. In 2022, according to LSSO administrative data and the LFS, coverage of the employed population including civil servants appears to have gone down, standing at just 13 per cent. There is, therefore, a clear need to expand coverage by social security. Below we present the findings from the qualitative research regarding the knowledge, preferences, ability to contribute, and user experiences of NSSF members and potential members vis-à-vis social security. This analysis is organized into five subsections, focusing on: (i) the policy and legislative framework; (ii) the registration process; (iii) accessing social security benefits; (iv) willingness and ability to contribute; and (v) awareness of and communications regarding social security.

8.1. Policy and legislative framework

8.1.1. National Social Protection Strategy

In 2020, the Lao Government adopted the National Social Protection Strategy (NSPS): Vision 2030 and Goal 2025 to further develop the social protection system, aid vulnerable groups, reduce socioeconomic inequality, and redistribute the gains of economic growth. According to the strategy, social protection in the Lao People's Democratic Republic comprises three pillars: health insurance, social security, and social welfare.⁴⁶

Social security is defined as a contributory scheme or set of schemes, under which benefits are received on condition of registration and payment of contributions by workers, employers and/or government. Social security contributions and benefits are managed by the LSSO and NHIB, as set out in the social security and health insurance legislation.

Social welfare is defined as a set of non-contributory schemes designed to benefit specific groups of people, such as those in particular areas of residence (for example, victims of natural disaster), specific age groups (such as children or older adults), and particular circumstances (such as poverty or vulnerability). Non-contributory schemes are thus the social protection components with the highest contribution to poverty reduction. The non-contributory schemes in the Lao People's Democratic Republic are funded from general government revenue and may temporarily benefit from grants or loans from international development partners.

Access to health services may be organized through either contributory or non-contributory schemes, or a combination of both, as is the case in the Lao People's Democratic Republic.

The overall objective of the NSPS is that by 2025 the social protection system is strengthened and made more efficient so that it can provide social protection services to a larger number of target groups at a higher quality of service. The NSPS includes three specific goals:

⁴⁶As per Prime Minister's Decree No. 224 (2020).

- ▶ Goal 1: Develop and strengthen the health insurance system by providing sufficient financial resources and expanding health insurance for all by 2025.
- ▶ Goal 2: Develop and strengthen the social security system by ensuring collection of contributions, provision of benefits, and transparent, sustainable management of the NSSF.
- ▶ Goal 3: Develop and strengthen the social welfare system by developing and scaling up benefits for children from poor families or in vulnerable situations, persons with disabilities, older adults and low-income and informal sector workers, and emergency assistance for people affected by natural or man-made disasters. Block grants to schools, scholarships to poor students and school meals to promote poverty reduction and human resources development, as well as social and economic development, should also be provided.

Under the first goal, the objective is to strengthen the health insurance system through five key activities:

- ▶ Formulation of legislation on health insurance for all
- ▶ Improving the efficiency of the health insurance system
- ▶ Defining basic standards for healthcare services;
- ▶ Expanding healthcare services to rural areas; and
- ▶ Allocating and mobilizing sufficient funds for health insurance.

Under goal two, the objective is to address weaknesses in the enforcement of the Law on Social Security and low coverage through:

- ▶ Undertaking inspection work
- ▶ Promoting social security registration
- ▶ Conducting social security actuarial assessments
- ▶ Improving collection of contributions.

Specific objectives (for example, Objective 2.2) are set out to expand social security coverage in the informal sector specifically by working with occupational groups to promote the benefits of joining the NSSF.

A mid-term review of the NSPS, scheduled for mid-2023, will provide recommendations for further improving the design and implementation of the strategy.

The key issue arising during our research regarding the NSPS is the negative impact on the objective to expand social security stemming from the decision to combine National Health Insurance Fund (NHIF) and NSSF health insurance contributions under the management of the NHIB. Since the NSSF's health insurance fund was transferred from the LSSO to the NHIB to comply with article 38 in the Law on Health Insurance in July 2019 (see footnote 8 and section 1.1 above) the LSSO started to receive vigorous complaints from its members about the quality of the health services being provided (Lao People's Democratic Republic, MoLSW 2021). Such complaints have risen year on year, including in regard to cases where hospitals collect additional fees from NSSF members and challenges in relation to making claims from the NHIB. Further evidence of the poor and deteriorating quality of healthcare services received by NSSF members was found by Oxfam (2021a), and this was also the major issue raised by key informants and FGD participants throughout this research. As healthcare is one of the most used and valued benefits among NSSF members, this issue is seen by all to be having a major negative impact on the reputation of the NSSF, and thus people's willingness to join or continue contributing. Box 14 below presents an example of how liquidity constraints faced by hospitals funded via the NHIB can negatively impact the quality of healthcare services provided.

Since April 2023, several meetings between the MoLSW and MoH have taken place to discuss how to improve this situation given the significant risk it has been posing to people's willingness to join the NSSF and thus threatening the achievement of the NSPS objective to expand coverage by social security (Lao People's Democratic Republic, MoLSW, LSSO 2023). The NHIB is currently working with the LSSO and other stakeholders on a proposal to reconfigure the benefits package and level of co-payments for NHIF members to make it more financially sustainable. Decisions or agreement on how to resolve the issue have not yet been reached at the time of writing of this report.⁴⁷

► Box 14. Hospital liquidity constraints and impact on healthcare

The NHIB is housed within the MoH and delivers both secretarial and fund management roles on behalf of the NHIF. The NHIF is housed within the National Treasury. For all activities related to finance, the NHIB needs to get approval from the MoH Department of Finance as required by public finance management rules. This dependency contributes to delays in the release of payments to hospitals for services provided. At the same time, the MoH relies on disbursements from the Treasury, which can be delayed if there are public finance deficits. The NHIB is also not directly responsible for the quality of healthcare services provided, as this is the mandate of the Department of Healthcare and Rehabilitation. These factors combine to mean that transfers to hospitals for services rendered are often delayed and underpaid, and that the NHIB has no ability to ensure quality of service.

The NHIB report that the Law on Health Insurance will be reviewed in 2023, during which the issue of delayed payment will be discussed. They claim the review should present an opportunity to increase the co-payment rate and adjust the package of benefits that NHIF beneficiaries are entitled to, and thereby reduce liquidity constraints and increase financial sustainability. Furthermore, in previous audits the NHIB found a number of different forms of corruption that lead to financial strains on both the NHIF and hospitals that it needs to address. Key informants felt that allowing the NHIB more autonomy in relation to financial management of the NHIF would be helpful in relation to delayed payments, as it would ensure that the timeliness of payments would be less impacted by public finance deficits or MoH bureaucratic procedures, as well as enable the NHIB to prioritize payments to health facilities based on quarterly needs.

Other measures suggested by the NHIB include promoting non-medication treatment and prevention approaches, as well as raising awareness on the NHIF and NSSF among medical workers and the general public.

From the perspective of the provincial hospitals, whose patients may be funded through the NSSF (civil servants scheme, enterprise scheme, voluntary scheme, and police and army schemes), the NHIF (co-payment patients, monks, poor people, children under five and pregnant women), or out-of-pocket cash payments from private patients¹, the major problem they face is liquidity constraints. Lack of finances for hospitals results in delayed payment to suppliers (for example, for medicine and equipment), which translates to a lack

⁴⁷ 31 July 2023.

of equipment and resources needed to provide adequate healthcare. At the time of our data collection (April 2023), both hospitals we spoke to reported not having received any money from the NHIF for the last quarter of 2022. This delay in receipt of funds, alongside the continuing economic downturn resulting from COVID-19 and the cost-of-living crisis, put increased pressure on suppliers and thus led to reduced supply of essential resources and equipment, including medicines. In addition, the hospitals reported not receiving the full amount transferred from the NSSF to the NHIF, which resulted in yet further financial constraints because the hospitals nevertheless still have to shoulder the burden of patients claiming free healthcare services, such as poor people, children under five and pregnant women. As a result of these constraints, the quality of healthcare provided to all patients is diminished, with a knock-on effect to the reputation of the NSSF in particular.

1 As the rules for the NHIF and NSSF include a referral system from local health facilities up to district, provincial and central hospitals sequentially, those who do not wish to follow the referral system, as well as those who want to be treated for something for which their doctor has not referred them, may be subject to out-of-pocket cash fees.

Source: Key informant interviews.

8.1.2. Labour and social security legislation

There are several pieces of legislation that relate to social security in the Lao People's Democratic Republic, the two main ones being the Law on Labour, amended in 2013, and the Law on Social Security, amended in 2018. According to these laws, all labour units employing one paid worker are compulsorily required to register with the LSSO (Labour Law, article 71, and Social Security Law, article 90). Appendix II provides a summary of articles relating to labour and social security in key pieces of legislation.

Despite the legal requirements, concerns were raised by the LNCCI and IWAA about the possibility and ability of many small and, in particular, microenterprises to enrol in the compulsory enterprise scheme. They cited the legal exemptions to business registration and taxation that apply to many of these enterprises due to their small and/or irregular incomes, alongside their inability to maintain minimal standards of bookkeeping. Other issues raised in response to our research questions included gaps or lack of clarity in the legislation regarding several types of employment categories, such as part-time, temporary or seasonal workers, interns, daily-wage workers, and subcontractors (see box 13 above), as well as business models such as franchises (box 11). A further issue raised was in relation to households that employ domestic workers, as these employers neither have nor require any business licenses. These issues raised questions in the minds of many key informants about who should be covered under the compulsory enterprise scheme and who should be covered under the voluntary scheme.

In fact, although social security is included in some key laws – for example, article 8 of the Law on Enterprises (No. 33 of 2022) states “enterprise have the obligation to conduct business in compliance with their purposes, maintain enterprise accounting rules, perform their obligation toward the state, contribute to NSSF, protect the legitimate right and interests of the workers, preserve the environment, contribute toward the national and public security and respect the relevant laws or regulations of the Lao [People's Democratic Republic]” – registration with the LSSO is no longer a required part of the enterprise registration process, nor is it necessary for obtaining required operating licences.

This did not use to be the case. Prior to 16 September 2022, the process for registering an enterprise and obtaining the relevant operating licence meant that, after obtaining their ERC and TIN from the MoIC and the official seal from the Ministry of Public Security, the registered enterprise must register with the LSSO and obtain their social security certificate before proceeding to apply for an operating licence. This process was altered following a notice issued by the LSSO stating that social security registration would no longer be included in the “starting a business process”. The reason given for this decision was to increase the ease of doing business in accordance with Prime Minister's Order No. 02 on Improving Regulations and Mechanisms for Doing Business in the Lao People's Democratic Republic (2018). In the notice, the LSSO suggests enterprises register with them after obtaining their operating licence and starting business operations. This decision put the onus of ensuring compliance with social security legislation on the inspection process⁴⁸ (see section 8.1.3 below).

Another piece of relevant legislation is the Law on Investment Promotion (No. 032 of 2016). Although social security registration is not directly mentioned in this law, article 69 states that the investor is obligated to apply lawful treatment of policies and measures to all workers, and to exercise other rights as set forth in relevant laws and regulations of the Lao People's Democratic Republic. In the contents relating to investment inspection, as described in article 104(4–5), inspections are to cover the implementation of all relevant laws and regulations, including OSH measures for workers. In response to our enquires about this issue, the national and subnational OSS remarked that the Labour and Social Welfare Sector is included in all processes for approving and assessing investment projects as part of the Committee for Investment Promotion, and it is their responsibility to raise the case where any investment project violates labour and social security legislation.

Both Provincial OSS and the LFTU suggested ways to mainstream social security in the Investment Promotion Law. For example, social security could be a mandatory component of the investment plan required for the operating licence application; and/or concerned authorities could include on their checklist for technical inspections for regular monitoring; and/or registration with LSSO could be a condition for investment projects to receive investment incentives from government (Article 9 of investment promotion law). However, these key informants stated that it was the responsibility of the MoLSW to propose such measures for discussion regarding amending the Law on Investment Promotion. Public Works and Transport officials interviewed for the study also believed that registration with the LSSO could be a condition for obtaining or renewing operating licences. Licence renewal is common for many sectors and subsectors, including both the drinking water manufacture and coffee plantation subsectors that are the subjects of this study. Again, it was claimed to be the responsibility of Labour and Social Welfare Sector to raise this issue for discussion with operating licence issuers, perhaps beginning with selected priority sectors.

Finally, MoLSW Decision No. 4369 on Management of Domestic Workers (2022) states that employers must facilitate their domestic workers to enrol in the NSSF (article 14). The Department of Labour Management, which is responsible for drafting and implementing this Decision, reported they have left the article open vis-à-vis which scheme domestic workers ought to be enrolled in because they do not have any reference as to whether that should be the compulsory or voluntary scheme. Clarity on this question, as well as to the question of whether domestic worker employers should be required to contribute, is thus still required.

⁴⁸ See MoLSW Notice No. 3185/LSSO on Social Security Registration of Labour Units and Enterprise Workers (2021).

⁴⁹ Including pertaining to MoLSW Decision No. 4139 of 2021 on Social Security Inspection, and MoLSW Decision No. 4227 of 2016 on the Organization and Functions of Labour Inspectors.

8.1.3. Social security inspection

As discussed above, the LSSO's decision in September 2022 to no longer require registration with the LSSO to be a compulsory part of the process to obtain an ERC, TIN or operating licence means that the major onus of ensuring compliance with social security legislation now falls on the inspection process. As described in section 7.4 above, labour inspection for ensuring compliance with the Labour Law is undertaken by the Department of Labour Management under the MoLSW. However, not all enterprises are reached by labour inspectors due to capacity constraints resulting from insufficient budget and human resources.

Labour inspectors have the right to check the enterprise's social security certificate and are trained to do so. But they do not have the right to examine the LSSO registration in more detail, for example, to assess how many workers ought to be enrolled in the compulsory enterprise scheme or whether the enterprise accurately reports staff salaries. Such detailed inspections can only be carried out by LSSO inspectors, guided by the Law on Social Security.

The LSSO reports that, in practice, they rely on labour inspectors for inspecting social security participation of registered enterprises. After receiving information from the labour inspector about labour units without social security certificates, the LSSO will send letters to those enterprises to encourage membership and explain how to register. Obtaining appointments with those enterprises is time consuming and not always successful. By way of example, of the two logistics companies interviewed for this study, Company A was established in 2019 but only registered with the LSSO in 2021, and Company B was formed in 2017 and has not yet registered.

In late 2021 the MoLSW issued Decision No. 4139 on Social Security Inspection, which includes all the details about the inspection, including the roles and responsibilities of the social security inspector. The LSSO informed us that training manuals on social security inspection are being developed with support from the ILO, and the inspectors are expected to be trained in the latter half of 2023. It is also expected that Section 2 (articles 110–114) of the Law on Social Security will be amended in accordance with this Decision.

A recent review of the social security inspection function carried out by the ILO (forthcoming) found inconsistencies between the Labour Law and Social Security Law⁴⁹ vis-à-vis labour and social security inspections as carried by the MoLSW and LSSO, respectively. The review also highlighted ambiguities in the Social Security Law regarding the responsibilities of inspectors and other government officials across agencies. As a result, the review recommends assigning to the LSSO sole authority to perform the social security inspection, as well as to impose sanctions in case of non-compliance, and to update the legislation and regulations pertaining to each relevant government sector accordingly.

The review also finds that the practice of conducting announced inspections (the "appointments" with enterprises described above) is not in line with international guidelines (ILO 2022) or with the ILO Labour Inspection Convention, 1947 (No. 81) and Labour Inspection (Agriculture) Convention, 1969 (No. 129), and should be discontinued accordingly.⁵⁰ Again, the review indicates that the legislation (specifically article 112 of the Social Security Law) be updated accordingly.

Finally, the review recommends strengthening the enforcement process to bring it more in line with that provided under the labour inspection regime. This could be done by speeding up the whole procedure and reducing the number of warnings and warning periods, as well as establishing firm procedures and values for fines, including immediate fines (for example, in the case of obstruction) and increased fines for serious violations and recidivism.

The review provides a set of recommendations to improve the administration of social security inspection, for example by:

- ▶ Improving the social security inspection visit procedure
- ▶ Developing Standard Operating Procedures
- ▶ Developing tools and information systems
- ▶ Strengthening cooperation and partnerships
- ▶ Adopting an ethical code for inspectors and complaints
- ▶ Providing training to implementers

8.2. Registration with the LSSO

In order to register with the LSSO, enterprises or prospective members of the voluntary scheme have to apply in person at either the LSSO headquarters (located in Vientiane) or one of 18 provincial/capital LSSO offices located throughout the country. In addition to the headquarters and provincial/capital offices, the LSSO is currently piloting eight district offices. The pilot district offices function as counters for receiving registration applications and sending them on to the provincial/capital offices. Under the SOLAR project (see box 12 above), the LSSO is also piloting mobile registration units in Champasack Province for coffee and tea farmers, as well as in some areas in Vientiane Capital. Registration with the LSSO is free of charge for both the enterprise and voluntary schemes.

8.2.1. Enterprise scheme

For the enterprise scheme, after receiving their ERC and TIN (and operating licence, if required), the enterprise must come in person to the LSSO office with an application form, the original copy of the ERC, and information about the workers.⁵¹ Once complete and accurate documents have been received, the LSSO will issue a social security certificate to the enterprise within one day and provide the enterprise a social security contributions calculation formula in Excel. The LSSO will enter the data of all registered workers into the system and issue the social security card for each worker. According to LSSO officials, this process takes one or two days, depending on the number of workers. However, Logistics Company A, which was interviewed for this research and which registered with the LSSO in 2021, reported that it always takes them two weeks to receive social security cards for registered staff, regardless of the number of new staff being registered. They hope the LSSO can improve on this timeframe.

An important facet of the enterprise scheme application process is the official stamp of the ERC title holder. This certifies that the company's management verifies that all staff information is correct.

By way of example, in the case of the Logistics Company A, the full staff included workers in the provincial branches as well as those in the Vientiane head office. HR staff at the head office in Vientiane were required to gather information from branch offices and process the application on behalf of the branches, get the official stamp of approval from the company manager, and then submit the application to the LSSO office in Vientiane.

⁵⁰ As the mandate of social security inspection includes both governmental organizations and non-governmental labour units, the review suggests to prescribe announced visits solely when inspecting the civil servant scheme.

⁵¹ This can include National Identity Card, family book, passport for foreign spouses, and so on.

However, exactly who would comprise the full staff in the above example is currently not clear. As discussed in section 8.1.2 and box 11 above, the legal status of franchised enterprises is ambiguous. Logistics Company A felt that the decision to register with the LSSO is up to the franchisee, whereas the LSSO staff who joined our fieldwork claimed that if a franchisee wants to register in the enterprise scheme, they must proceed through the company HQ unless they are independently registered with their own ERC and TIN.

8.2.2. Voluntary scheme

With regard to the volunteer scheme, self-employed persons who are interested in joining the NSSF are required to submit the application in person at LSSO headquarters or provincial/capital offices. To be eligible to apply for the volunteer scheme a person must be aged 14–60 years, have a national ID card, a family registration book, and a copy of their social security card if they were formerly insured.

Based on the LSSO's Instruction on Implementing the Law on Social Security (No. 60/MoLSW), released in January 2023, the LSSO allows people with disabilities to enrol in the volunteer scheme, though their disability will not be taken as an eligible condition for receiving benefits for loss of working capacity if it pre-existed the application. The LSSO Instruction suggests excluding monks, novices, priests, nuns, and foreigners from the list of eligible volunteer members. The LSSO Instruction also stipulates provisions to better enable the registration of migrant workers. These include: eligible persons can apply to the volunteer scheme at the LSSO office in the province where they live or work; and the application can use additional documents such as Resident Certification (issued by the village head) if their ID card and family registration book were not issued in their current location.

During our fieldwork we did not manage to meet with any self-employed people or employers who were existing members of the volunteer scheme, so we could not collect their experiences of or opinions regarding the registration process. However, Oxfam (2021a) report that volunteer members may be categorized into three distinct types: voluntary scheme members who apply themselves; voluntary scheme members transferred from the enterprise scheme due to closure of the business or ending of work contract; and voluntary scheme members whose registration is facilitated by intermediaries. According to Oxfam's research, distance from the LSSO office is found to be one of the main barriers to registration, especially among those living in remote villages requiring high transportation costs to reach the provincial/capital office. The Oxfam study also identified the IWAA as an example of an intermediary that has helped some groups of informal workers in two villages in Vientiane to overcome this barrier by supporting them with transportation costs. The interview with IWAA for this study indicated that this kind of facilitation support can prove successful, as the informal workers that were helped in this way continue to contribute to and benefit from the NSSF.

8.3. Accessing social security benefits

8.3.1. Benefits

Seven benefits are common across both the enterprise and voluntary schemes, and two benefits (unemployment benefit and employment injury or occupational diseases) are only available under the enterprise scheme. The seven benefits that are common across both schemes are: health insurance; maternity; sickness; loss of working capacity; pension; death grant; and survivor's benefit.

The social security benefit cited as the most valued and most used is healthcare (see also Oxfam 2021a). However, as a result of the decision to combine the NSSF health fund with the NHIF administered by the NHIB, it is also the benefit most frequently cited as unsatisfactory (see also section 8.1.1 above for a discussion of this issue). More than half of our key informants raised concerns about the low quality of services provided by public hospitals and the NHIB. Many FGD participants similarly asked if the LSSO could stop the policy of having to select a specific hospital, both because it is inconvenient and because improving the quality of services in the selected hospital may take a long time. We summarize some examples of NSSF members' experiences using healthcare services in box 15.

► Box 15. NSSF members' experience of healthcare benefits

Among the 28 worker FGD participants across three enterprises interviewed for this study, 13 were NSSF members. In Logistics Company A, where almost all permanent staff contribute to the NSSF, workers reported their experiences regarding claiming healthcare and maternity benefits.

Firstly, these respondents were not satisfied with the rule regarding selecting a particular hospital that cannot be changed within the first year, as it is felt to be inconvenient. An example given by a worker in Logistics Company B, who recently had to accompany her aged mother to a national hospital in Vientiane, was that the treatment and service they received at the LSSO counter in the hospital was dissatisfactory. The hospital staff member who was responsible for NSSF healthcare patients demanded her mother stand up in front of the counter even though she was sick and tired. Then, during her treatment, the doctor treated her rudely, and after receiving treatment the hospital staff requested her to return another day just to get the stamp from the counter.

Another case was raised during a KII with the IWAA. An informal worker they support selected Sangthong District Hospital for healthcare benefits under the voluntary scheme. Last year (2022), when they went to claim their healthcare benefit and showed their social security card at the district hospital it was rejected. The doctors claimed the card could not be used at their hospital.

The manager of Coffee Plantation A also reported similar instances of poor treatment of their NSSF member workers by hospital staff. One example given was the demand for the patient to present themselves at the counter on the due date for her pregnancy. The manager said that, due to such problems, company often allowed staff to claim on health expenses rather than through the NSSF; that way they can freely go to any hospital they choose (even in Thailand). “Almost all staff registered at LSSO want better healthcare service,” she said. The manager suggested some possible solutions, such as liberating the hospital selection and letting members pay for services in advance and submit the receipt to be reimbursed from the NSSF later. She claimed for these cases it may even be acceptable if reimbursement was not 100 per cent. She also suggested that it might even be acceptable to increase their employer contribution if this guaranteed better quality services in the hospital, because what they currently have to do is pay the NSSF contribution and supplement staff medical expenses.

