**Terms of Reference: Consultancy to support the Lao Social Security Organization to strengthen investments**

The International Labour Organization (ILO) is looking for a consultant to formulate an Investment Diversification Strategy and Investment Governance Model for the Lao Social Security Organisation. Please send your CVs and financial quotation to thongleck@ilo.org and del@ilo.org by 20 August 2024.

**Project background**

The ILO-UNDESA Project “Accelerating Universal Social Protection for Achieving the SDGs and Ending Poverty through Strengthened Governance and Digital Transformation” aims to accelerate progress towards universal social protection through strengthening of policy design, administrative and financial governance, and digital transformation of social protection systems as well as to encourage learning between countries in the Global South. The project supports the Government of Lao PDR, especially the Lao Social Security Organisation (LSSO), to strengthen the design and financing of the social security system and expand its coverage. Under Output 1.4 of the project is “Capacity building and technical assistance provided for sustainable financing and investment of the National Social Security Fund”, Activity 1.4.1 is to conduct a “Technical study on social security investment governance and fund management”.

As part of Activity 1.4.2: “Training provided to LSSO officials to enhance their knowledge and planning capacities on social security investments”, ILO supported 2 LSSO officials to participate in the ITC–ILO course on “ISSA Guidelines on Investment of Social Security Funds” in May 2024. The course aimed for them to learn how to implement well-organized and effective investment processes that can respond to economic, demographic, political, and management pressures; understand core approaches to improve investment of reserve funds based on international best practice; identify roles and responsibilities in investment governance and management, utilise the ISSA Guidelines as a framework for planning and implementing effective investment processes; and develop country-tailored innovations drawing on experience from other countries.

Under the ILO/Korea Partnership Programme “Supporting the Implementation of Sustainable Social Protection Floors for Workers and their Families in ASEAN – Phase III”, ILO and UNDP collaborated to organize a peer-to-peer exchange between LSSO and the Maldives Pension Administration Office (MPAO). LSSO officials learned from the Maldives experience on how to develop investment capacities for social security funds. The topics discussed included an overview of investment principles and portfolios, development of investment expertise, practical challenges in expanding investments in markets with low levels of capital and financial market development, investment expansion initiatives launched by MPAO, and general recommendations for diversification from bank deposits.

**National Social Security Fund and Social Security Law**

The NSSF administers benefits for healthcare, sickness, childbirth and maternity, disability, employment injury and occupational disease, unemployment, death, survivor or widowhood; and old-age pensions to registered members. It is implemented by the Lao Social Security Organisation (LSSO). As of 31 December 2023, it had 353,962 members and covered 867,277 members and their dependants. The membership includes most public sector workers and a limited number of private sector workers and self-employed workers. Due to high informal employment in the country, the coverage of NSSF is limited to 11.2% of the population including dependants. LSSO has a target to increase coverage by around 100,000 members by 2025 and also plans to improve its management, administrative and communication processes.

Article 72 of the Social Security Law categorizes the NSSF into five sub-funds: (i) Heath Insurance Benefit Fund; (ii) Employment Injury and Occupational Disease Benefit Fund; (iii) Short-term Benefit Fund for the payment of sickness, maternity benefits and death grant; (iv) Long-term Benefit Fund for the payment of pension, Loss of working capacity and survivors’ benefits; and (v) Unemployment Benefit Fund. It also states that each benefit fund shall be used for payments, reserves and mutual subsidies among benefit funds, as prescribed in specific regulations.

Articles 81–82 of the Law provide an overview of reserve funds and investments. Article 81 states that “The reserve fund is an accumulation of the surplus cash of the social security fund and it shall be kept in the National Treasury or banks for payment of long-term benefits”. Article 82 provides that “The LSSO can use the reserve fund for investment in appropriate forms as prescribed in Article 73, for growth, strengthening and sustainability of the fund. The investments must be ensured to be safe and secure, and have no risks on the capital and profits that are approved by the Board of Directors. The use of reserve social security fund for investment shall be prescribed in specific regulations.” Article 73 defines the revenue sources as contributions, interests or profit returns from investment, subsidies from state budget for invalid veterans, and other legal sources.

The Government plans to amend the Social Security Law in the National Assembly in 2024–25 (last amended in 2018), and implement reforms to increase coverage and improve Fund sustainability. ILO has recently supported LSSO to undertake an actuarial valuation of the NSSF and a legal assessment against international labour standards, particularly the Social Security (minimum standards) Convention, 1952 (No.102). ILO also plans to conduct a preliminary study on strengthening investment of the NSSF funds in view of the upcoming legislative reform.

**NSSF investments**

When the NSSF was first set up, due to limited options for long-term investments, the main avenue for investing the long-term benefit fund for the formal enterprise scheme was fixed-term bank deposits. Since then, the financial market landscape in Lao PDR has changed considerably. The Government of Lao PDR now issues long-term government bonds and a stock market is in operation. The Lao Securities Exchange (LSX) had 11 companies listed as of September 2022, including 4 securities firms, 3 custodian banks and 4 accountancy firms.

