ILO brief

International Labour Organization | ILO/Korea Partnership Programme

Conclusions and policy implications for expanding social security coverage

January 2023

Conclusions

Informality is a major condition of the Lao People's Democratic Republic labour market and enterprise landscape, with 92 per cent of non-civil-servant workers employed in informal-sector enterprises or the household sector, and 81 per cent of the non-civil-servant workforce employed under informal conditions.

Around 9 out of every 10 non-civil-servant workers are not covered by social security. Even in the formal sector, over half (57 per cent) of the workforce is not insured.

It is estimated that less than one-third (30 per cent) of all enterprises are formally registered.

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. The low level of formality among workers and enterprises also negatively impacts government revenue through diminished social security contributions and tax receipts.

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 the main, obstacle to accessing social security. National survey data indicate that 52 per cent of all employees are potentially able to contribute towards social security, although this differs across different economic sectors—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, and across wealth quintiles, with average monthly income for those in the wealthiest quintile being nearly 20 times greater than for those in the poorest quintile.

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 their ability to fill in forms and the lack of identification and other documentation required to complete the registration process.

These conditions mean that workers in the formal sector and in medium-sized 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 formalisation strategy for these is likely required.

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.

Policy implications for expanding social security coverage

Workers in the agricultural sector constitute the largest group among all economic sectors, with an estimated 95 per cent 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 is likely to be required for many in this group.

This being said, around 3,500 agriculture waged workers are employed in medium-sized 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 subgroups. Further research could also look into higher potential subsectors, for example producers of export market crops, who may be relatively wealthier and have greater ability to contribute.

The **manufacturing sector** has one of the highest proportions of waged workers (34 per cent) among all economic sectors (along with the accommodation and food sectors). It also has the largest number of workers (employers and employees) in medium-sized or large enterprises (c.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 likely required to operate in many parts of this sector, the potential to increase compliance and extend coverage to many workers is relatively high.

The **transport sector** has a relatively high proportion of waged workers (27 per cent). 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-sized and large enterprises), but given their relatively high ability to contribute there is likely potential to exploit the need for operating licences to increase formalisation, 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 formalisation.

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 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 formalisation and improve social security coverage. Further research could consider hotel and accommodation as distinct from caterers, bars and restaurants, in order to identify opportunities for increasing compliance among micro and small enterprises.

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-sized 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 (for example street vendors compared to shopkeepers with fixed premises, or different types of wholesalers) where opportunities are best to improve formalisation and compliance with social security legislation.

This ILO Brief is part of a quantitative research of the labour force and enterprise landscape in Lao People's Democratic Republic to better understand the nature of informality and design tailored social security policies. The research received financial support from the ILO/Korea Partnership Programme and was conducted by Oxford Policy Management.

In partnership with

Contact details

ILO Regional Office for Asia and the Pacific
United Nations Building Rajdamnern Nok Avenue Bangkok 10200, Thailand

T: +66 2288 1234
F: +66 2280 1735
E: BANGKOK@ilo.org

Ms Loveleen De — Programme Manager — E: del@ilo.org
Mr Thongkeck Xiong — National Project Coordinator — E: thongleck@ilo.org
Ms Noutthong Alounthong — National Project Coordinator — E: alounthong@ilo.org