Source: Key informant interviews.

The next most claimed social security benefits cited by enterprise scheme member respondents in our study are maternity benefits and unemployment benefits.⁵² Only a few respondents raised any complaints or issues regarding these benefits, with these relating to the payments of claims made on the maternity benefit. Enterprise scheme members in Logistics Company A felt the timeline for receiving the maternity benefit (1–2 months) is too long. HR staff responsible for making claims on the behalf of staff (and who have to answer staff queries regarding when they will receive their claim) said they would like the claims process to be made faster as well a system to be implemented to inform the member when the payment is made.

8.3.2. Payment systems

Contributions

In order for enterprises to make payments of employer contributions, the LSSO requires that enterprises send a representative in person to the headquarters or provincial/capital office each month in order to submit documents in hard copy, including a form signed by the enterprise manager, the list of current enrolled staff and fee calculation, and a payment slip in case of cash transferred to the LSSO. The LSSO's reason for requiring the submission of hard-copy documents is that staff salaries and numbers of workers can change every month and these changes must be confirmed by the company's manager.

The LSSO has opened accounts in a number of commercial banks and signed memoranda of understanding (MOUs) with mobile money providers to facilitate money transfers. However, both enterprises and voluntary scheme members are still required to show their bank slips at the LSSO counter as proof of payment of contributions. The only exception is for voluntary scheme members who have accounts at the Lao Development Bank (LDB). These can pay their contributions at the LDB counter or via the LDB mobile app, without needing to present themselves at an LSSO office.

⁵² This partially corroborates the findings from Oxfam (2021a), which cited maternity and sickness benefits as the next most utilized benefits after healthcare.

Payment for enterprise contributions should be made each month. The payment schedule for voluntary members is more flexible, as they can choose to pay monthly in arrears or in advance.⁵³ Advanced payments can total up to 24 months of contributions. Late payment of contributions is allowed for both enterprise and voluntary scheme members, though no later than three months.

FGDs with members of Coffee Cooperative A revealed that all of them use an LDB bank account for coffee-related transactions with the cooperative office. This makes social security more attractive for them, as they can pay their contributions easily.

Claims

Payment for benefit claims may be divided into two types:

- i. claims for healthcare benefits must be submitted to the relevant hospital or NHIB; and
- ii. claims for all other benefits claims must be made at an LSSO office.

With regard to healthcare benefits, in addition to free of charge medical treatment, NSSF members have the right to claim for expenses on medicines not available at hospital, or to be reimbursed if the patient has to pay in cash in emergency cases at a hospital other than their selected hospital. In these cases, the emergency must be recognized by the NHIB.

Research respondents reported that selected public hospitals frequently run out of medicines⁵⁴ and that the claims process is quite complicated and bothersome. Often, respondents claim, members give up on claiming back their expenditures entirely. This feeds into a growing perception that healthcare benefits under the NSSF are not of a sufficient standard, which undermines willingness to contribute. Some research participants stated that the quality of healthcare services is much better if they simply pay cash.

For claims relating to all other social security benefits under the responsibility of the LSSO, the payment is made directly to the beneficiary via bank transfer. We did not uncover any significant issues regarding payments of claims for these other benefits across our FGD and KII participants.

8.4. Willingness and ability to contribute

The LSSO enterprise scheme is a compulsory scheme requiring contributions from both employees and employers based on a proportion of the worker's salary. Current insurable earnings for the enterprise scheme range from 1,300,000 to 4,500,000 kip per month, and the contribution rate is 11.5 per cent of the worker's salary, of which 5.5 per cent is paid by the employee and 6 per cent is paid by the employer.

Labour inspectors and other key informants reported that most registered enterprises do not want to comply with the Law on Social Security because the owners do not want to pay their share of the contributions. Provincial LSSO key informants testified that making appointments with enterprises to promote social security participation is one of their most difficult endeavours, and even when they do successfully arrange appointments, the top management is often not present, thus delaying or preventing the enterprise's decision to register.

⁵³ From our various KIIs, it appears the rules around payment in arrears may be implemented with slight variations among different LSSO offices. For example, in the Vientiane office they allow payment in arrears only by a few days, otherwise payment of contributions should be made in advance. The LSSO's main branch also applies slightly different rules when people come to the branch office compared to when the pilot mobile registration desks go out.

⁵⁴ See box 14 for examples of how hospital liquidity constraints negatively impact supply of essential healthcare equipment and resources.

Across the three economic subsectors selected for this study, and despite national survey data indicating that workers in these subsectors have a relatively high potential to contribute (see section 3.2 above), various barriers in relation to ability and willingness to contribute were reported:

- ▶ Poor quality healthcare service in hospitals was cited as the major reason for enterprise workers not being happy with a 5.5 per cent deduction from their salary. The enterprises that were already members of the enterprise scheme (Logistics Company A, Drinking Water Factory A and Coffee Plantation A) stated that joining social security is company policy. All new staff are informed of this policy and told that it is compulsory on the first day of recruitment. However, by complying with the law on social security in this way, these enterprises sometimes have to bear additional expenses in order to provide satisfactory benefits for their workers (see box 15).
- ▶ Two of the enterprises interviewed for this study have not joined the enterprise scheme despite the LSSO already meeting with them to carry out information and promotion activities. The reason provided by Logistics Company B for not yet registering was that they are collecting staff opinions on the matter. Meanwhile Drinking Water Factory B instead encouraged its workers to register for the voluntary scheme.
- ▶ The majority of key informants expressed concerns about the willingness and ability of microenterprises to participate in the compulsory scheme. The LNCCI in Vientiane reasoned that microenterprises generate only very small profits, which are not substantial enough to cover 6 per cent of their workers' salaries. Similarly, workers' salaries are felt to often be too low to cover their 5.5 per cent contribution. Furthermore, workers in microenterprises are very often contributing family workers who either receive irregular pay or no pay at all.

Oxfam (2021a) found that for potential voluntary scheme members the level of income of the informal workers they interviewed was not the main determinant of their interest or willingness to join the LSSO. Rather, location was a more significant factor given the cost of the required travel to LSSO offices in order to adhere to the administrative requirements for registration. Despite this, among the informal workers interviewed as part of the Oxfam study, those residing outside the provincial capital were more likely to have an interest in joining. This may be down to a combination of factors, including LSSO efforts to bring registration facilities closer to informal workers through the establishment of district offices and pilot mobile registration units, and tactics such as saving to pay multiple months of advance contributions and thus reducing the number of trips to the LSSO office required. HomeNet Lao, under commission by Women in Informal Employment: Globalizing and Organizing (WIEGO), is (at time of writing) conducting research focused on home-based workers to further illuminate these findings.

Self-employed coffee farmers are the only group of informal workers we spoke with for this study who were found to have the economic potential to contribute but who have not yet joined the NSSF. Before discussing their preferences regarding participation in the NSSF, it is important to note the procedure of our group discussion: first we explained to them about the benefits and policies of the LSSO voluntary scheme, then they asked questions and heard answers from LSSO staff, and finally we enquired about their interest to join. Following this process, the FGDs with this group of workers produced affirmative results. All FGD participants appeared enthusiastic to hear about NSSF benefits. They confirmed that the contribution rate and minimum fee (117,000 kip per month) is affordable for them, and that they would like to be registered and insured.

In almost every FGD, people asked about the possibility of mobile registration due to living far away from the provincial and district capitals (3–26 kilometres from the district capital and 53–76 kilometres from the provincial capital), and the associated difficulty and cost of travel to the nearest LSSO office.

8.5. Communications and awareness

8.5.1. Awareness about social security

Among the enterprise workers and coffee farmers we interviewed, almost all reported having very limited or no knowledge about social security. This was the case despite half of them already being registered members. Before proceeding to ask for comments and ideas on social security products design, we provided FGD participants with explanations regarding all the available social security benefits as well as the basic policies and process for registration, payment of contributions and making claims. Below, before we describe the kinds of communications activities that the LSSO and other organizations conduct relating to social security, we briefly recount some of the key questions and comments we received from our FGD participants in response to the explanations provided:

Key questions

- ▶ Who is eligible and how does one claim for unemployment benefit?
- ▶ What is the difference in terms of the maternity benefit for insured women and men, respectively?
- ▶ Can you explain more about the sickness benefit?
- ▶ How do you claim free-of-charge medical treatment at a hospital?
- ▶ If I quit this company, can I continue paying to the NSSF?
- ▶ Can you explain more about conditions for receiving pension benefits?
- ▶ How do you claim pension benefits?
- ▶ What happens if an insured person reaches pension age but the membership is less than 15 years?
- ▶ Can we pay one year in advance?
- ▶ How sustainable is the NSSF?
- ▶ More explanation about the registration procedure?
- ▶ How do you calculate a lump sum amount for one year of contributions?
- ▶ Can both husband and wife join the NSSF?
- ▶ What are eligible ages for registering with the voluntary scheme?

Key comments

- ▶ All benefits are relevant to our needs.
- ▶ Maternity benefit is not relevant because: (i) do not plan to have children; (ii) preferred hospital for giving birth is not contracted with the LSSO.
- ▶ Pension benefit is not relevant because: (i) unsure if I will continue working in current company and afraid the next company will not co-contribute; (ii) unsure I will have ability to continue contributing for 15 years.

8.5.2. LSSO communications activities

The findings presented above indicate the kind of awareness gaps and questions that current and prospective members may have regarding social security legislation and benefits. Nevertheless, the LSSO routinely communicates with the public regarding social security via a variety of media channels. These include Facebook, radio, television, hotline 1508, billboards and brochures.

Regarding communicating with enterprises, in Luang Prabang, LSSO key informants told us that they approach enterprises by sending them a Coordination Letter. If the requested appointment is accepted, they organize a meeting to disseminate information about the enterprise scheme and the Law on Social Security. Recently, the LSSO organized an annual meeting to recognize and commend those enterprises that regularly contribute to the NSSF. In addition, since March 2023, the LSSO team has started contracting ten villages in the provincial capital to play a promotional spot via village speakers twice a day for three days each week. They also took ad hoc opportunities to disseminate social security information by participating in a Department of Labour and Social Welfare (DoLSW) mission that took place in some villages.

Opportunities to organize information dissemination meetings are limited due to enterprises not wanting to disrupt business operations. The only unit or person in each enterprise that is supposed to have knowledge about social security is the HR unit/staff. The LSSO stated that an enterprise's HR staff are the key bridge between LSSO and the enterprise's workers. If the HR staff are not aware, or do not pass information about social security onto enterprise staff, the workers are less likely to be aware of or have knowledge about social security legislation or benefits. During data collection for this research, we found a case in Drinking Water Factory A where one worker passed away a month before we arrived. That person was supposed to apply for sickness benefits before she passed, but was unaware of her entitlements so did not make the claim (see box 16 for more details).

► Box 16. Worker loses social security benefits due to lack of awareness

During our interviews with drinking water Factory A, while we were explaining the benefits of social security, the HR chief started asking about how to claim benefits for a worker who just passed away. They explained that the worker in question had fallen ill in December 2022 and had to stop working at the factory in January 2023 due to medical treatment. She then passed away in March 2023.

The LSSO staff who accompanied our mission checked in the database and found that Factory A had removed the name of the deceased worker from the list of social security beneficiaries in January 2023. This meant that the worker had not contributed to the NSSF for the last three months, which meant her family may no longer be eligible for death benefits (valued at 19,500,000 kip – 15 times the insured earnings amount of 1,300,000 kip per month) as the family of the insured person can receive these only if they submit the required documents within three months of the insured person's death. Fortunately, in this case, the HR oversight was rectified in time and the family did receive the benefit.

However, prior to her death, the worker would have been eligible for more benefits than she did ultimately receive if she had been aware of the procedures related to the sickness benefit and had claimed it accordingly. This sickness benefit would have been worth 3,900,000 kip (three times the insured salary of 1,300,000 kip per month). According to the Law on Social Security, sickness benefit is an income replacement payable to the insured person from the first day they go on sick leave for a period of up to one year while the salary is temporarily suspended. A medical certificate is required to receive the benefit. Due to her lack of knowledge, and the lack of knowledge of the HR staff, this member never claimed or received her entitlement to the sickness benefit. No doubt this failure to claim her earned entitlement exacerbated an already tragic situation for the family, who had lost an income earner whose social security benefits would have otherwise helped relieve some of the resulting economic stress.

Factory A was established in the year 2000 and but did not register with the LSSO until 2022. Key informants from the provincial LSSO indicated that they had previously organized PR activities in this factory, though none of people we met with had attended that event. HR staff reported they have not to date claimed any social security benefits for their workers since joining the NSSF.

Source: Key informant interviews.

Key informants from the LSSO in Vientiane explained that they conduct visits to registered enterprises that lack a social security certificate to encourage them to comply with social security legislation, and also visit newly registered enterprises to provide information about social security benefits. At the village or community level, the Vientiane LSSO office is regularly invited by the ECCDA and IWAA to disseminate information on social security to informal workers being supported by these associations.

Vientiane LSSO also reported that the village head is not always a good channel to deliver social security information. This can be either because they are not well versed in social security legislation and policies, and/or because they have many tasks and responsibilities, and therefore do not have sufficient time to disseminate social security information. They expressed that communication with enterprise target groups can be conducted online, but face-to-face communication is much more efficient for voluntary scheme target groups.

In Champasack, the LSSO approaches enterprises via a combination of means, including joining labour inspectors on their rounds, being invited by interested enterprises, and appointments with target enterprises that they have sent coordination letters to. At the village or community levels, Champasack LSSO worked with LSSO headquarters to implement the SOLAR project's activities by promoting social security in 12 target villages in 2022. They recently opened a district LSSO office in Paksong, which they hope will bring the NSSF closer to its target groups. The Provincial LSSO assessed that nearly all investment projects/enterprises in Champasack SEZ have joined the NSSF, but there are still many outside the Champasack SEZ that remain uninsured.

As discussed in sections 7.4.2 and 8.1.3 above, as per current legislation, labour inspection does not include the authority to enforce the Social Security Law. PR and communication activities thus play a very important role in expanding both the LSSO enterprise and voluntary schemes. However, according to the provincial LSSO, budget allocation for PR activities is extremely limited. PR activity plans are developed by provincial LSSO offices and submitted to the LSSO headquarters for approval, but only the most compelling plans will be approved. The LSSO pointed to two reasons why PR activities are not frequently conducted in rural areas:

- i. They do not have convincing information that can demonstrate to unregistered rural residents that registration will be worthwhile.
- ii. Promoting the NSSF in locations far from where LSSO offices are located is inefficient, because transportation barriers reduce the willingness of people from those areas to join.

To ensure that all LSSO offices communicate the same content in a consistent manner, PR materials are centrally produced. All PR activities, such as creating WhatsApp groups with enterprise HR units, must be approved by the PR division at LSSO headquarters.

8.5.3. Communications activities by other organizations

As mentioned previously (see subsection above and box 12), organizations such as the LFTU, IWAA and ECCDA cooperate with the LSSO to promote social protection among the groups of workers that they support. The communications activities they undertake include inviting LSSO officers to provide information on social security to the workers and distribution of NSSF brochures. These associations assess that:

- ▶ The contents and mode of the LSSO presentation are still difficult for many informal workers to understand due to low levels of education.⁵⁵
- ▶ Many target workers do not like to read, which makes brochures less effective as a means of conveying messages.
- ▶ Limited budgets for communications activities means their quality and frequency are inconsistent, making them less effective than they otherwise might be.
- ▶ other government sectors understand that it is not under their mandate to promote social security, so it is difficult to get them to cooperate in an optimal manner.

Labour inspectors under the DoLSW also help the LSSO to promote social security while inspecting enterprises. As they report from their experiences:

- ▶ Gathering people in a large meeting hall for PR activity is not optimal or effective due to difficulties with sound and excessive noise;
- ▶ With the current form and mode of communicating, PR activities tend to work well only in larger enterprises where the workers tend to be more highly educated.

Some suggestions from key informants for making social security communications and PR activities more effective are provided in box 17 below.

▶ Box 17. Suggestions for making social security communications more effective

Contents of PR materials

- ▶ Include real life experiences (DoLSW).
- ▶ Clearly demonstrate that social security includes benefits other than free healthcare (LFTU, hospital).
- ▶ Compare social security, health insurance and other private insurance (DoIC).
- ▶ Compare social security with a ROSCA (rotating savings and credit association); what will happen if payment is late, or what happens to all your contributions if you pull out of the scheme (LFTU).
- ▶ Clearly demonstrate how social security benefits the enterprise (DoIC).
- ▶ Be clear that the NSSF is state-owned (FGD).
- ▶ Use graphic contents that are easier for people with low literacy to understand (Factory A).

PR methods

- ▶ Approach the relevant government sectors to seek their cooperation on dissemination of social security benefits to enterprises under their supervision (MPWT, DoIC).
- ▶ Time information (and mobile registration) campaigns to align with periods in which informal workers are most likely to have excess income, such as following harvest time for agriculture workers.
- ▶ More on WhatsApp and Tik Tok (FGD).

⁵⁵ This point is corroborated by the quantitative analysis of LFS and LEC data conducted in Part One above, which shows that informal workers are more likely to be uneducated or have lower levels of education than formal sector workers (see section 3.2 above).

- ▶ Put posters on the walls of communal areas in the workplace, such as canteens (Factory A).
- ▶ Use local accents in video and audio materials.
- ▶ Design information (and mobile registration) campaigns in collaboration with provincial and district offices (instead of just informing them when it is happening) to better take local contexts and factors into account.
- ▶ Use local members to act as ambassadors for the NSSF so that prospective members can see how social security works from someone they can trust and identify with.
- ▶ Conduct communications in secondary schools and universities for people about to enter the labour market (FGD).
- ▶ Conduct communications in hospitals, where patients and their relatives can easily see the importance of being insured (FGD).
- ▶ Put FAQ contents on the LSSO website (LNCCI).

PR critical targets

- ▶ All public officers (Hospital).
- ▶ Company manager, cooperative leader, owner of enterprise (DoIC).

Further research

- ▶ Learn more about the needs and demands of the target group, especially potential voluntary scheme members.
- ▶ Research to understand the most efficient ways of communicating about social security (IWAA).

Source: Key informant interviews.

09

Part Two conclusions



There is a clear need to increase registration of enterprises, especially micro and small enterprises. The processes and timeframes for registering enterprises are well established and generally function efficiently, though there is definite room for improvement in some parts of the system, including around data linkages, application procedures, and mitigating the risk of informal charges by intermediaries.

Participation in social security is no longer conditionally linked to business registration and operating licences, which puts the main strain for ensuring compliance on inspection, where capacity is relatively weak.

Capacity for inspection and monitoring of enterprises is limited across various government sectors, with responsible agencies often having to rely on informal cooperation from other sectors of government to fulfil monitoring and inspection functions. This results in gaps in the inspection regime around business operating standards, labour conditions and social security compliance.

There are some gaps and inconsistencies within the policy and legislative framework. In particular, these relate to ambiguities regarding the legal status of different types of employment contracts (part-time, interns, daily-wage workers and subcontractors) and business models (such as franchises). Clarification regarding the appropriate social security instrument for domestic workers, and whether their employers should be required to contribute on their behalf, is also needed.

The decision to transfer the LSSO healthcare fund to the NHIB is having a major negative impact on the quality of services received by NSSF members, which is damaging the reputation of the NSSF. This negatively affects people's willingness to join or continue contributing. It is also causing some enterprises that do contribute to the NSSF to incur additional costs in order to provide satisfactory benefits to their workers. These issues together pose a significant threat to the NSPS objective to expand coverage of social security.

The LSSO has generally efficient and effective systems for registration, payment of contributions and making claims. However, distance to LSSO offices and the lack of online systems pose barriers to participation in social security for both enterprises and voluntary scheme members.

General knowledge and awareness about social security needs to be raised among enterprises and workers, and the means of disseminating such information can be improved. Knowledge about social security legislation and how to implement said legislation also needs to be promoted among key line ministries.

There is good scope for partnerships across different levels of government, the private sector and civil society to help address many of the identified challenges to enterprise formalization and expansion of coverage by social security.

9.1. Implications for policy

The two main MIS containing information on enterprises – the NED and TaxRIS – are formally linked. But related MIS in other parts of government, including the LSSO and line ministries responsible for issuing operating licenses across different sectors, are not. Linking these databases could provide significant efficiency gains and enable more robust, coordinated and coherent delivery of services, which would in turn aid achievement of policy objectives vis-à-vis expanding enterprise formalization and coverage by social security, as well as compliance with legislation.

Enterprises could be assisted in their registration and applications for operating licenses if there were some standard templates and guidance provided for business plans and other required documentation. There is a need to once again conditionally link enterprise registration, tax and operating licences with social security legislation. Consideration could also be given to linking social security participation with business incentives and exemptions for tax, land lease and use, and access to finance and information. Ambiguities in the legislation regarding certain employment contract types (part-time, interns, daily-wage workers and subcontractors) and business models (franchises) require clarification. Equally, there is a need to determine the appropriate social security instrument for domestic workers and to specify the contribution requirement for their employers. Updates to legislation will need to be consulted broadly across all impacted stakeholders. Approved legislative updates will need to be well disseminated, and training will need to be provided to guide implementation.

There is a need to develop and strengthen coordination across government sectors vis-à-vis the inspection process. Labour inspections should cover social security compliance, and labour inspectors should be given the power to sanction enterprises that violate social security legislation. Government sectors responsible for monitoring and inspecting business operating standards and for issuing operating licences should also incorporate relevant social security checks. The relevant legislation across government sectors should be amended accordingly to make these roles and responsibilities explicit. Manuals and training on inspection procedures for both labour and business operating standards should be developed and provided.

There is an urgent need to resolve the challenges resulting from the merger of the NSSF healthcare fund with the NHIF. This could be via returning the NSSF healthcare fund to the control of the LSSO, or by other means such as clearly defining and distinguishing between the benefits package entitlements of NSSF members and non-members, as well as providing stronger financial autonomy to the NHIB to manage the NHIF. In either case, the LSSO needs to recoup its ability to negotiate directly with hospitals to ensure the provision and quality of healthcare services that their members pay for. LSSO policies could also be tweaked to provide members with greater choice and flexibility regarding the healthcare facilities in which they may exercise their healthcare benefits.

There is a need to reduce as far as possible the distance between NSSF members and potential members and the provision of social security services, including registration, payment of contributions, and making claims. Developing online systems for submission of documentation and reducing the number of occasions workers and enterprises are required to attend LSSO offices in person would greatly aid willingness and ability to contribute. Establishing similar links between the LSSO and banks other than LDB would aid in this regard.

Research could be conducted to help inform how social security communications and PR activities might be improved. Materials more suited to people with low education and literacy levels need to be developed, as well as better use of social media platforms and better timing of information campaigns to align with informal worker incomes. Dissemination of social security information in areas outside of enterprises themselves, such as in secondary schools and universities, could be considered to increase knowledge about social security benefits and legislation more broadly among the public and the workforce.