Apart from the legislative amendment (the Law does not clearly define the basic investment principles in its chapter on investments), there is a need to develop the regulatory framework. As of now, no information or documents on current investment practices are published by LSSO. It is important to set up a Financing Policy and Investment Diversification Strategy, followed by an appropriate internal investment governance structure. There is also need for training on international standards and best practices of social security administration and investment management principles, risk management, conducting due diligence and decision-making.

A tripartite Social Security Investment Committee was set up by Decision No. 010 of the LSSO Management Board, dated 6 March 2023. It is chaired by Vice Minister of Labour and Social Welfare and co-chaired by the LSSO Director-General and the Ministry of Finance’s State Budget Department. Other members include Bank of Lao PDR, National Socio-Economic Institute, LFTU, LNCCI, and LSSO. Its rights and responsibilities are to (1) study, develop and propose financing regulations to the Social Security Management Board for endorsement, and (2) collaborate with related sectors on data collection and analysis, risk analysis, and investment options.

LSSO has requested ILO’s support on diversifying their investments of the long-term benefits fund of the enterprise scheme in alignment with national legislation and international standards. They seek to improve the current investment management and develop an appropriate framework to use in decision-making. To carry out this work, ILO seeks an experienced consultant on social security investments.

**Expected outputs**

The consultant is expected to conduct a feasibility assessment and develop a draft investment strategy and investment governance model for the National Social Security Fund of Lao PDR. The consultant will be guided by the topics listed below, which will be finalised in discussion with ILO and LSSO prior to the assignment.

1. **Formulate an Investment Diversification Strategy for NSSF**
* An assessment of the NSSF’s income and expenditure statements, balance sheets (composition of assets and liabilities), cashflow statements, actuarial valuation of NSSF and other financial documents shared by ILO and LSSO to ascertain the return expectations of the fund to provide adequate social security benefits.
* Consider the Government’s investment priorities and objectives for the short-, medium- and long-term, and engage with Investment Committee and stakeholders, as necessary, to agree on return expectations of the fund, and risk tolerance levels.
* Based on the return expectations and risk tolerance of the NSSF, assess the state of the domestic financial market, current investment climate and provide recommendations for diversifying NSSF investments into several asset classes (fixed income, equity and alternatives) based on the availability and security of assets.
* Suggest asset classes which will support to diversify the current asset base from the Lao Kip into hard currency investments, taking the current macroeconomic and currency instability into consideration.
* Draft the investment strategy of NSSF
	1. A roadmap for diversifying away from current investment regime to multi-class assets overtime to achieve the return expectations within risk tolerance levels.
	2. Recommendations for appropriate benchmark portfolios for measuring investment performance, and associated risks.
	3. A draft Investment Policy Statement for consideration of the investment committee, which puts together the quantified investment targets, risk tolerance levels and suggested asset mix.
1. **Formulation of the investment governance model**
* Assess the human and technical capacities of the NSSF and suggest an appropriate investment governance structure for implementing the investment strategy.
* Develop the terms of reference for the suggested investment governance structure, with clear roles and responsibilities of the persons involved. Propose competencies required: human resources, infrastructure, and others, including delegation of functions (internal vs. external).
* Draft monitoring framework on investment and reporting.

The consultant is expected to hold key informant interviews with key stakeholders, including but not limited to the Tripartite Investment Committee, key LSSO officials, ILO and other development partners in this space. The report and final recommendations will carefully consider and align with stakeholders’ inputs.

**Contract duration**

The work is expected to take no longer than 25 working days from 25 August to 15 November 2024. Please send your CVs and financial quotation to thongleck@ilo.org and del@ilo.org by 20 August 2024.

**Annex 1: Overview of NSSF benefits**

The scheme for enterprise workers was first established in 2001 (formerly the SSO scheme) while the civil servant scheme was set up later in 2008 (formerly the SASS scheme). The two schemes were merged in 2014 through the first Social Security Law and managed by the Social Security Board. This gave birth to the National Social Security Fund. The Social Security Law was amended in 2018 (Ref. No. 54/NA dated 27 June 2018).

The NSSF covers 3 different categories of workers under what are known as the 3 schemes:

1. **The Civil Servant scheme**[[1]](#footnote-1): This scheme is for civil servants who receive a salary and other allowances from the Government budget. For this category, the government contributes 8.5% and civil servants contribute 8% of their total earnings.
2. **Formal Enterprise scheme**: This scheme is for workers employed by enterprises. For this category, the employer is mandated to contribute 6% whereas the employee contributes 5.5% of their total insurable earnings.
3. **Voluntary Insured Member scheme**: Self-employed workers and other persons not belonging to the above two categories can voluntarily enrol in and contribute to the NSSF. They pay 9% of the insurable earnings. The latter is selected from a list of options ranging from the minimum wage to the ceiling.

