



► ILO Brief

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Understanding informality and expanding social security coverage in Lao People's Democratic Republic: A quantitative study of the labour force and enterprise landscape

Key points

- The majority of workers in 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 National Social Security Fund (NSSF) in 2017 by Labour Force Survey (LFS) data, and only 7 per cent according to Lao Social Security Organization data.
- A large proportion of the Lao People's Democratic Republic workforce, as well as employers, are not making social security contributions, with only 37 per cent of formal sector workers insured, despite the law requiring all employers to contribute to the NSSF.
- According to estimations, some 52 per cent of employees could potentially afford to contribute the maximum possible amount under the NSSF voluntary scheme, showing that its not just an affordability question. Ability to contribute varies across economic sectors, with the highest found in the education, other industry, and public administration sectors (79, 77, and 76 per cent, respectively), and the lowest in wholesale and retail trade, agriculture, and domestic work (29, 22 and 20 per cent, respectively).

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.

► Introduction

The report "Understanding informality and expanding social security coverage in Lao People's Democratic Republic : A quantitative study of the labour force and enterprise landscape" provides a comprehensive quantitative analysis of the labour market and enterprise landscape in Lao People Democratic Republic, including the characteristics of key relevant groups of workers, using national survey data and Lao Social Security Organisation (LSSO) administrative data. It also considers the degree of coverage of the labour force by social security. On the basis of this analysis, the report highlights some implications for ongoing social security policy development and reform in Lao People Democratic Republic.

► Methodology

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

We distinguish between 'formal' and 'informal' sectors of employment, as well as between formal and informal nature of employment. 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 exclusively on the latter of these two groups.

The distinctions usually adhere to international statistical standards. Formal enterprises are defined to include government or international organisations, 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 which 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 well as all contributing family workers (whether located in formal or informal sectors of employment).

We define those covered by social security using questions in the LFS asking whether either respondents or their employers contribute to social security.



An informal labourer welding metal at a construction site. © ILO

► Findings

The labour market and enterprise landscape in 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. 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 majority (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-sized or large enterprises (29 per cent).

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

However, despite the predominance of microenterprises in relation to the number of registered enterprises nationally, small, medium-sized, 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-sized and large enterprises account for 13 per cent. This compares to just 10 per cent of employees and employers employed by microenterprises.²

MSMEs are mostly (63 per cent) located in the wholesale

and retail trade sector, followed by 15 per cent in the manufacturing sector. Other sectors have much smaller proportions. Overall, around 83 per cent of employment in Lao People 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). 100 per cent of domestic workers are in the informal sector or work in households.

40 per cent of wage earners (employees) work in 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).

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).



A young farmer collecting coffee cherries to sell at the local market. © ILO

1 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.

Coverage of the labour force by social security

The majority of workers in Lao People 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 in 2017 by 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 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 size of enterprise, workers in medium-sized and large enterprises (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 enterprises with fewer than five workers (microenterprises).

The largest number of uninsured workers in medium-to-large formal enterprises is 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 that 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 People Democratic Republic 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/NA 2018 requiring every enterprise and employee to contribute to the NSSF. There is thus a large group of workers that should legally 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 People's Democratic Republic 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, 77 and 76 per cent, respectively), and the lowest in wholesale and retail trade, agriculture, and domestic work (29, 22, and 20 per cent, respectively).



A woman selling vegetables at the local market in Lao People's Democratic Republic. © ILO

► Policy implications for extending social security coverage

The foregoing findings on the low proportion of workers covered by social security in 2017 (7 per cent to 11 per cent), indicate that there is significant potential to increase the coverage of social security in the country. Efforts to this end could focus on sectors where there are high proportions of waged workers, significant numbers working in medium-sized 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 level of income, certain sectors and groups of workers will require social assistance and/or government-subsidised social security contributions in order to be covered by social protection benefits – this is pertinent especially 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 could 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-sized or large enterprises, and the highest proportion of workers employed within the formal sector, as well as 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 formalisation 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 formalisation 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 (second only to agriculture workers). Further research on this group may identify particular subgroups with higher ability to pay and characteristics such as larger enterprise sizes and fixed operating premises that could be useful in identifying and supporting firms to formalise and participate in social security.

Qualitative research could also be undertaken to better understand the barriers to formalisation and participation in social security, and analyse the key institutional and operational processes relevant to social security services and formalisation of enterprises.

This brief is based on the quantitative research study “Understanding informality and expanding social security coverage in Lao People’s Democratic Republic”, which was conducted by Oxford Policy Management.

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