Partnerships could be developed and strengthened across the private sector and civil society to support enterprise formalization and expansion of coverage by the NSSF. Civil society organizations (CSOs) should be given a voice in the DWCP tripartite committee in order to improve design and delivery of labour and enterprise services, including social security.

10

Overall conclusions



The current policy framework clearly articulates two broad objectives: (i) to increase formalization of enterprises, and (ii) to increase coverage by social security through the NSSF. These objectives are well-founded on a strong economic logic. Formalizing enterprises will raise government revenues by broadening the tax base, as well as improve production standards and working conditions, and thus the quality of jobs on offer in the labour market. Increasing coverage by social security will enable a more efficient functioning of the labour market and support human capital development. This will improve productivity and thereby greatly benefit enterprises. It will also increase government revenues by raising the level of contributions from workers and employers. This in turn will free up government expenditure for investment in other productive areas, including social assistance, to further support human capital development and improve productivity in a virtuous spiral.

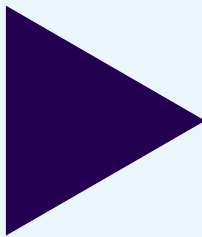
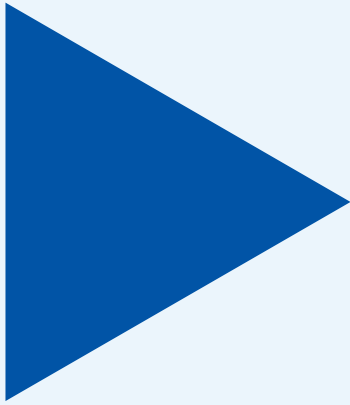
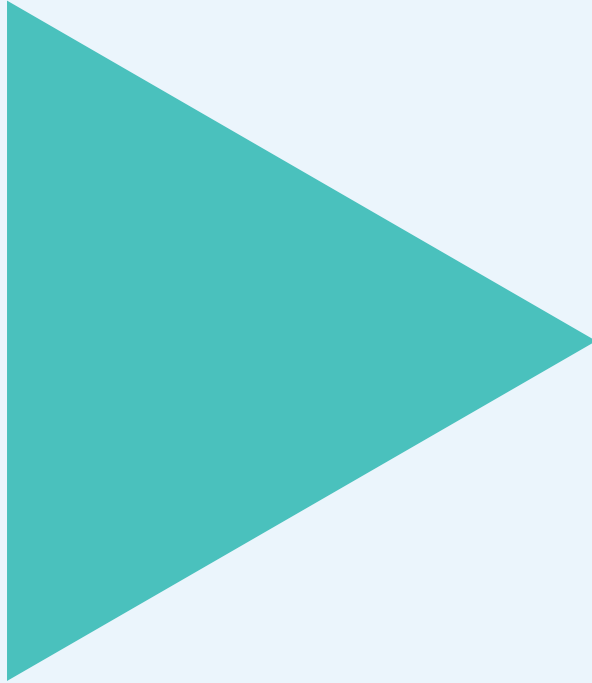
Despite the size of the challenge involved in reducing informality in the labour market and enterprise landscape, government capacity relating to service provision for labour, enterprises and social security is strong. There is a comprehensive legislative framework and a broadly well-functioning set of systems and processes covering enterprise registration, taxation, labour conditions and social security provision. This does not imply that there is no room for improvement. But with a coordinated set of tweaks and modifications to the systems and processes for enterprise registration, business operations licencing, and social security, alongside necessary adjustments to the relevant legislation across government sectors to close gaps and clarify existing ambiguities, the Government could significantly strengthen the foundation for achieving its policy aims and developing the economy.

The NSSF offers a competitive product that provides high value for workers and enterprises. But, to realize its potential it needs not only to significantly increase coverage over the medium and long terms, but to rectify an immediate issue that is posing a real threat to its viability. This issue stems from the current situation whereby the NSSF healthcare fund has been merged with the NHIF administered by the NHIB. For a confluence of reasons, this situation is severely impacting the quality of healthcare received by NSSF members, which is significantly undermining the NSSF's reputation.

Beyond this issue, there is strong scope to build new and strengthen existing partnerships across government, the private sector and civil society to help address the challenges related to increasing the number of registered enterprises and expanding coverage of workers by social security. Government ministries, departments and agencies can work together with mass organizations, civil society, the private sector and development partners to the mutually beneficial interests of all to achieve these policy goals via a balanced blend of sanctions and incentives.

Beyond enterprise formalization and social security expansion, there is significant need in the economy for increased investment in social assistance. This topic is not the focus of this study, but as some parts of the labour market are not yet in a position to participate in social security, it is clear that social assistance will be required to support their needs. Investing in such systems, and thereby building a comprehensive and integrated social protection system, would provide major rewards for the country in terms of economic development by strengthening the workforce, enabling the efficient functioning of the labour market, and bolstering domestic demand for goods and services.

In the final section of this study below we provide a small set of recommendations to aid the Government and its development partners to achieve these aims and to expand formalization in the labour market and enterprise landscape through a three-pronged approach: team up, upgrade systems and processes, and drive forward.





11

Recommendations



11.1. Team up

The LSSO, MoLSW, MoIC, MoF and other line ministries each play an interrelated role vis-à-vis the formalization of the labour market and enterprise landscape. Already there is significant formal and informal cooperation between them. In order to capitalize on these practices and to optimize their coherence in relation to the overarching policy objectives, there is a need to formalize the way in which all these agencies coordinate together. This should not involve creating new institutional mechanisms per se, but rather formalizing roles and responsibilities to plug any gaps and maximize collective capacity. Below, we provide three broad recommendations to enhance coherence of objectives and coordination of actions across both government and non-government actors. Under each of these, we specify some more detailed areas of consideration.

Enhance coordination and cooperation across government sectors involved in enterprise formalization and social security provision

- ▶ **Build linkages between relevant databases**, including NED, TaxRIS, LSSO MIS and the operating licence MISs across government sectors.
 - Improve links between databases within line ministries vertical structures.
 - Capitalize on existing activities relating to information management systems across ministries (for example, see footnote 35 above) by coordinating between development partners such as the World Bank, UNDP and ILO.
 - Ensure access to relevant databases across ministries to reduce costs to enterprises for business registration and operating licence application,⁵⁶ as well as to improve social security inspection function.

- ▶ **Conditionally link operating licences and business incentives with social security registration:**
 - Operating licences are not part of the starting a business process, so conditionally linking the issuing or renewal of operating licences with social security registration would not impact the implementation of Prime Minister's Order No. 02 on Improving Regulations and Mechanisms for Doing Business in the Lao People's Democratic Republic (2018).
 - This condition could be tweaked for certain subsectors such that it is only applied at the first year of operating licence renewal (for example, for large public works projects that do not start hiring labour for the first year).
 - Consider linking social security participation with business exemptions for tax and land lease and use, as well as offering incentives such as access to finance and other business support services.

- ▶ **Revise the procedures and content for inspection of business operating standards and working conditions to ensure compliance with social security legislation:**
 - Labour inspections should comprehensively cover social security compliance, and ambiguities in the legislation between the Labour Law and Social Security Law as to which agency is responsible for issuing sanctions to labour units that violate the regulations should be clarified (for example, following the recommendations laid out in the forthcoming ILO report Overview of the Current Functioning of Social Security Inspections and Recommendations).

⁵⁶ For example, currently, businesses are required to provide all the registration and tax certification themselves in hard copy. But if ministries (that is, those issuing operating licences) had instant access to the databases in which this information was held, they could simply check the status and validity of the ERC, TIN, tax payment, and LSSO registration online, thus reducing the burden on the businesses themselves.

- Government sectors responsible for monitoring and inspecting business operating standards for the purpose of issuing operating licences should incorporate relevant social security checks.
- Inspection training manuals should be developed or updated to incorporate the new procedures and training given to inspection officers of all relevant agencies.
- Formalize arrangements between agencies where informal cooperation for inspection functions are currently relied upon.
- Update the relevant legislation across government sectors to provide a consistent legal basis for ensuring compliance with social security regulations.
- Strengthen enforcement of social security legislation so that inspections take place and noncompliant labour units are sanctioned appropriately (for example, by following the recommendations laid out in the forthcoming ILO report Overview of the Current Functioning of Social Security Inspections and Recommendations).

Strengthen and develop partnerships with workers' and employers' organizations

- ▶ **Develop partnerships with the LFTU and LNCCI** to disseminate social security information to their members and support them with registration, payments and claims processes.
- ▶ **Work with more CSOs in more geographic areas** to aid their support to informal workers to participate in the NSSF.
- ▶ **Bring CSOs into the DWCP tripartite committee** to improve design and delivery of labour, enterprise and social security services.

Amend existing legislative architecture to clarify ambiguities and guide implementation

- ▶ **Specify responsibility for social security vis-à-vis certain employment contract types:** part-time, internships, daily-wage or seasonal workers, and subcontractors.
 - As part of this effort, consideration should be given to the employment relation between providers of digital platform services and their workforce. Depending on the nature of this relationship, digital platforms could be obligated to make social security contributions on behalf of their workforce as well as providing other employment-based protections, such as paid annual leave.
- ▶ **Clarify rules for enterprise registration, taxation and social security for franchise business models.**
- ▶ **Determine the appropriate social security instrument for domestic workers and specify the contribution requirement for their employers.**
- ▶ **Develop sub-legislation across government sectors to guide implementation of the Social Security Law.**
 - Consult with all impacted stakeholders to ensure familiarization with current and/or any revised legislation (for example, ministries responsible for issuing operating licences).
 - Disseminate existing and/or revised legislation and sub-legislation to all impacted stakeholders and provide training on the implications of the changes and how to implement them.

► Box 18. The UK Supreme Court versus Uber

In February 2021, after a five-year legal battle, the UK Supreme Court ruled that Uber drivers were workers rather than self-employed, and as such were entitled to the minimum wage, holiday pay and employer pension contributions. UK law recognizes a distinction between the category of “worker” and that of “employee”, and the ruling was made based on a combination of elements, including the following:

- Uber sets the fare, which means it dictates how much drivers can earn.
- Uber sets the contract terms and drivers have no say in them.
- Requests for rides are constrained by Uber, which can penalize drivers if they reject too many rides.
- Uber monitors a driver's service through the star rating and has the capacity to terminate the relationship if, after repeated warnings, this does not improve.

Looking at these and other factors, the court determined that drivers were in a position of subordination to Uber, where the only way they could increase their earnings would be to work longer hours.

Following the ruling, Uber made changes to its business arrangements with drivers, including not only providing a minimum wage guarantee, holiday pay and pension contributions, but also free insurance covering sickness and injury, as well as parental payments (maternity and paternity), while maintaining drivers' right to choose when and where they work. The ruling did not cover other parts of Uber's business, such as the Uber Eats food delivery service.

A similar ruling requiring drivers to be classified as employees eligible for benefits and job protections was given against Uber and other app-based ride-hailing and delivery services by a California court in August 2021. Uber has vowed to appeal this ruling.

Source: Compiled by the authors based on news reports.

11.2. Upgrade

Government systems and processes are generally well capacitated and efficient. But that does not mean there is no room for improvement. Tweaks and modifications to the processes and systems for enterprise registration and social security participation will help mitigate barriers for workers and enterprises. Below we suggest four general recommendations stemming from this research to upgrade systems and processes, alongside a few specific areas of consideration under each.

Resolve issue of low quality of healthcare for NSSF members resulting from the merger of the NSSF healthcare fund with the NHIF

- ▶ **Either return NSSF healthcare fund to the control of the LSSO or...**
- ▶ **Adjust healthcare benefits packages (including levels of co-payment) to distinguish between NSSF and NHIF members** in order to ensure that both NSSF and NHIF members obtain the same standard of care they each received prior to the merger with the NHIF.
 - Whatever the arrangement regarding administration of the NSSF healthcare fund, ensure the LSSO regains its ability to negotiate directly with hospitals and healthcare providers regarding the quality of care provided to NSSF members.
- ▶ **Provide the NHIF with financial autonomy over NHIF expenditure** such that they can make payments to health providers in a timely manner and prioritize expenditures based on healthcare providers' needs.
 - Discuss further ring-fencing certain tax revenues for health (for example, tobacco and alcohol duties) with a view to reducing the NHIF budget deficit.

Invest to bring the LSSO closer to workers and enterprises

- ▶ **Continue to roll-out LSSO district offices and mobile registration desks**, and place learning models around these to ensure the experiences gained help inform expansion of such measures going forward.
- ▶ **Develop online systems for registration, contributions and claims:**
 - Enable online submission of documentation for registration and claims.
 - Link with banks other than LDB to provide automatic proof of contributions.

Provide NSSF members with greater choice and flexibility regarding healthcare providers

- ▶ **Enable NSSF members to more easily change their primary healthcare facility and/or allow selection of a primary healthcare facility that is outside the catchment area** to ensure members receive their benefits in the healthcare facility of their choice.

Strengthen social security communications

- ▶ **Conduct research to inform how social security communications and PR activities can be improved and better tailored to target audiences.**
- ▶ **Develop materials more suited to people with low levels of education and literacy.**
- ▶ **Coordinate with provincial and district LSSO offices to tailor the timing and content of information (and registration) campaigns to the local context.**
- ▶ **Identify how to make more and better use of social media platforms.**
- ▶ **Widen dissemination of social security information to the public more broadly**, for example, through education institutions and via media campaigns aimed at the general public.

11.3. Drive forward

Finally, to drive forward as per the objectives spelled out in the NSPS there is need to simultaneously expand social insurance (the NSSF) and invest in social assistance.

In relation to social insurance, and in keeping with the recommendations articulated above at the operational level, the LSSO should at the strategic level focus its efforts to expand by:

Targeting economic subsectors that are easiest to reach and with most potential to participate in social security

- ▶ Businesses that require an operating license (see recommendation above to conditionally link operating licences and participation in the NSSF).
- ▶ Subsectors where workers' ability to pay is indicated to be high.
- ▶ Subsectors with large numbers of employees to enable faster expansion.
- ▶ Many medium and large enterprises are still not covered, and these should be relatively easy to clear up, while at the same time as effort is made to focus on registering small and microenterprises.
- ▶ Leverage enterprise characteristics that make it operationally easier:
 - Businesses with fixed premises;
 - Enterprises with visible assets (vehicles, machinery, property, and so on).

Invest in social welfare to cover subsectors that do not currently have high potential to contribute to social security

Although populations without high current ability to participate in social security are prevalent in certain subsectors, economic subsector is not the most appropriate aspect upon which to condition targeting of social welfare programmes. Instead, it is fairer to use social welfare support to mitigate disruption to income and labour participation caused by life-cycle events such as births, childhood, old-age, and morbidity and disability, due to the attendant costs that such events can impose on households. Labour participation during working age is one such life-cycle event, where underemployment and unemployment can pose numerous challenges to both individuals and families, up to and including impoverishment. Such life-cycle events may be conditioned and coloured by sex and gender, ethnicity, and welfare status, so policies need to be designed to respond to these dimensions. Designed and implemented appropriately, social welfare or assistance policies – for example, in the form of direct income support designated to target and mitigate such risks – will smooth consumption for these households and thus enable them to invest first in human capital, through spending on health and education, and beyond that in productive activities such as, for example, subsistence farming, as well as market-facing activities of whatever size.

Investment in social welfare will bolster demand for the goods and services provided by enterprises and those working on their own account, expanding their income (and the income of the workers they employ) and thus increasing their ability to participate in social insurance. In turn, this will help bring ever more people into the sphere of coverage by social security in a virtuous spiral.

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► Appendix I. Overview statistics for select economic sectors

► Figure A1.1. Overview of agriculture sector workers

95% agricultural workers are uninsured

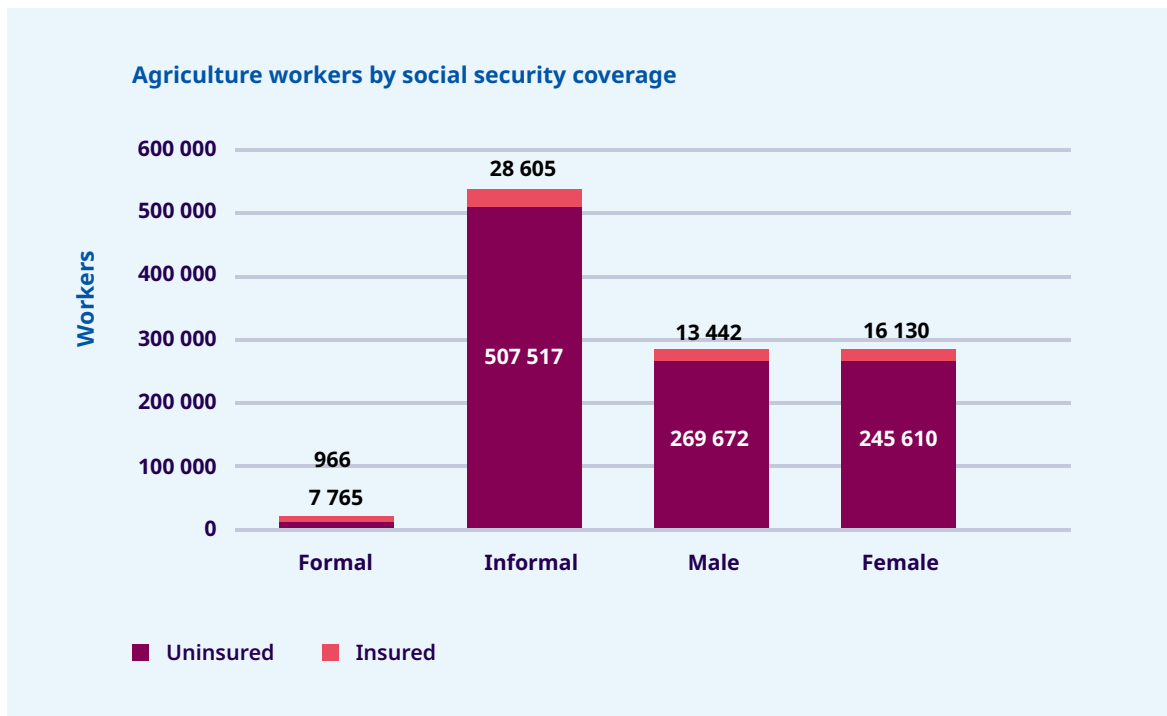
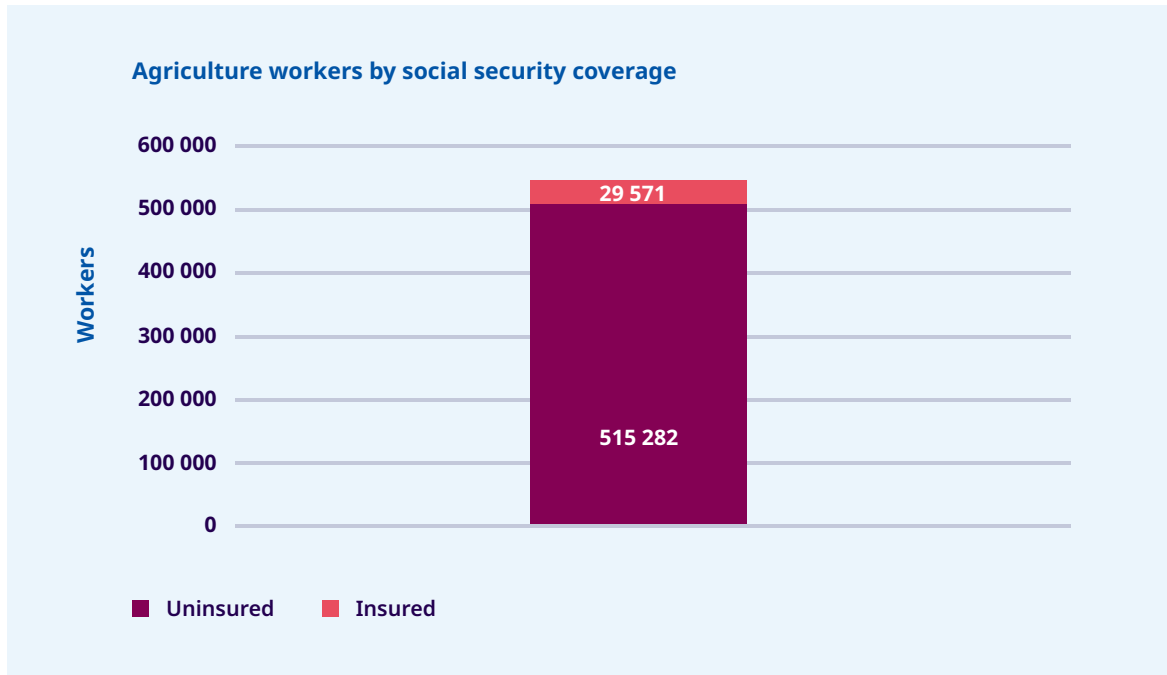
48% of agricultural workers are female

98% of agricultural workers work in informal productions units

39% of agricultural workers are in the bottom income quintile

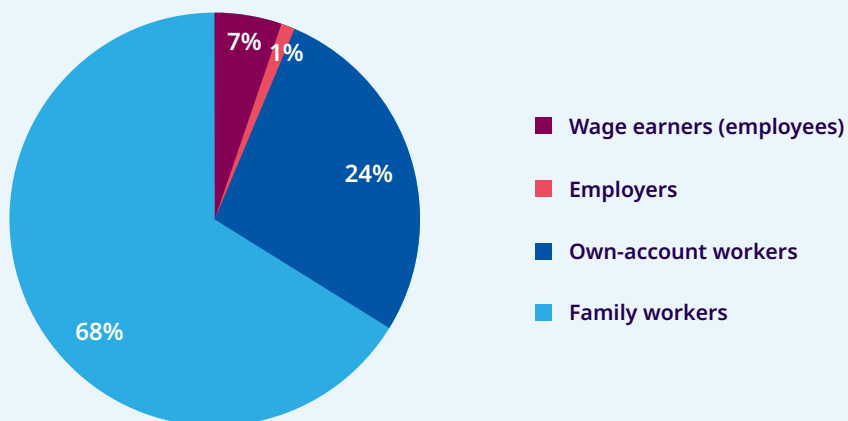


Source: LFS 2017.

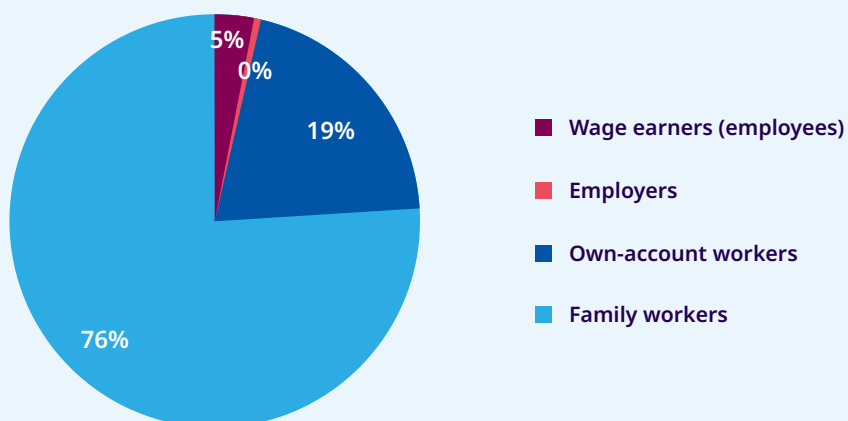


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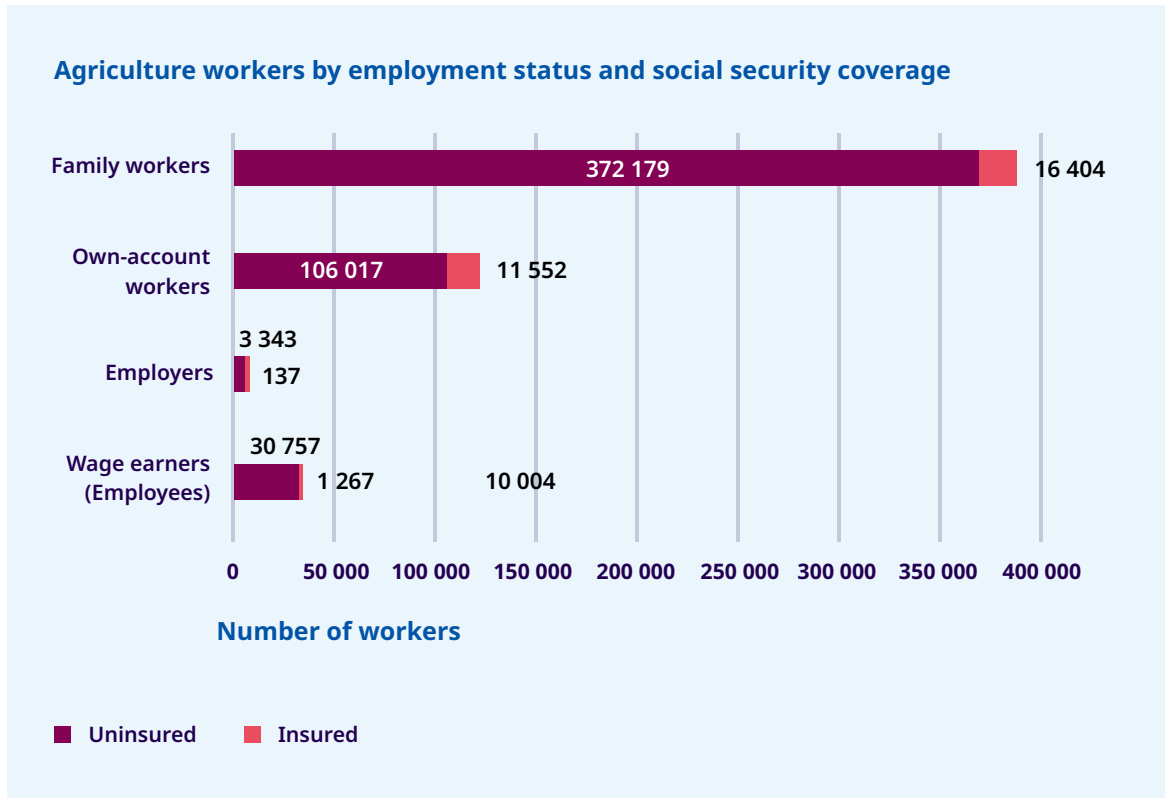
Agriculture workers by employment status – Male



Agriculture workers by employment status – Female



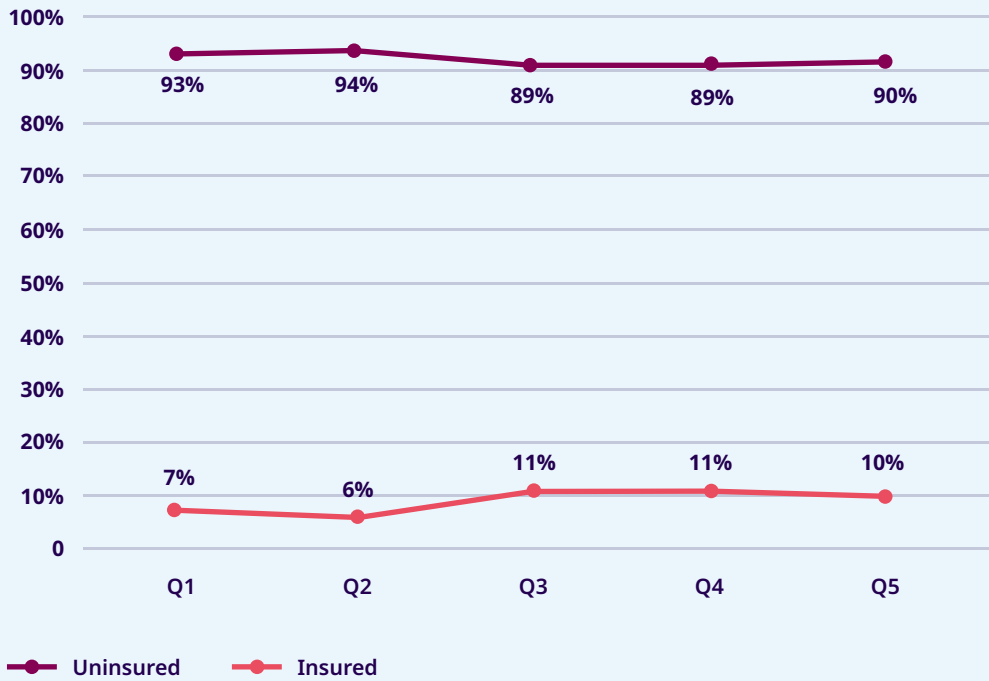
Source: LFS 2017.



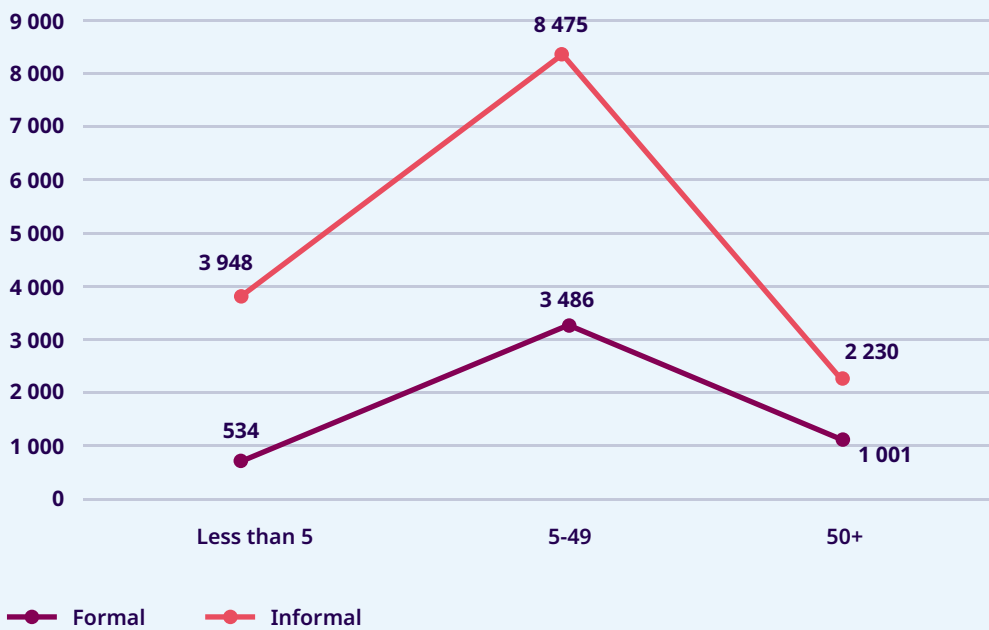
Average monthly income of workers (kip)	Male	Female	All workers
Insured	3 201 444	1 473 691	2 246 698
Uninsured	1 858 208	1 307 735	1 639 380
Percentage of employees potentially able to contribute to social security			22%

Source: LFS 2017.

Proportion of agriculture workers covered by social security by income quintile



Agriculture workers (employees and employers) by enterprise size



Source: LFS 2017.

► Figure A1.2. Overview of wholesale and retail trade workers

88% of wholesale and retail trade workers are uninsured

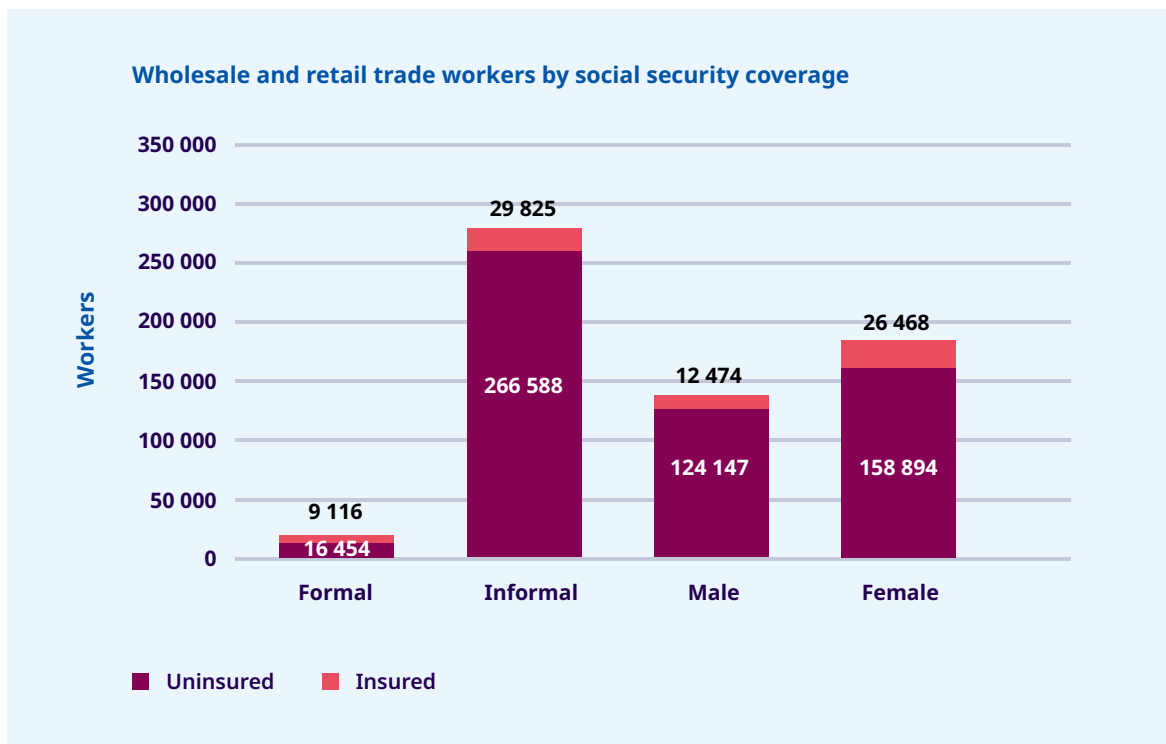
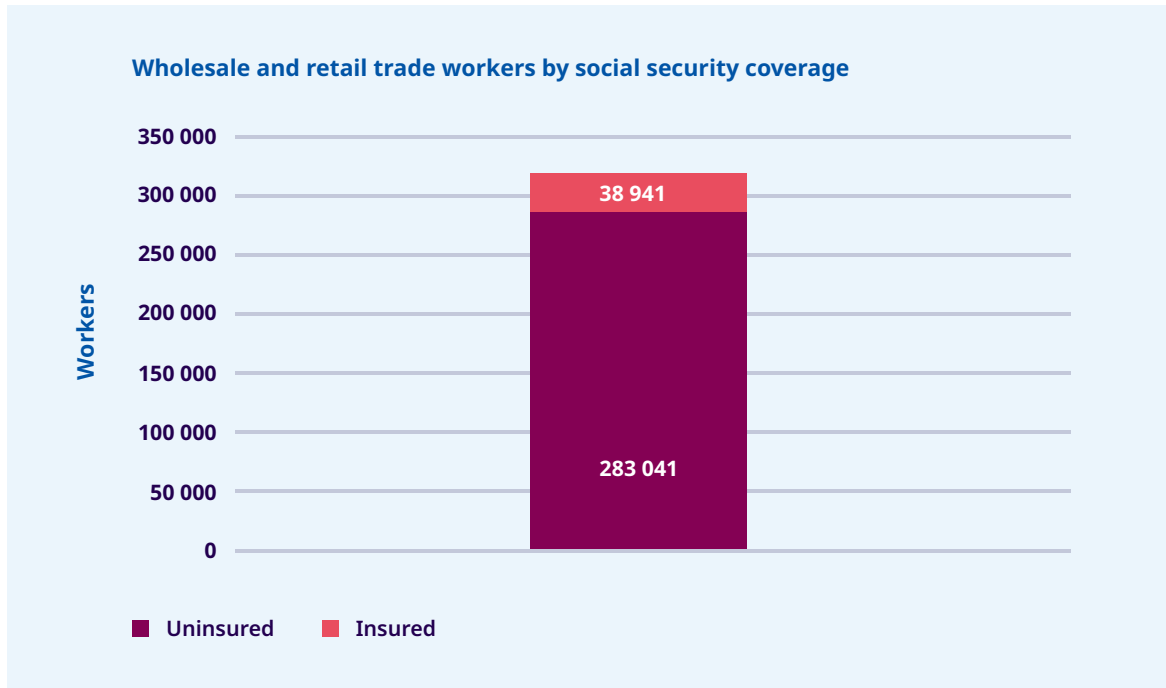
58% of wholesale and retail trade workers are female

92% of wholesale and retail trade workers work in informal productions units

31% of wholesale and retail trade wage earners are in the bottom income quintile

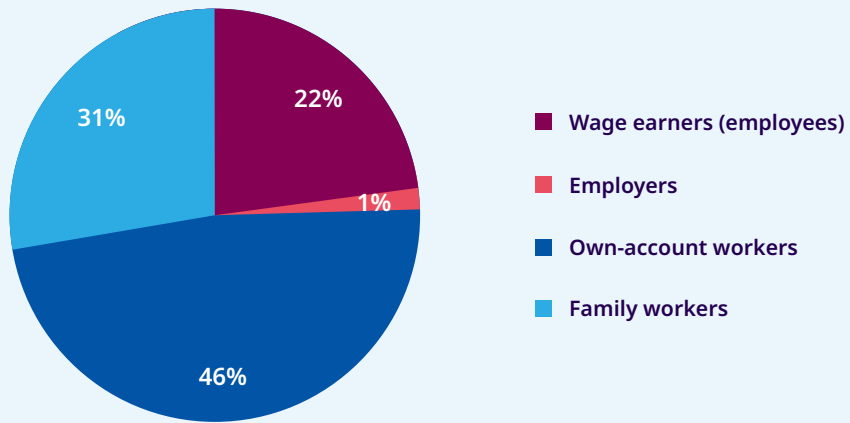


Source: LFS 2017.

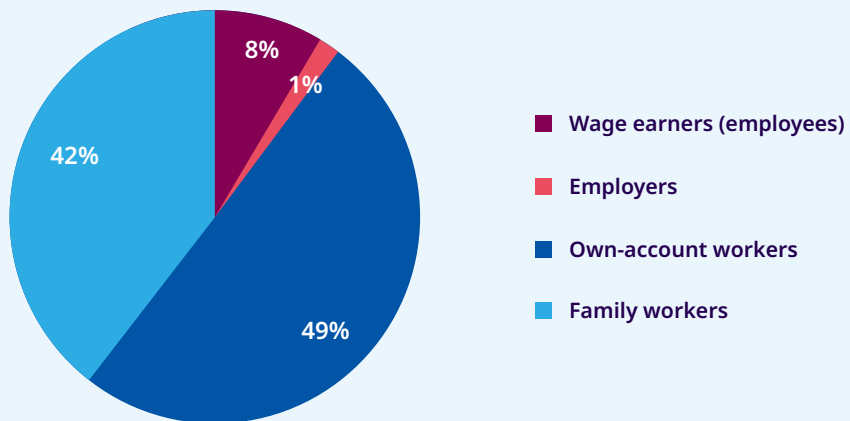


Source: LFS 2017.

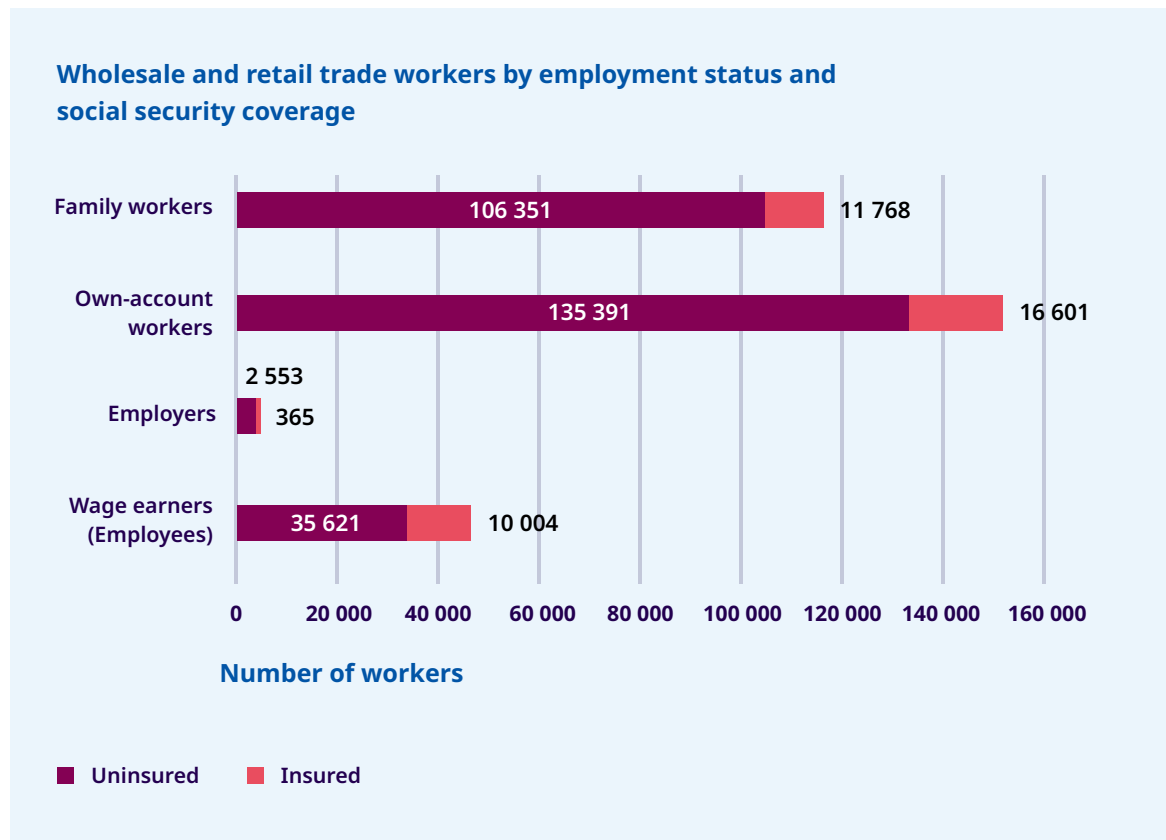
Wholesale and retail trade workers by employment status – Male



Wholesale and retail trade workers by employment status – Female



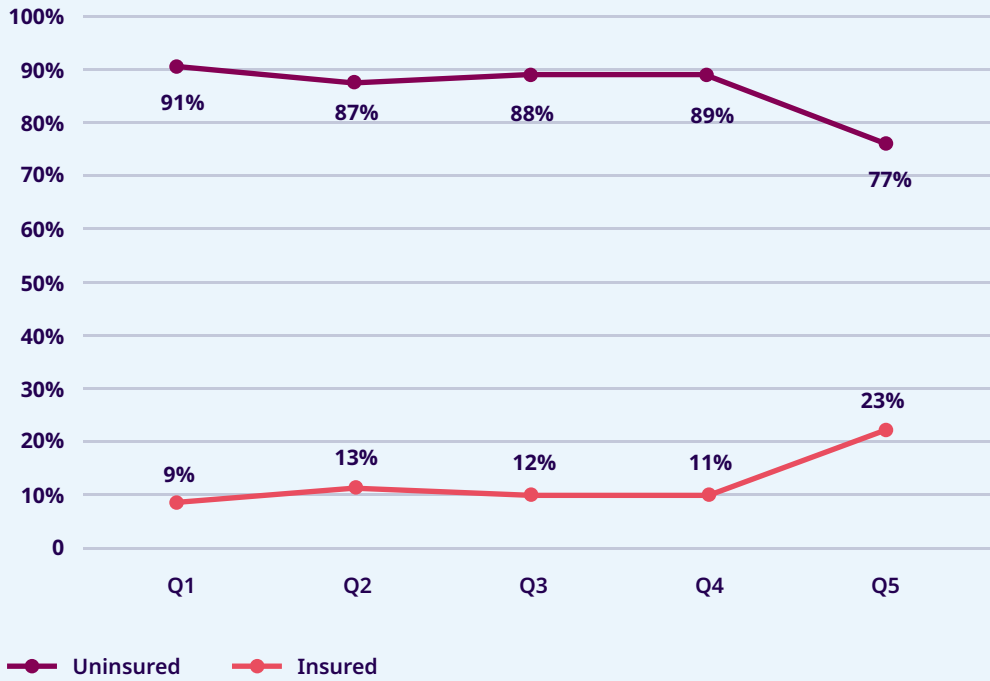
Source: LFS 2017.



Average monthly income of workers (kip)	Male	Female	All workers
Insured	2 755 657	1 670 151	2 703 643
Uninsured	2 227 890	2 328 262	2 280 313
Percentage of employees potentially able to contribute to social security			29%

Source: LFS 2017.

Proportion of wholesale and retail trade workers covered by social security by income quintile



Wholesale and retail trade workers (Employees and employers) by enterprise size



Source: LFS 2017.

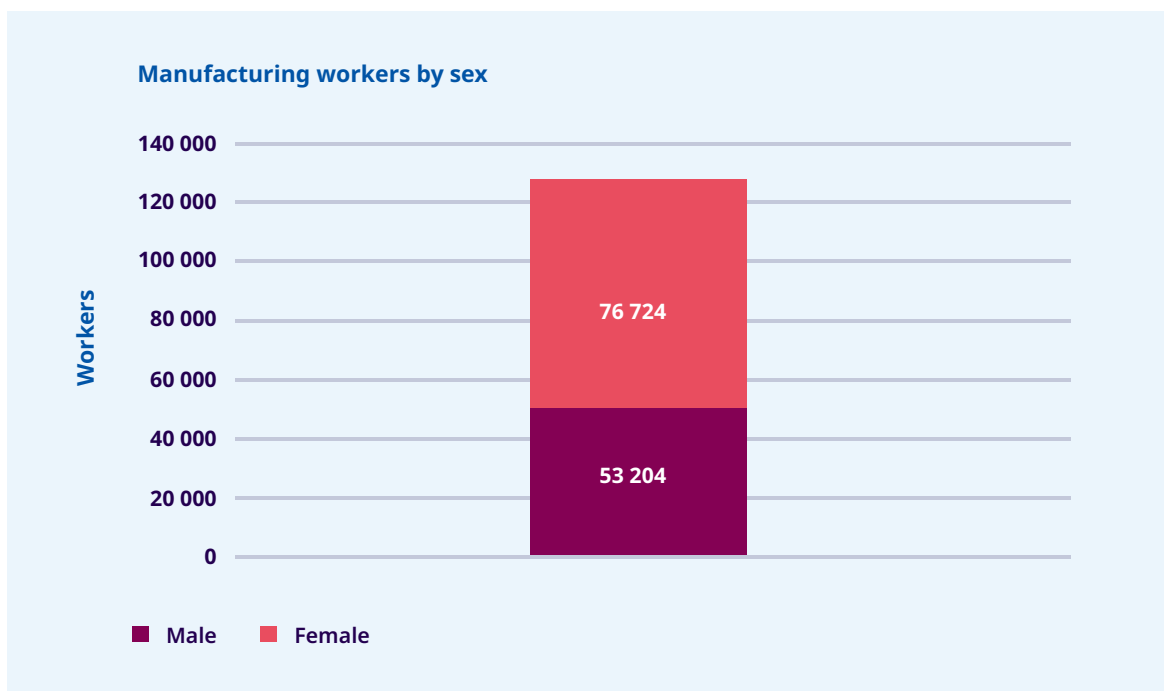
► Figure A1.3. Overview of manufacturing workers

77% of manufacturing workers are uninsured

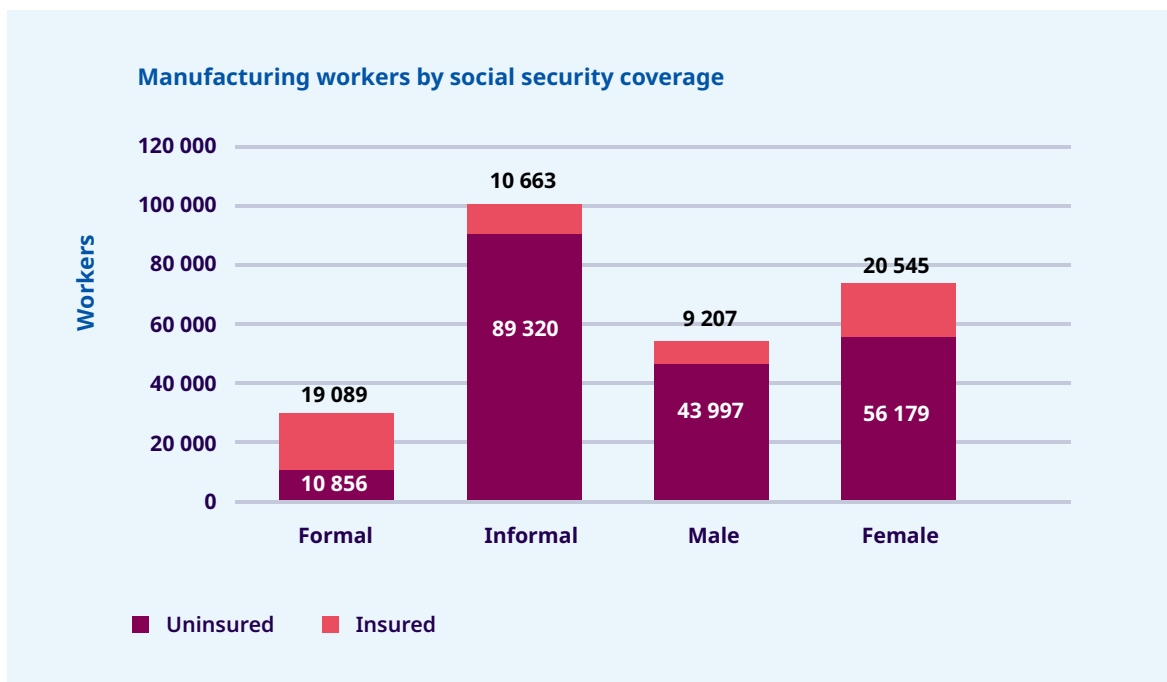
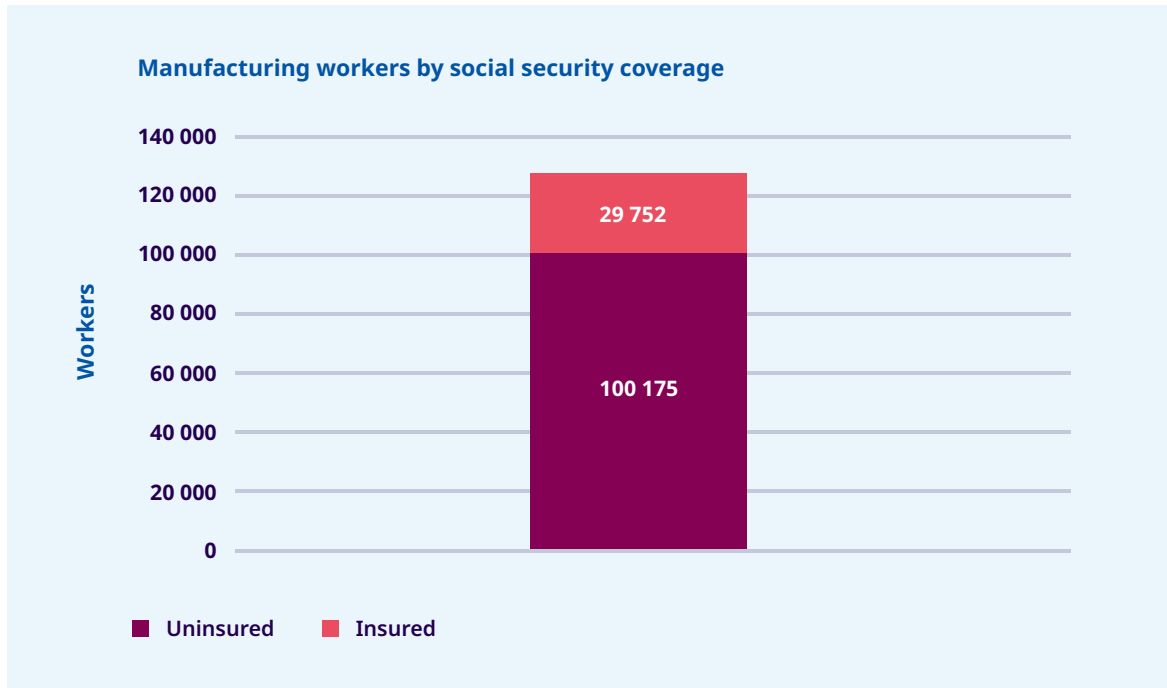
59% of manufacturing workers are female

77% of manufacturing workers work in informal productions units

25% of manufacturing workers are in the bottom income quintile

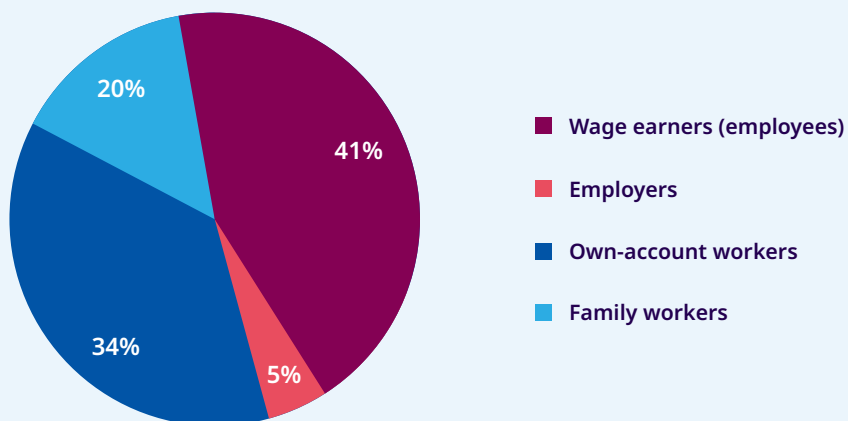


Source: LFS 2017.

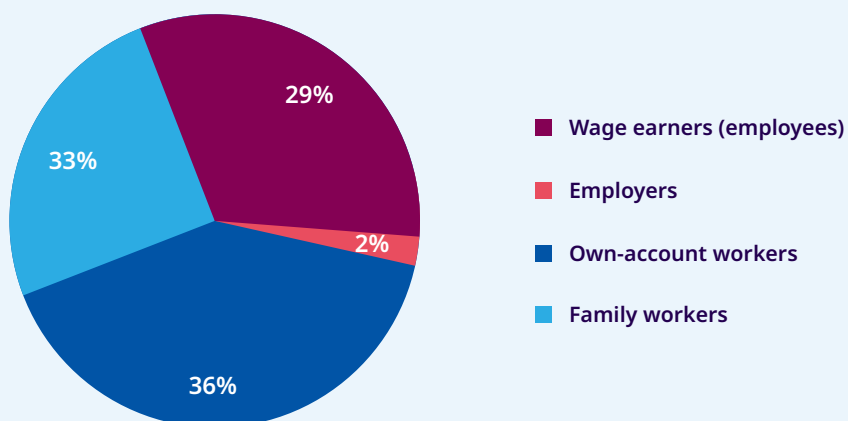


Source: LFS 2017.

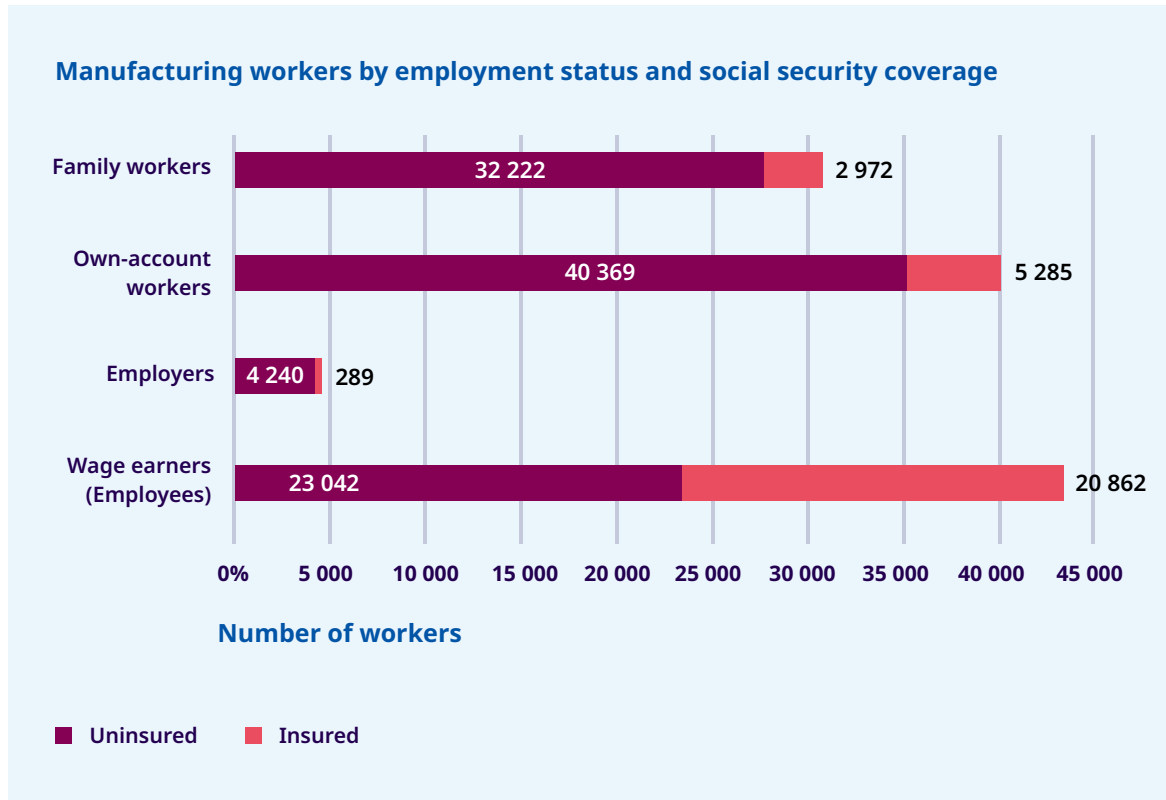
Manufacturing workers by employment status – Male



Manufacturing workers by employment status – Female

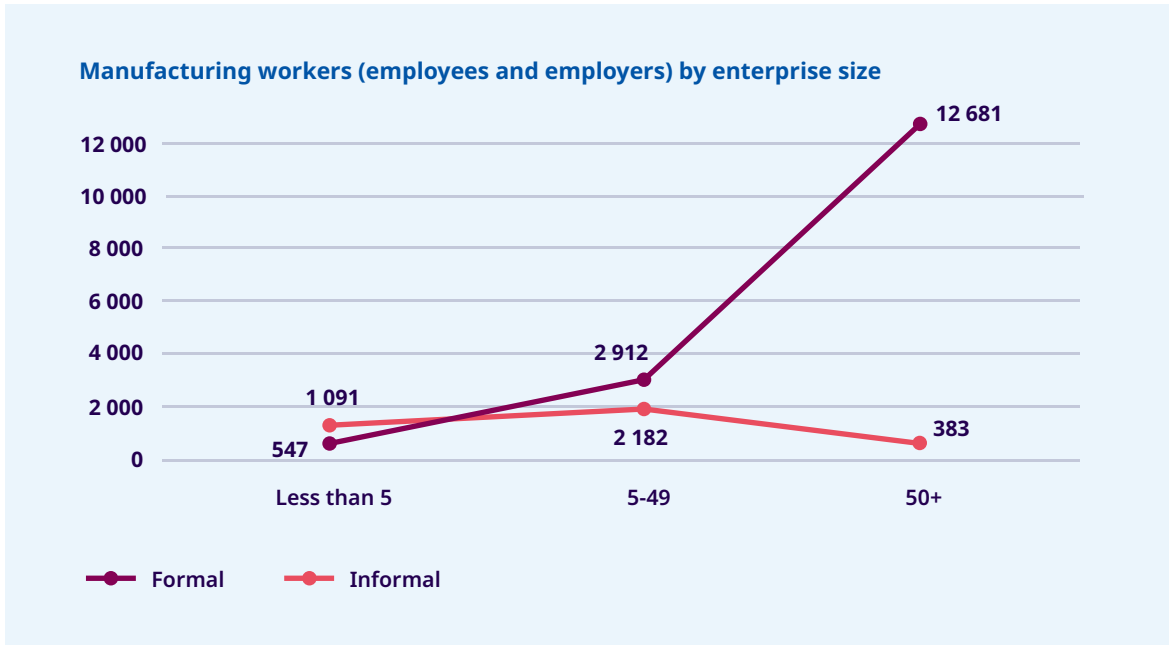
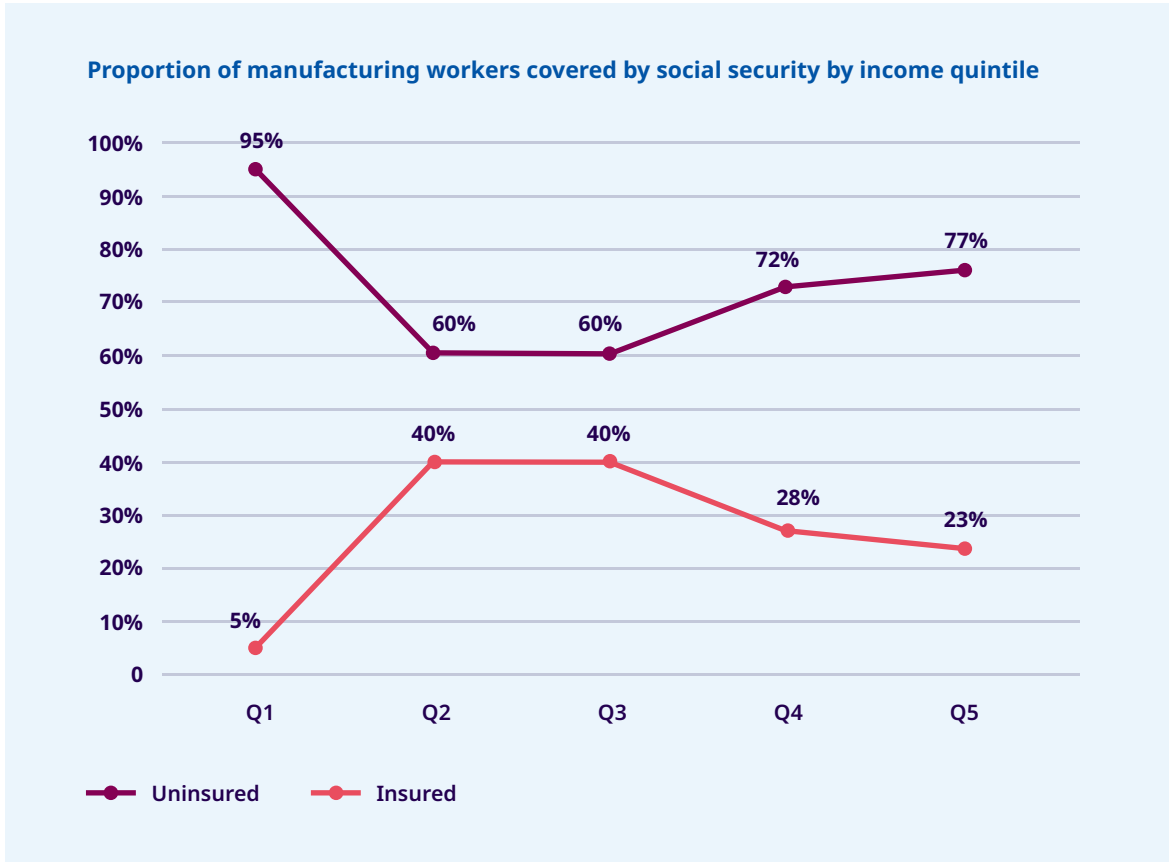


Source: LFS 2017.



Average monthly income of workers (kip)	Male	Female	All workers
Insured	2 470 006	1 549 473	1 856 063
Uninsured	2 022 005	1 387 955	1 704 168
Percentage of employees potentially able to contribute to social security			47%

Source: LFS 2017.



Source: LFS 2017.

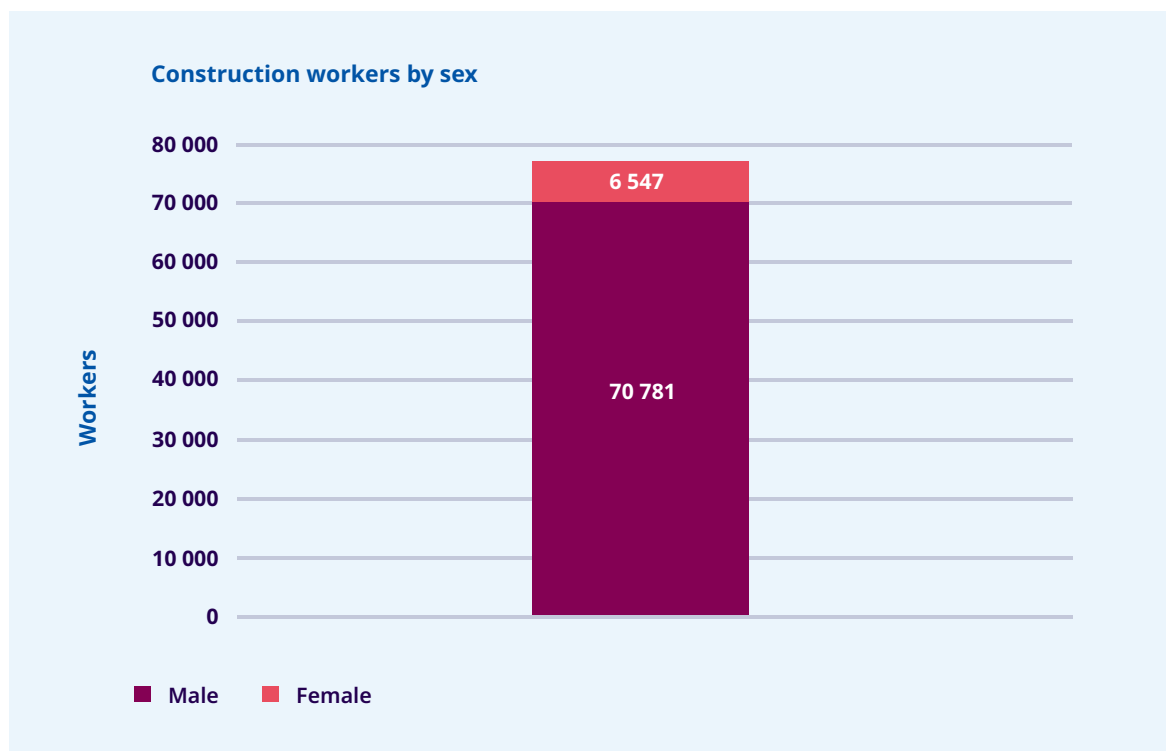
► Figure A1.4. Overview of construction workers

92% of construction workers are uninsured

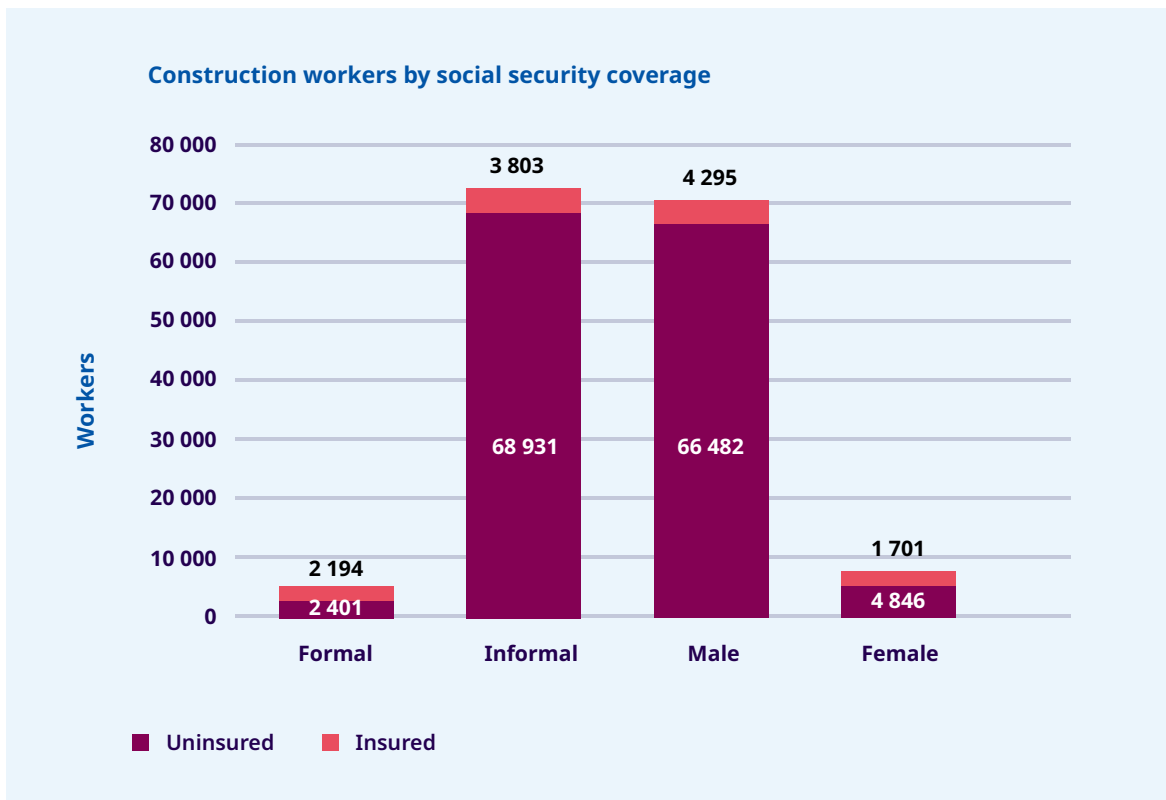
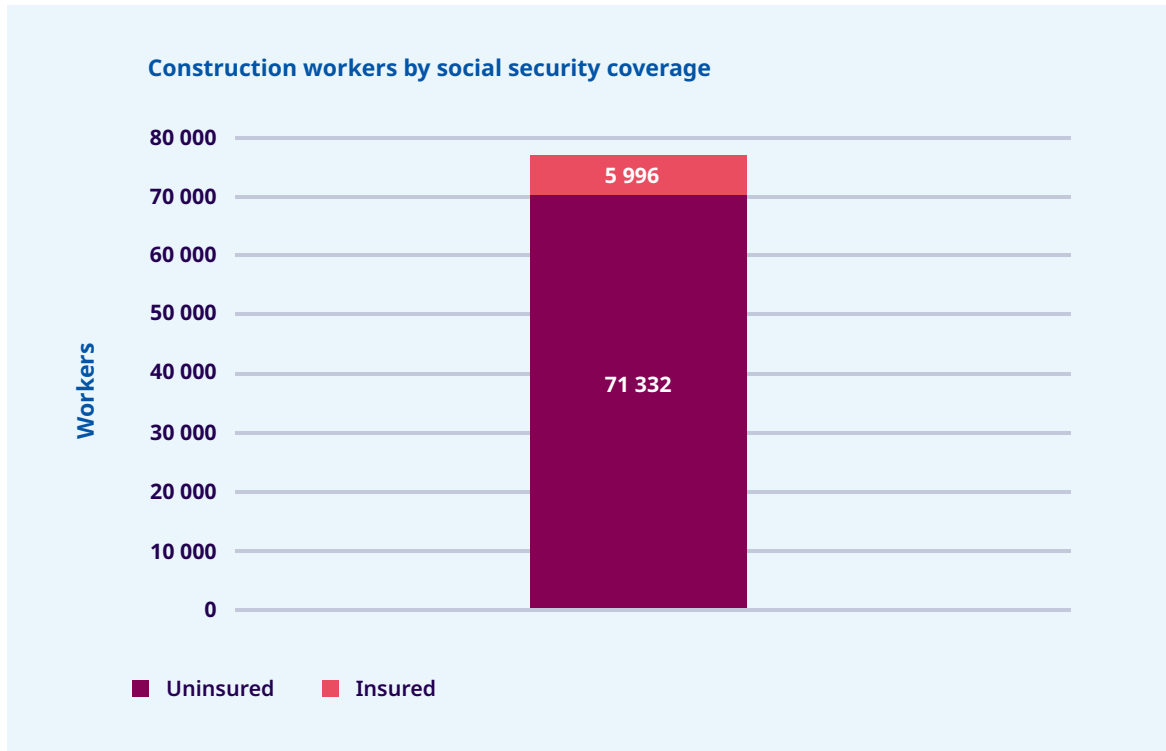
9% of construction workers are female

94% of construction workers work in informal productions units

15% of construction wage earners are in the bottom income quintile

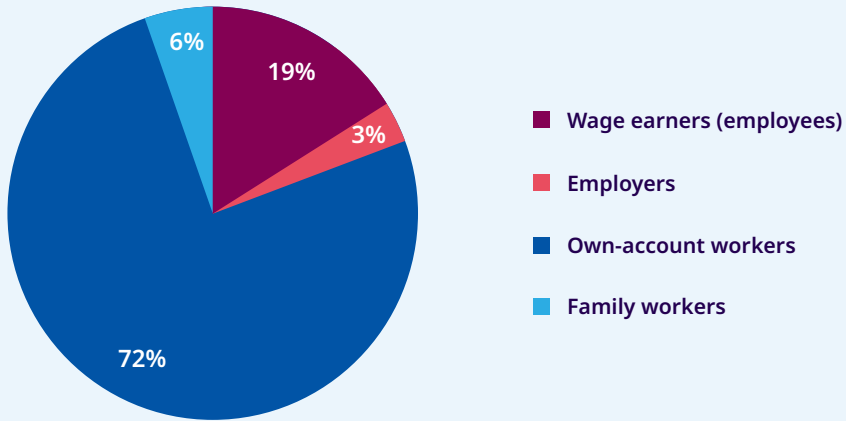


Source: LFS 2017.

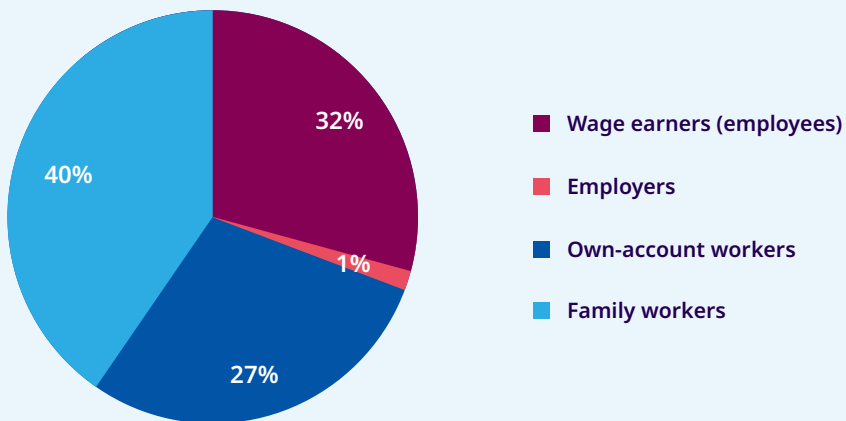


Source: LFS 2017.

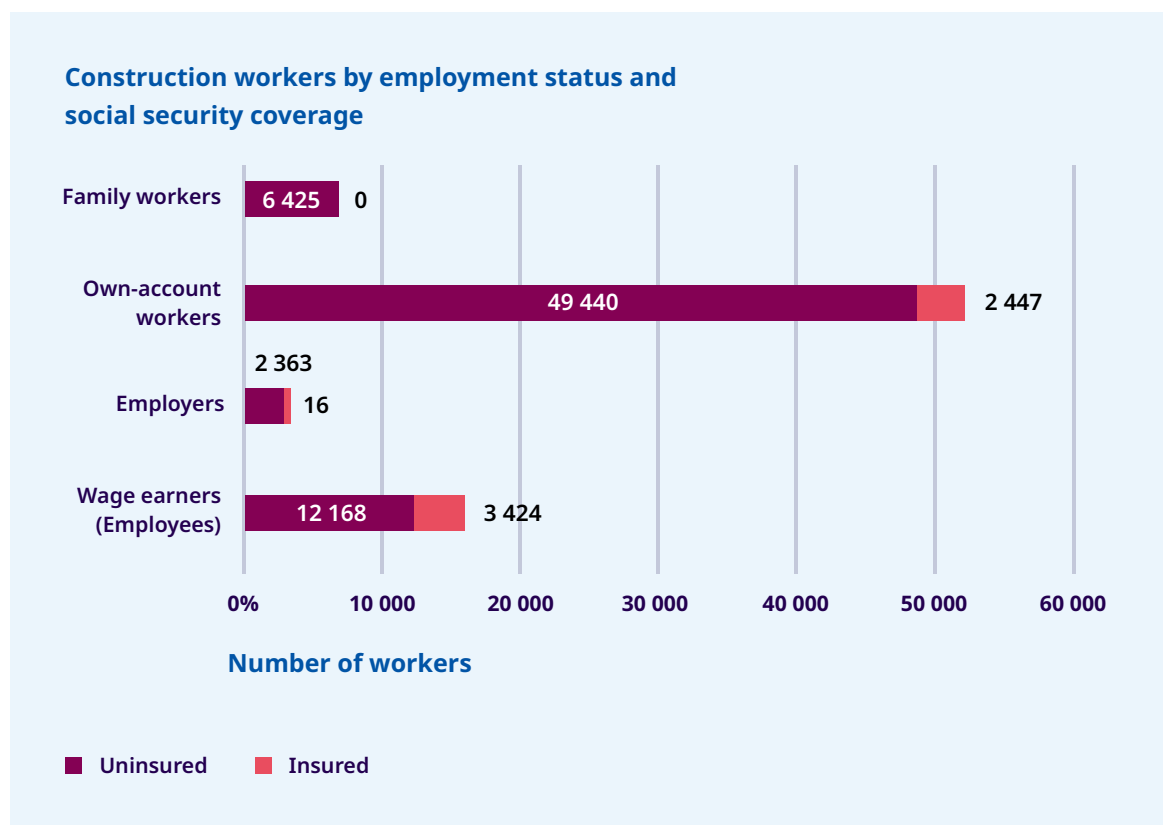
Construction workers by employment status – Male



Construction workers by employment status – Female



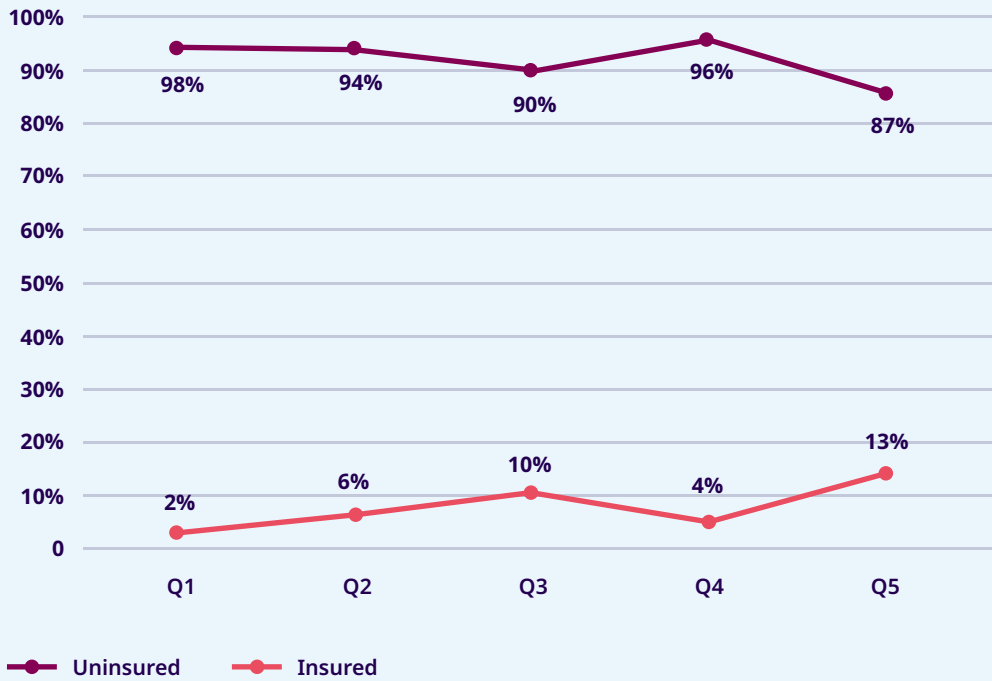
Source: LFS 2017.



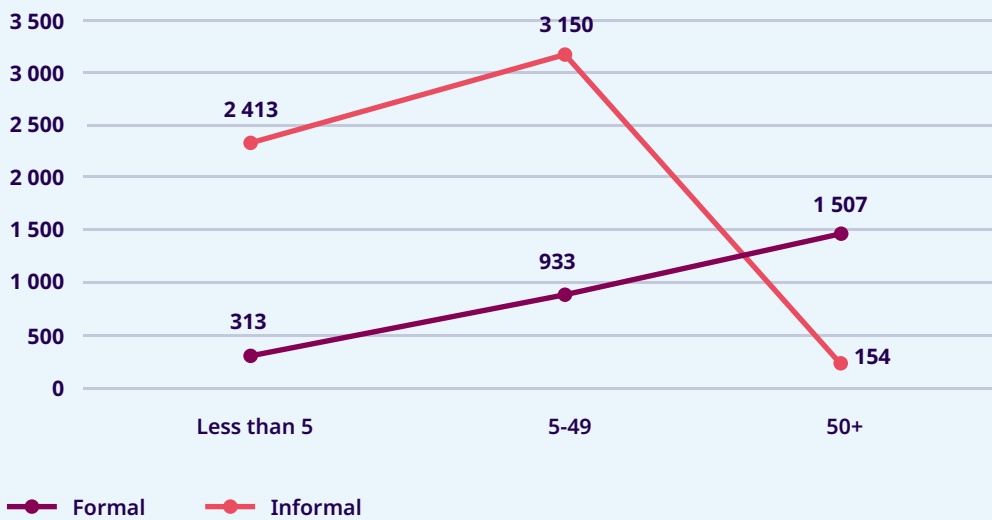
Average monthly income of workers (kip)	Male	Female	All workers
Insured	4 334 881	2 190 400	3 715 377
Uninsured	3 247 552	1 620 007	3 674 747
Percentage of employees potentially able to contribute to social security			66%

Source: LFS 2017.

Proportion of construction workers covered by social security by income quintile



Construction workers (Employees and employers) by enterprise size



Source: LFS 2017.

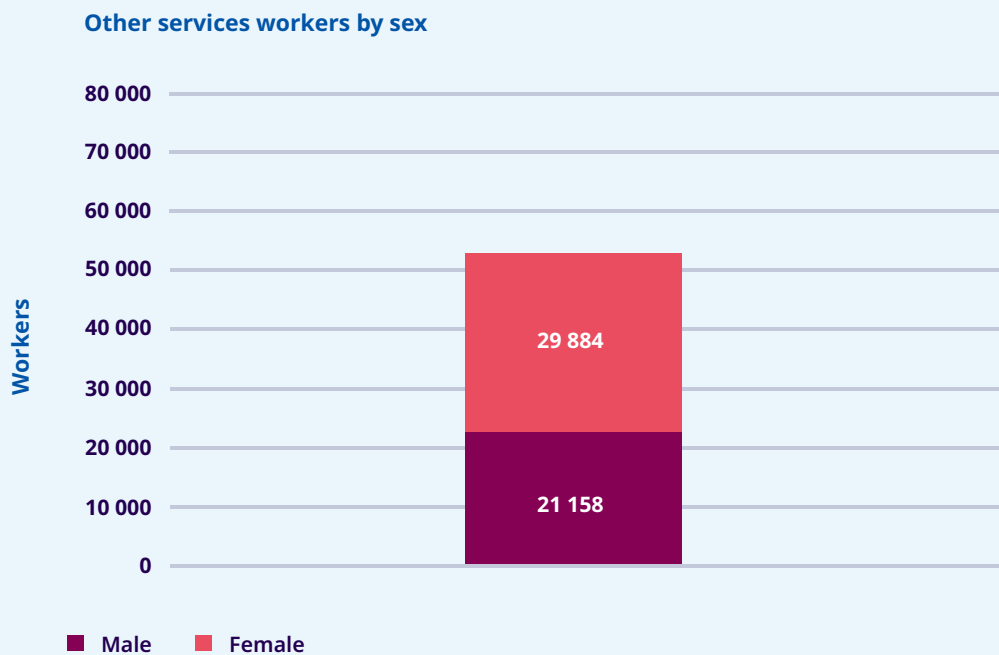
► Figure A1.5. Overview of other services workers

83% of other services workers are uninsured

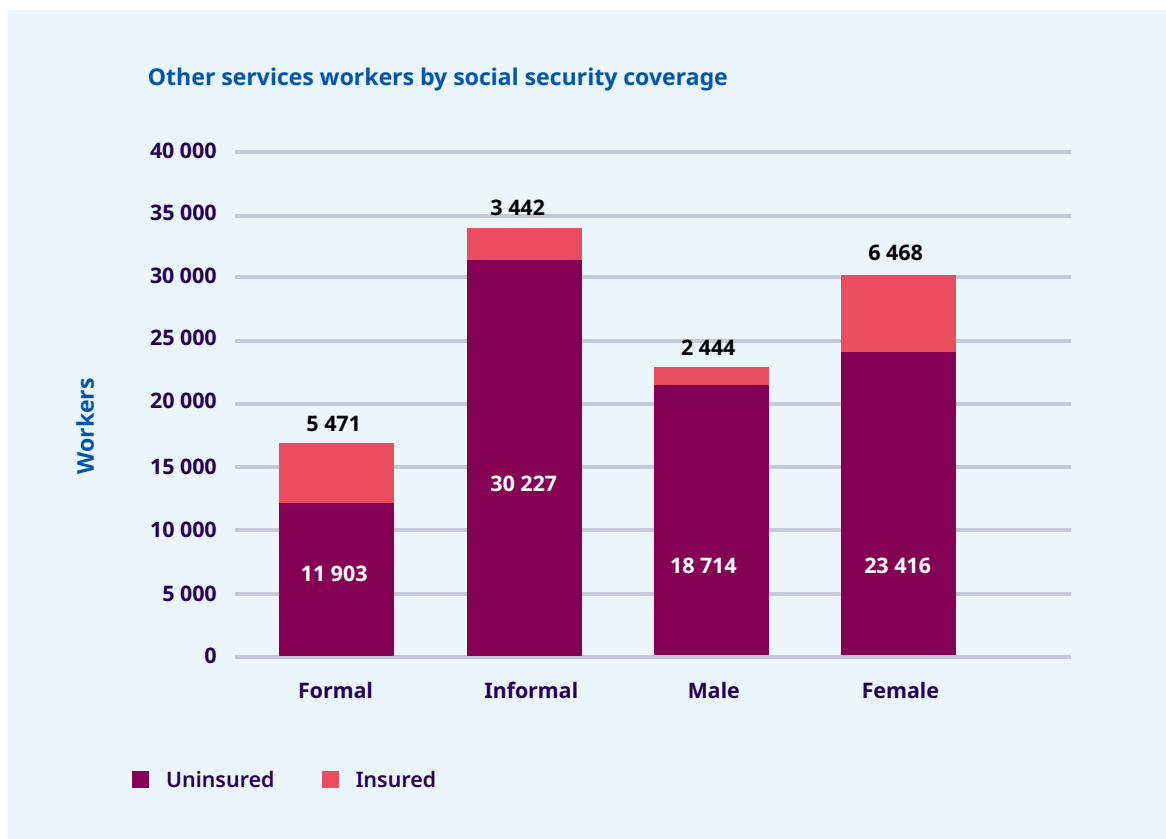
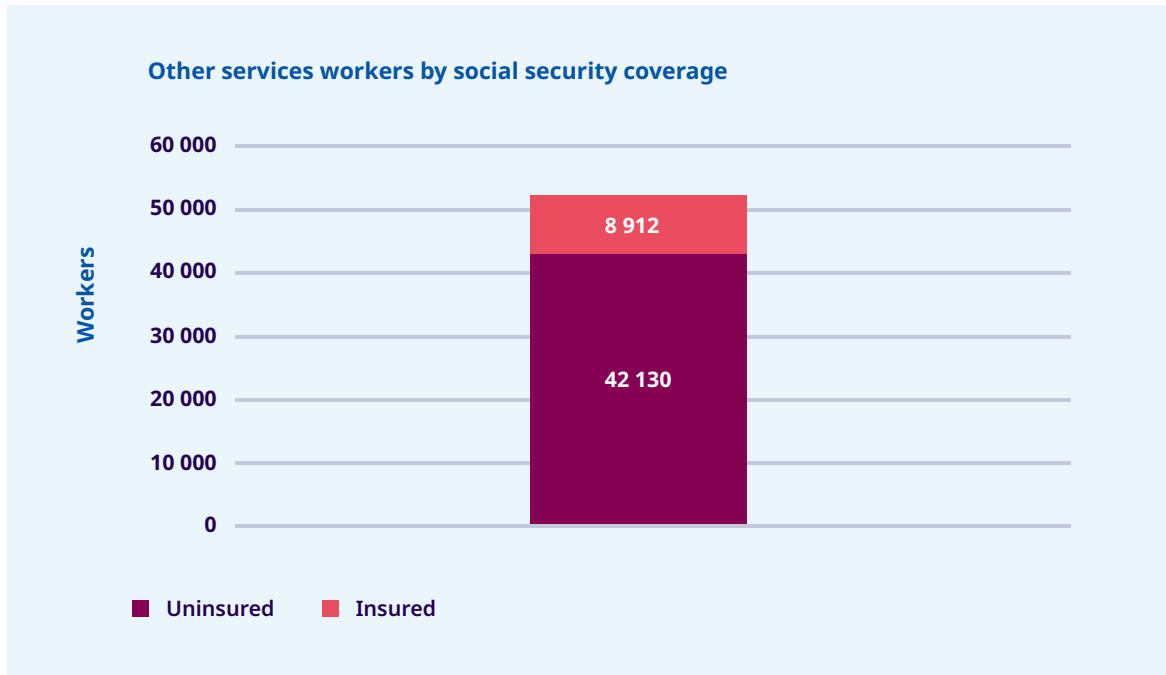
59% of other services workers are female

66% of other services workers work in informal productions units

20% of other services workers are in the bottom income quintile

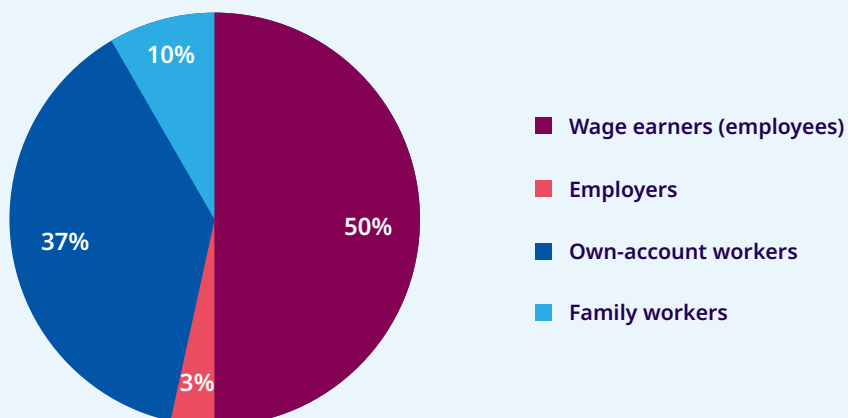


Source: LFS 2017.

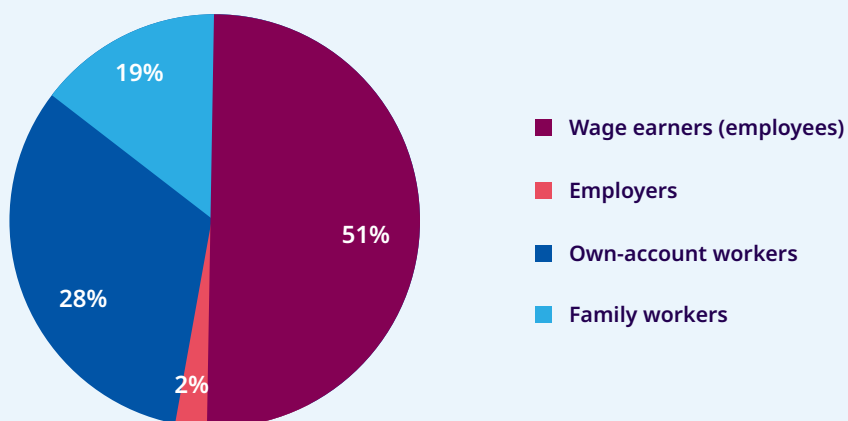


Source: LFS 2017.

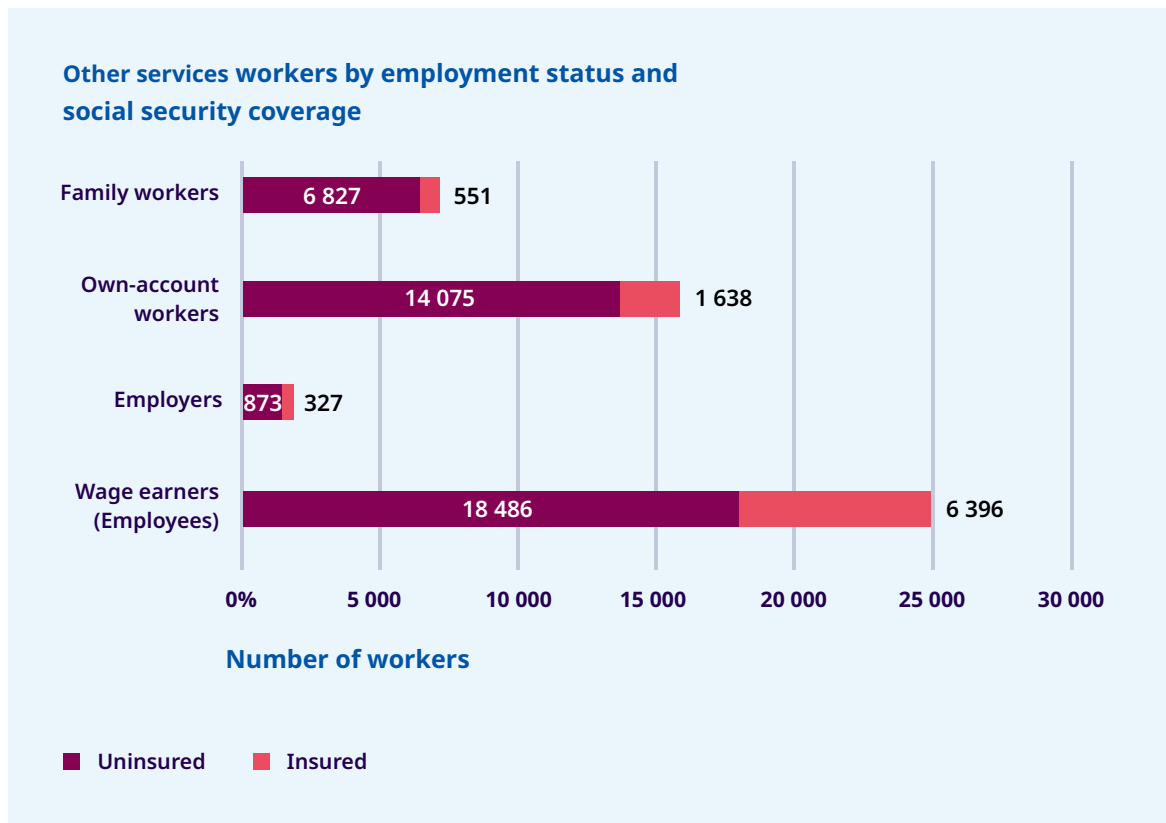
Other services workers by employment status – Male



Other services workers by employment status – Female



Source: LFS 2017.



Average monthly income of workers (kip)	Male	Female	All workers
Insured	3 590 988	2 193 644	2 602 056
Uninsured	3 754 943	1 521 110	2 616 001
Percentage of employees potentially able to contribute to social security			65%

Source: LFS 2017.

Proportion of other services workers covered by social security by income quintile



Other services workers (employees and employers) by enterprise size



Source: LFS 2017.

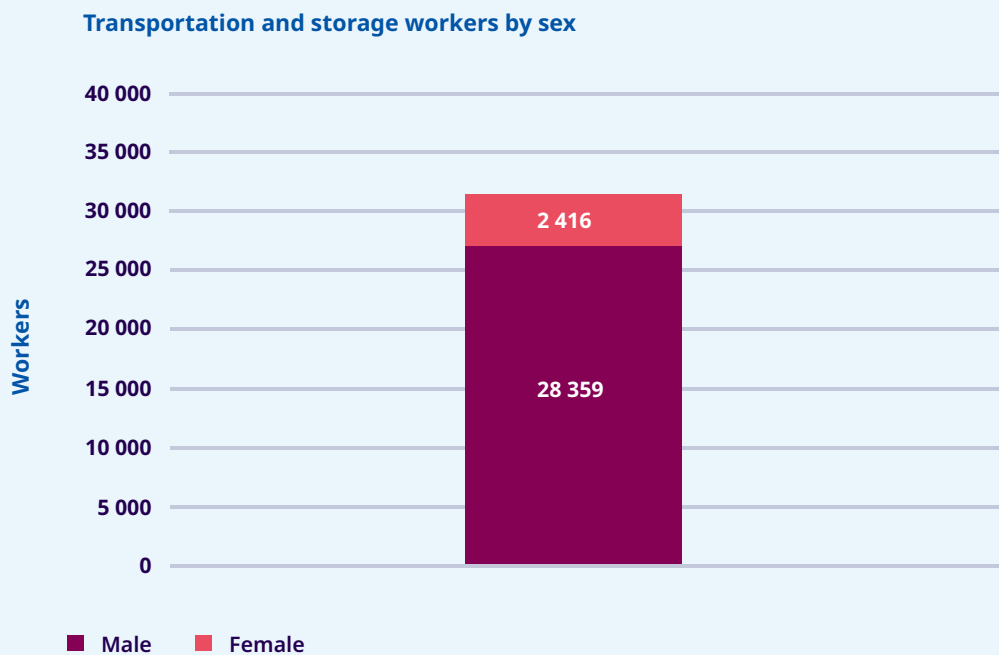
► Figure A1.6. Overview of transportation and storage workers

91% of transportation and storage workers are uninsured

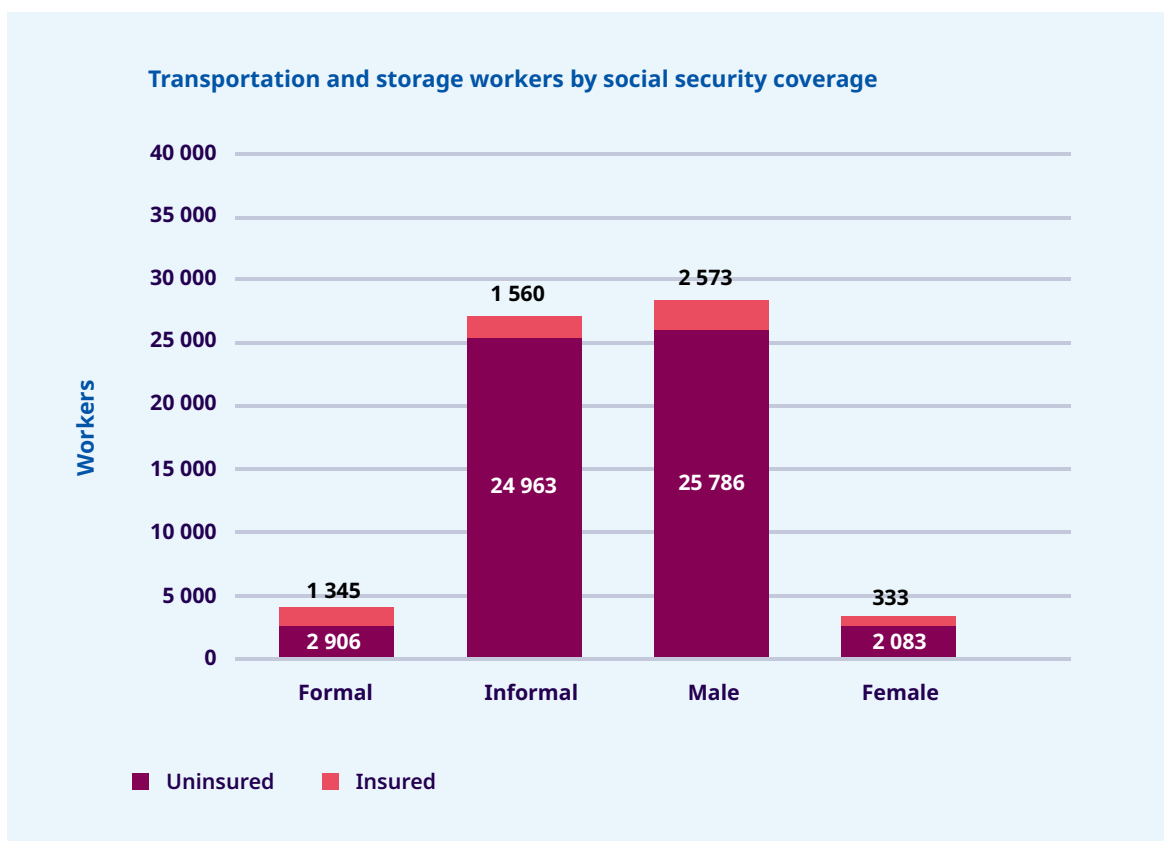
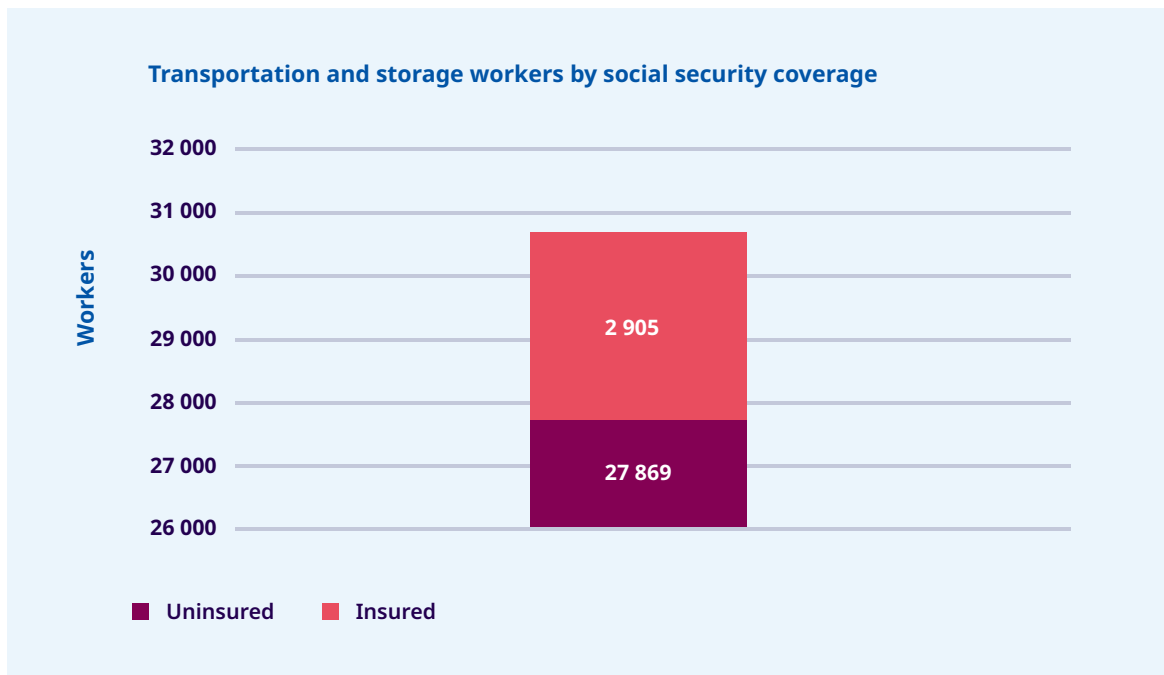
8% of transportation and storage workers are female

86% of transportation and storage workers work in informal productions units

21% of transportation and storage workers are in the bottom income quintile

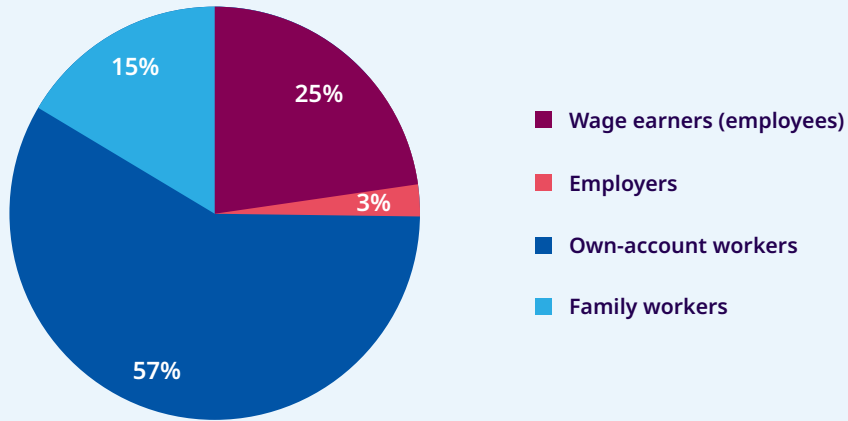


Source: LFS 2017.

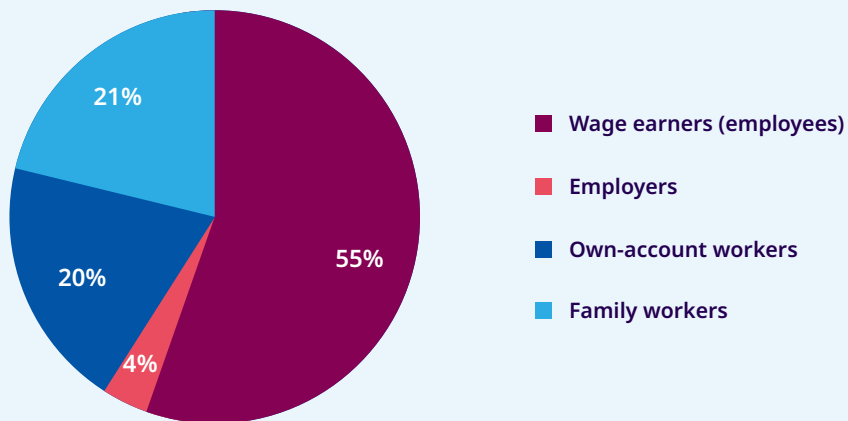


Source: LFS 2017.

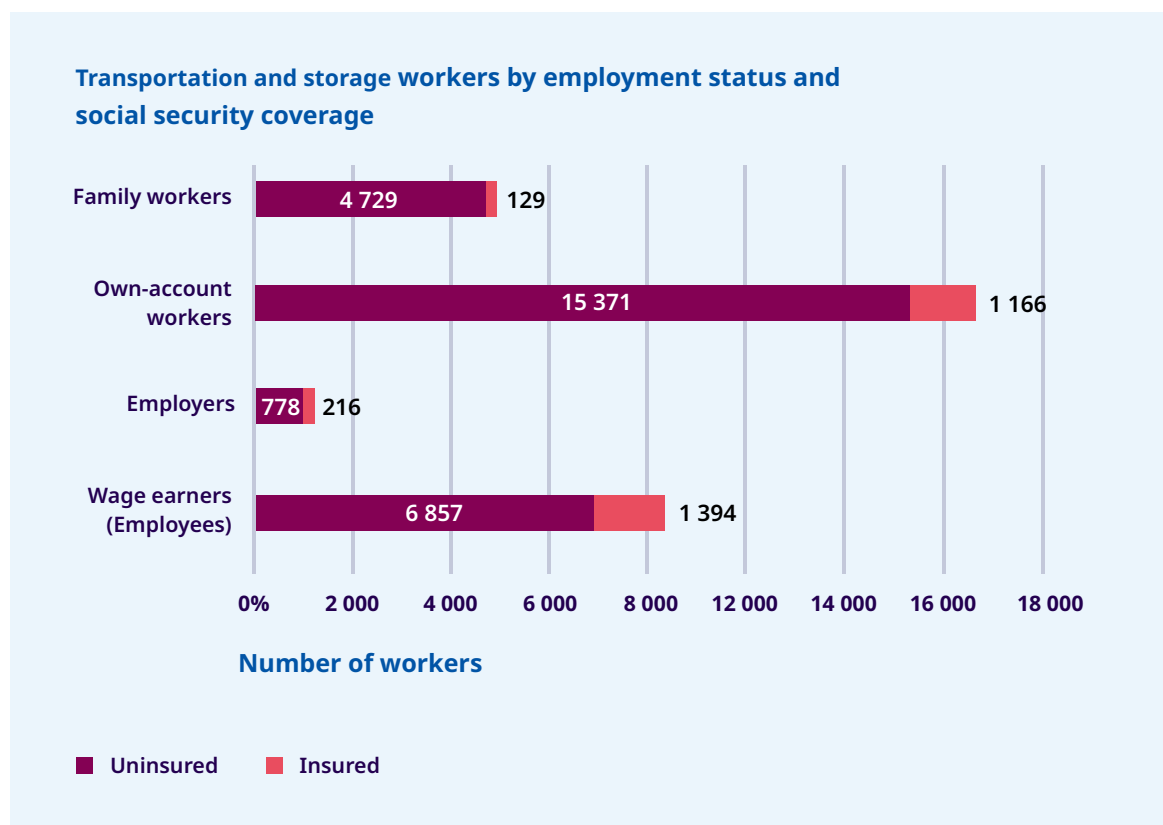
Transportation and storage workers by employment status – Male



Transportation and storage workers by employment status – Female



Source: LFS 2017.



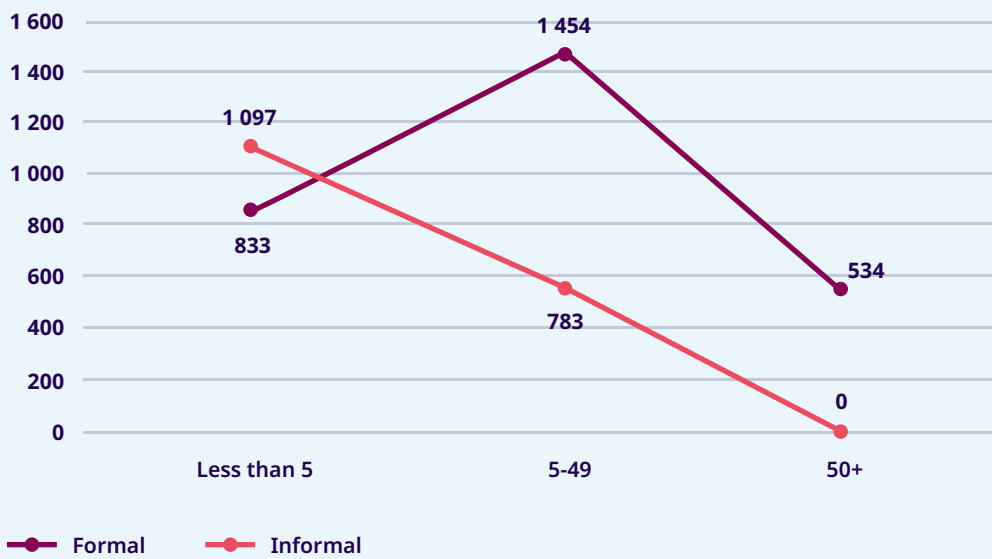
Average monthly income of workers (kip)	Male	Female	All workers
Insured	2 933 497	1 775 517	2 794 800
Uninsured	2 232 060	1 617 457	2 190 011
Percentage of employees potentially able to contribute to social security			66%

Source: LFS 2017.

Proportion of transportation and storage workers covered by social security by income quintile



Transportation and storage workers (employees and employers) by enterprise size



Source: LFS 2017.

► Figure A1.7. Overview of accommodation and food workers

84% of accommodation and food workers are uninsured

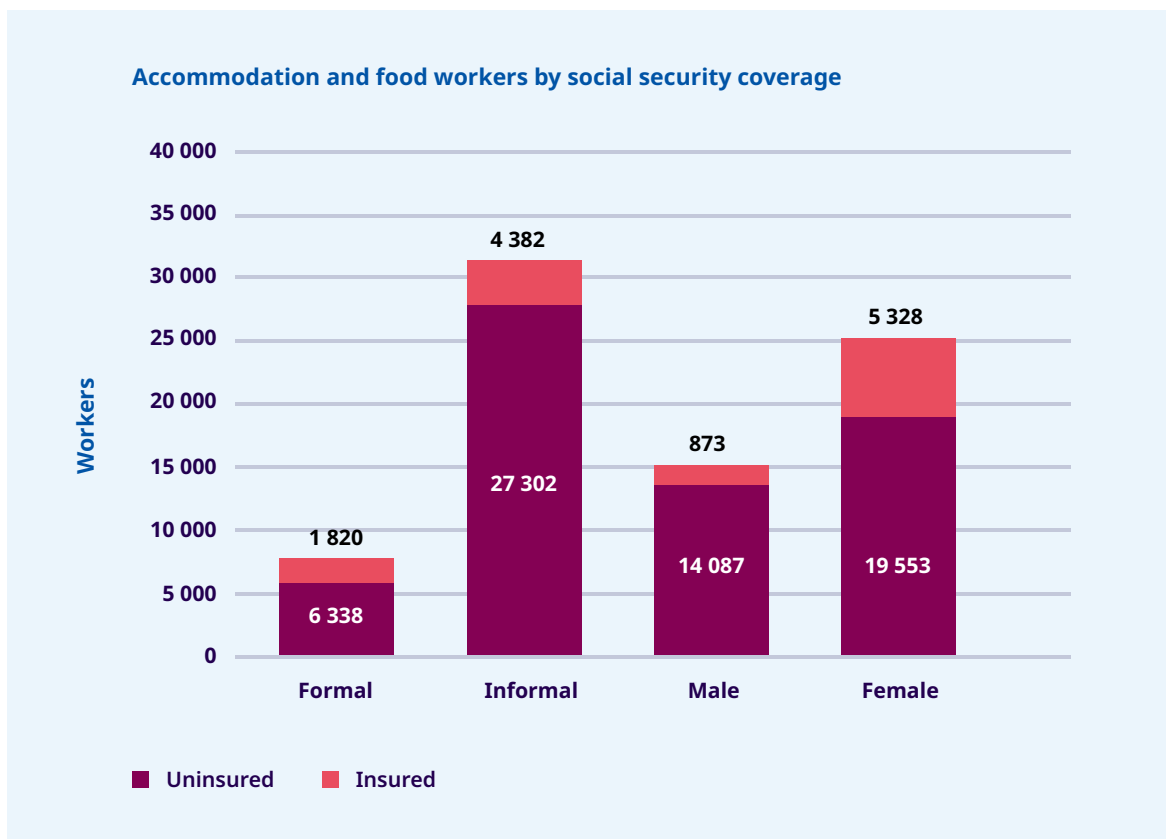
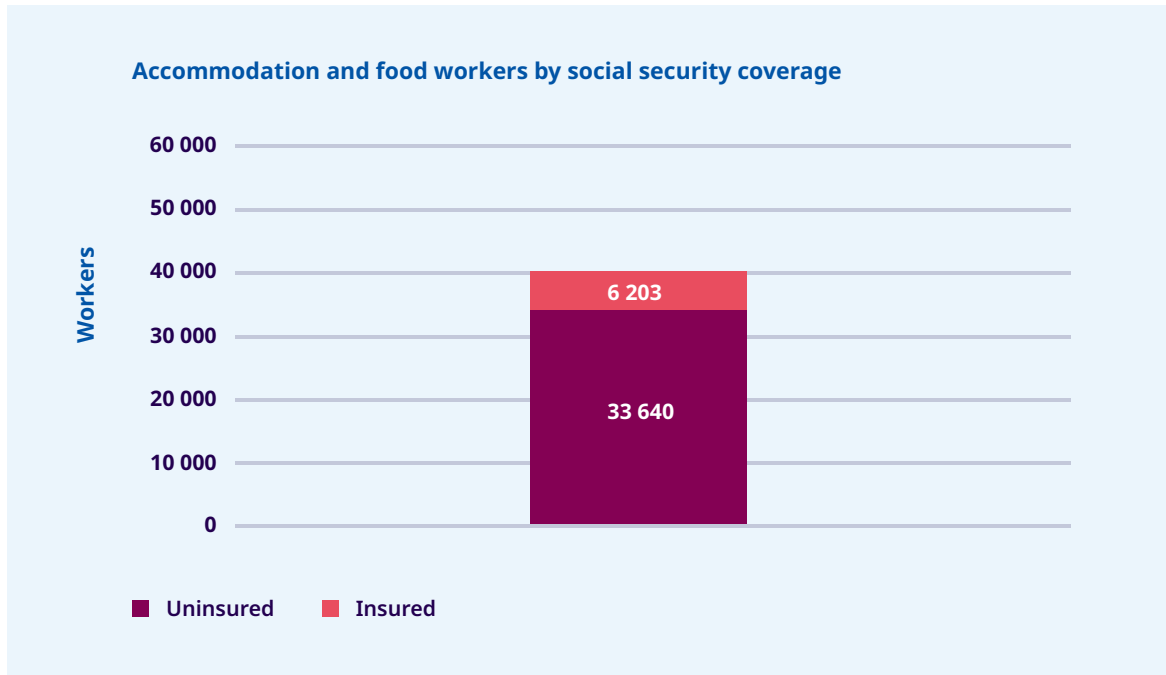
63% of accommodation and food workers are female

80% of accommodation and food workers work in informal productions units

21% of accommodation and food workers are in the bottom income quintile

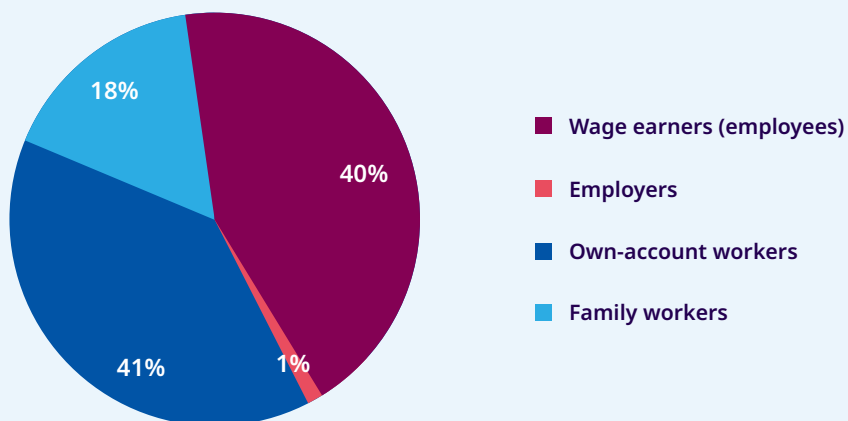


Source: LFS 2017.

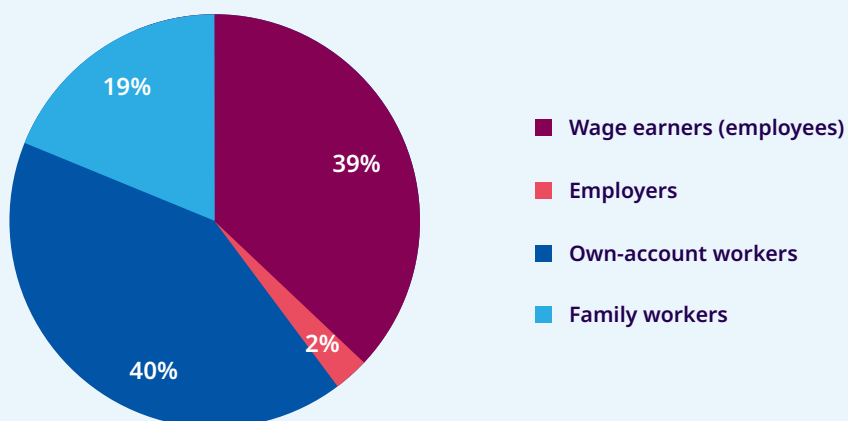


Source: LFS 2017.

Accommodation and food workers by employment status – Male



Accommodation and food workers by employment status – Female



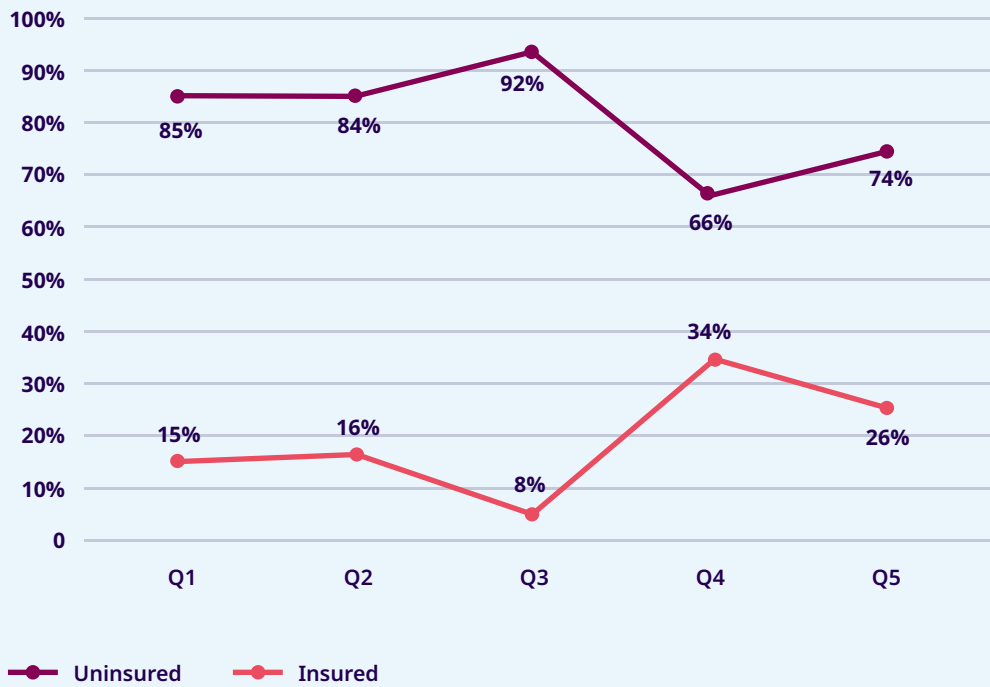
Source: LFS 2017.



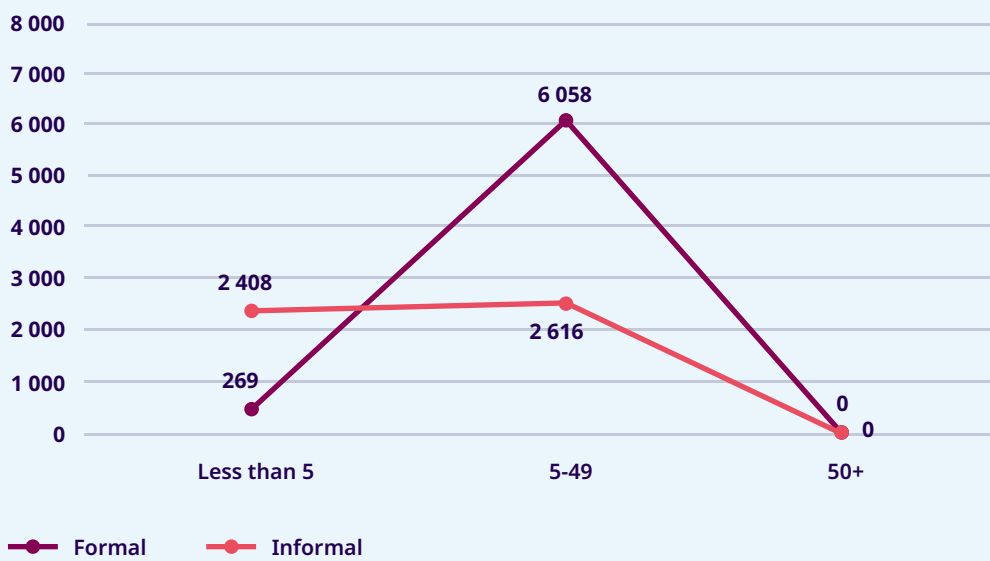
Average monthly income of workers (kip)	Male	Female	All workers
Insured	8 798 339	1 840 551	2 940 869
Uninsured	1 912 291	1 658 801	1 764 886
Percentage of employees potentially able to contribute to social security			45%

Source: LFS 2017.

Proportion of accommodation and food workers covered by social security by income quintile



Accommodation and food workers (employees and employers) by enterprise size



Source: LFS 2017.

► Appendix II. Summary of legislation relating to labour and social security

Legislation	Selected articles related to workers and social security
<p>Labour Law (2013)</p>	<p>Article 71: All labour units and workers must be insured by contributing to the NSSF in order to receive benefits according to what is stipulated in the Law on Social Security.</p> <p>Articles 72–74 on retirement age and entitlement to retirement benefits, administration, and use of the NSSF, as well as lump sum payment.</p> <p>Articles 98–99 on maternity leave before and after giving birth and maternity support.</p> <p>Article 129 on salaries or wages and allowances for the death of employees outside of labour accidents and occupational disease.</p> <p>Part XV (articles 171–177): Labour inspection. Article 175 lays out the roles and responsibilities of labour inspectors, including:</p> <ul style="list-style-type: none"> ► Inspecting at labour units ► Checking labour contracts ► Interviewing workers ► Taking photos or video ► Educating employers and employees ► Temporally terminating the use of machinery that is found to be unsafe ► Imposing penalties on employers or workers who violate the law
<p>Law on Social Security (2018)</p>	<p>Article 90: Social security registration. Article 90(2): labour units with more than one paid worker must register at the LSSO and its vertical organizations.</p> <p>Article 91: Necessary documents for social security registration:</p> <ul style="list-style-type: none"> ► profile of labour unit, workers, and dependent family members; ► name list of workers; ► copy of enterprise registration certificate; ► taxpayer certificate or documents related to business operation. <p>Article 92: After submission of complete and accurate application form and concerned documents, the LSSO must consider the registration and issue a Social Security Certificate to the labour unit with 1-2 days and Social Security Cards to their workers within 30 days.</p> <p>Articles 110–114: Social security inspection organization, content of inspection, form of social security inspection, reporting and resolving result of inspection, roles and responsibilities of units targeted to be inspected.</p>

<p>Investment Promotion Law (2016)</p>	<p>Article 9: Investment incentives by business sector. An investment in any business sector entitled to incentives under this article shall have a minimum investment capital of 1,200 million kip; or shall employ at least 30 Lao technical staff or use 50 or more Lao workers with an employment contract of at least 1 year.</p> <p>Article 69: Right to hire labour. Article 60(3) mandates the application of lawful treatment policies and measures towards all workers, article 60(4) requires the exercising of other rights as set forth in relevant laws and regulations of the Lao People's Democratic Republic.</p> <p>Article 104: Inspection contents, including:</p> <ol style="list-style-type: none"> 1. Implementation of investment agreement; 2. Implementation of investment procedure as described in the feasibility studies 3. Environmental protection based on the environmental impact assessment including assets of the people, the government, and the investors 4. Implementation of relevant laws and regulations 5. Implementation of occupational safety measures for workers
<p>Enterprise Law (2022)</p>	<p>Article 8: Enterprise have the obligation to conduct business in compliance with their purposes, maintain enterprise accounting rules, perform their obligation toward the State, contribute to the NSSF, and protect the legitimate right and interests of the workers.</p>
<p>Law on Income Tax (2019)</p>	<p>Article 29: Microenterprises with annual revenue of less than 50 million kip shall be exempted from income tax.</p> <p>Article 35: non-taxable income. Article 35(1): Any income of 1.3 million kip and below; article 35(9): state and enterprise social security fund.</p>
<p>Decision on Social Security Inspection (2021)</p>	<p>Articles 17 and 18 are about rights and responsibilities of the social security inspector including issuing warnings, educating relevant parties, imposing penalties, or proceeding with legal actions if labour units are found to have violated the Social Security Law.</p>
<p>Decision on Management of Domestic Workers (2022)</p>	<p>Article 14: Employers must facilitate their domestic workers to enrol in the NSSF.</p>

► Appendix III. Key informants consulted for this research

Key informants at the central level

Name of organization	Department	Type of organization	Name and position of respondents	Date of interview
Lao Federation of Trade Unions	Department of Labour Protection	Mass organization	Ms Chanphen Maniseng, Director-General of Labour Protection Department	14 Feb. 2023
Lao Social Security Organization	Head quarter office	Government	Ms Veomany, Planning and Cooperation Division Mr Dethmixay, Legislation Division Ms Phouthavanh, Public Relation Division Mr Daovone, Registration and Contribution Division Ms Tae, Claims Division	13 Feb. 2023
Ministry of Agriculture and Forestry	Department of Agriculture	Government	Mr Linglong Sithixay, Chief of Plantation Investment Division	28 Mar. 2023
Ministry of Finance	Tax Department	Government	Mr Vanyia Xayalor, Chief of Revenue Management Mr Soulivanh, Technician at Planning and Cooperation Division	27 Mar. 2023
			Mr Athinakone Phimmasone, Deputy Chief at Cooperation Division Mr Sithixay, officer at Revenue Management Division; and Two other officers	24 Jul. 2023
Ministry of Health	Food and Drug Department	Government	Dr Bounsou Keohavong, Director-General of Department	3 Apr. 2023
	National Health Insurance Bureau	Government	Mr Viengxay Viravong, Deputy Director of NHIB	28 Feb. 2023

Ministry of Health	National Health Insurance Bureau	Government	Mr Viengxay Viravong, Deputy Director of NHIB; Ms Laddavanh, NHIB	25 Jul. 2023
Ministry of Industry and Commerce	Department of Enterprise Registration and Management	Government	Mr Phounsavanth, Deputy Chief of ERM Division Mr Soullisack Si-outhoum, Chief of Business Operation Promotion Division (responsible for social security issues) Mr Bounchan Phoungsavath, Deputy Chief of National Enterprise Database Division Ms Laddavone Onengkhamdeng, Technician at ERM Division Ms Bounic Ninhchaleun, Deputy Chief of ERM Division	27 Mar. 2023
			Mr Phounsavanth, Deputy Chief of ERM Division Mr Bounchan Phoungsavath, Deputy Chief of National Enterprise Database Division Mr Sonevilay, Business Operation Promotion Division Mr Kinnapha, DERM division	24 Jul. 2023
Ministry of Labour and Social Welfare	Department of Labour Management	Government	Mr Khamphat Onlasy, Director-General of Department Mr Thanouthong, Chief of Division	13 Feb. 2023
Ministry of Planning and Investment	Department of Investment Promotion	Government	Ms Manisone Vongdara, Chief of One-Stop-Service Division Mr Thongvanh, OSS	27 Mar. 2023
			Mr Sisomphone, Deputy Chief of Monitoring Division Mr Vivat, officer at Monitoring Division	24 Jul. 2023
			Dr Souphaphone Saignaleuth, Chief of Investment Promotion Division	26 Jul. 2023

Ministry of Public Work and Transport	Department of Land Transport	Government	Ms Engthong Xayasy, Deputy Chief of Personnel and Budget Division	28 Mar. 2023
			Ms Nilaphone Chandara, Deputy Chief of Cargo Transport Division	
				Ms Nilaphone Chandara, Deputy Chief of Cargo Transport Division Ms Chansamone Sihapanya, Deputy Chief of Personnel and Budget Division
	Planning and Finance Department	Government	Ms Daophet Siliphoka, officer at Planning and Finance Department	25 Jul. 2023
Lao National Chamber of Commerce and Industry	n/a	Private sector	Mr Phouxay Thepphavong, Secretary-General Ms Keomanivone Sayavongsa, Director of Division	14 Feb. 2023
IWAA/HNL	n/a	CSO	Ms Lamphan Nanthaphanya, Executive Director	24 Mar. 2023
ECCDA/HNL	n/a	CSO	Mr Khanthone Phamouang, Manager of ECCDA and advisor to HNL	29 Mar. 2023
Oxfam in Laos	n/a	INGO	Mr Sungkey Chalernrkhun, SOLAR Project Coordinator Mr Vannasone, Operations Officer	3 Apr. 2023
Lao Coffee Association	n/a	Private sector	Mr Senghchan, Vice President	25 Apr. 2023
Ministry of Technology and Communication	Postal Department	Government	Mr Souriya Khambouravong, Director-General of Postal Department Mr Souksakhone, Policy and Research Division Mr Xayola, Legislative Division Ms Sophavan, Policy and Research Division Ms Chanphout, Policy and Research Division	25 Jul. 2023

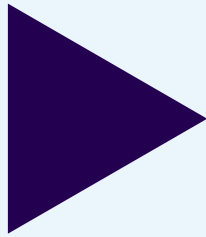
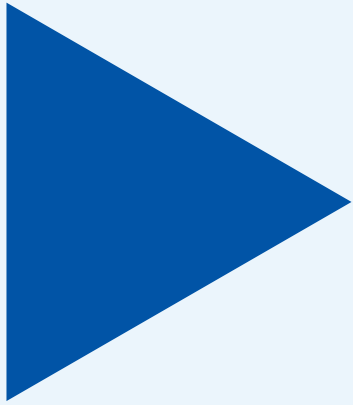
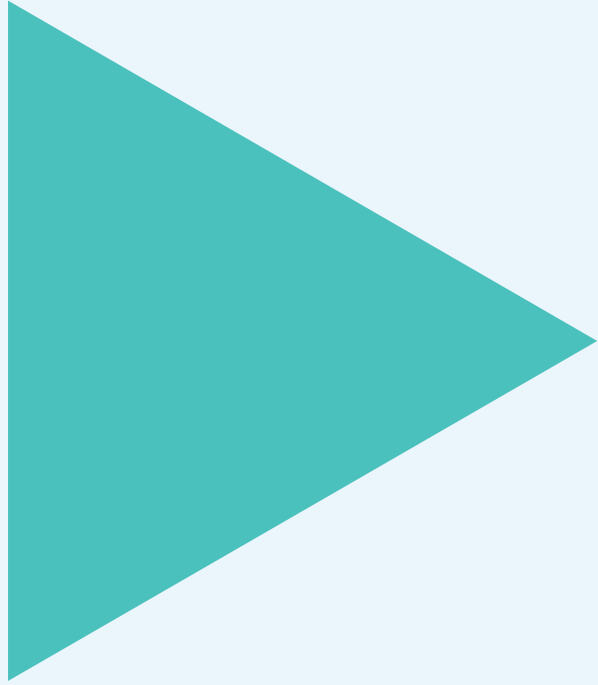
n/a = not applicable; INGO = international non-governmental organization.

Key informants at the provincial level

Province	Name of organization	Type of organization	Name and position of respondents	Date of interview
Champasack	Department of Agriculture and Forestry	Government	Mr Sengchanh, Chief of cabinet office Mr Kitan, Planting section	25 Apr. 2023
Champasack	Department of Industry and Commerce	Government	Dr Thadsanadeuan Khamkeo, Head of Enterprise Registration Section Mr Soulideth Vonnalay, Technician responsible for statistics Mr Likhit Pianglorvong, Technician responsible for workers statistics	25 Apr. 2023
Champasack	Department of Labour and Social Welfare	Government	Mr Sackda Chanthavong, Head of Labour Section responsible for labour management, skill development, and employment service	24 Apr. 2023
Champasack	Department of Planning and Investment	Government	Dr Vannasinh, Head of Investment Promotion Section Mr Phaengpha Ms Manila	24 Apr. 2023
Champasack	Provincial Hospital	Government	Dr Ketsavaeng, Deputy Director of the hospital Ms Lotchana, responsible for Health Insurance Office	28 Apr. 2023
Champasack	Provincial Lao Social Security Office	Government	Mr Chomphet, Head of provincial LSSO Mr Phetsavanh, Deputy Head Mr Choula	24 Apr. 2023
Champasack	Lao Federation of Trade Unions	Mass organization	Mr Vongnakhone Sengxayavong, Head of Labour Protection Section	25 Apr. 2023
Luang Prabang	Department of Labour and Social Welfare	Government	Mr Saiker, Head of Labour Management Section	4 Apr. 2023

Luang Prabang	Lao Federation of Trade Unions	Mass organization	Mr Soulisan Tholavong, Vice President of the provincial LFTU	4 Apr. 2023
Luang Prabang	Department of Health	Government	Mr Khamphoui, Head of section responsible for food and drug-related works	5 Apr. 2023
Luang Prabang	Department of Industry and Commerce	Government	Ms Seng-athith, Deputy Head of Domestic Commerce Section Mr Sisomphone Phatsanouvong, Head of Industry and Handicraft Section Mr Sayasith, Head of Enterprise Registration Section	5 Apr. 2023
Luang Prabang	Department of Planning and Investment	Government	Mr Sithavone, Deputy Director of Department Mr Sisouvanh, Head of International Cooperation Section Mr Souvanny, responsible for statistics Ms Keomany, responsible for planning Mr Hongfa, responsible for investment promotion Ms Alounny, responsible for One-Stop-Service	5 Apr. 2023
Luang Prabang	Provincial hospital	Government	Mr Vilavone Phanavang, responsible for social security Dr Sounthone, Deputy Director of the hospital Mr Khampheuy, Deputy Chief of Administration Section	7 Apr. 2023
Luang Prabang	Provincial Lao Social Security Office	Government	Mr Sonesaly, Deputy Head of the provincial LSSO	4 Apr. 2023
Vientiane Capital	Department of Industry and Commerce	Government	Mr Oudavanh Haikham, Acting Chief of Enterprise Registration and Management Section	30 Mar. 2023

Vientiane Capital	Department of Labour and Social Welfare	Government	Mr Bounpone Leungsomthone, Deputy Chief of Labour Management Section	30 Apr. 2023
Vientiane Capital	Department of Public Work and Transport	Government	Mr Bounpone Phomsouvanh, Chief of Transport Section	31 Mar. 2023
Vientiane Capital	Provincial Lao Social Security Office	Government	Mr Somvang Inthavong, Head of provincial LSSO	30 Mar. 2023
Vientiane Capital	Lao Federation of Trade Unions	Mass organization	Ms Phouvanh, Vice President of the capital LFTU Mr Johny, administration office	20 Apr. 2023





International
Labour
Organization