As of December 2023, NSSF had a total of 353,962 members and 513,315 dependants. It provides nine benefits including: health insurance benefit; employment injury or occupational diseases benefits; maternity benefit; sickness benefit; loss of working capacity benefit; pension benefit; death grant; survivor’s benefit; and unemployment benefit.

*1. Health Insurance Benefit*

This is a cash benefit to ensure medical care services such as health examination, diagnosis, medical care, rehabilitation, pre- and post-natal services, and medical care for employment injuries or occupational diseases.

*2. Employment Injury or Occupational Diseases Benefits*

Employment injury or occupational diseases benefits are provision of cash benefits for medical care, sickness benefit, loss of working capacity benefit, death grant and survivor’s benefit in case of work accident or occupational diseases.

*3. Maternity Benefit*

Maternity benefit is a cash benefit providing in case of giving birth, miscarriage, abortion or adoption of new-born baby aged less than three months old. It comprises maternity grant payable for each childbirth and maternity benefit which is paid monthly during childbirth leave. For the public sector, during the leave, besides the regular salary, the mother will also receive a birth grant payable for each child equal to 60% of the last salary.

For the enterprise sector and voluntarily insured persons, the insured person or wife of an insured person that has been pregnant for at least 2 months receives a birth grant of 60% of the average insurable earnings during the last 6 months for each child.

A female insured person working in a labour unit and voluntarily insured person who have childbirth, miscarriage, fatal death or adopt new-born baby aged 3 months or younger receive a monthly maternity benefit of 80% of average insurable earnings during the last 6 months for a duration of 105 days or 120 days if twins. The employer is responsible for the difference between insurable earnings and the total wages of the insured person. After the maternity benefit terminates, if the insured person is unhealthy and cannot resume work, she is entitled to sickness benefits.

*4. Sickness Benefit*

Sickness benefit is an income replacement payable to the insured person whose salary is temporarily suspended during their medical care and rehabilitation affected from employment injury or occupational diseases, non-work-related accidents and illnesses, childbirth, miscarriage or fatal death.

For the public sector, sickness benefit is calculated as 70% of insured person’s last salary for the first duration of up to 6 months. If he/she is still on leave for medical treatment or rehabilitation shall continue to receive sickness benefit equal to 60% of the last salary for up to 6 months as the last period. In case the health status of the beneficiary has not improved by then, he/she shall have health examination and assessment again with medical certification to be qualified for the entitlement of Loss of working capacity benefit.

*5. Loss of Working Capacity Benefit*

Loss of working capacity benefit is a cash benefit providing to the insured person who has an incapacity for work or mental impairment, loss of organs or limb(s) caused by employment injury or occupational diseases, other accidents or illnesses.

For the public sector, the benefit is calculated based on his/her last salary before incapacity multiplied by the percentage of the loss of working capacity ranging from the lowest category of 40% loss to 80% loss. It is equal to 100% for the insured person suffering from loss of working capacity due to an employment injury and occupational diseases and 80% for non-work-related accidents or illnesses. If the beneficiary resumes work, he/she shall receive 50% of the benefit or 25% if retired.

*6. Pension Benefit*

Pension benefit is a monthly cash benefit provided to the insured person who meets the qualifying conditions of old-age pension (those who do not meet the qualifying conditions receive a lump sum payment). For the public sector, qualifying conditions stipulate that the person must have reached the age of 60 years and has at least 25 years of service. Females can elect early retirement, but should be at least 55 years old. For those with more than 30 years of service and who are within 3 years of retirement age, or a person who is above 60 years old and within two years of reaching the qualifying conditions for pension, they are entitled to the pension benefit but the pension is reduced by 1% for each year that the person has not met the qualifying period or age.

Adjustment of pension benefit for the enterprise sector and voluntary insured persons is based on the fluctuation rate of the estimated average earnings of all insured persons in January of every year.

**The long-term benefits fund for the private sector is mainly invested in bank deposits. There is no accumulated fund for the long-term benefits for the public sector, as pensions are paid based on annual requests from LSSO to the Ministry of Finance *(to be confirmed)* and subsequent annual disbursements from the Treasury.**

*7. Death Grant*

Death grant is a grant provided to reduce the financial burden of funeral ceremony costs of the insured person, pensioner, person receiving loss of working capacity benefit and their family members including person receiving survivor’s benefit and caretaker who died.

*8. Survivor’s Benefit*

Survivor’s benefit is a monthly cash benefit providing to spouses, children and parents of the deceased insured person. It is calculated for the public sector scheme as: A widow or widower receives 30% of the last insurable monthly earnings, pension or loss of working capacity benefits of the deceased person. Children receive 20% of the last insurable earnings, pension or invalidity benefits of the deceased person for each child. If there are many dependent children the total benefits shall not exceed 60%. A father or mother is entitled to receive 30% of the last insurable earnings, pension or loss of working capacity benefits of the deceased person. If both parents are beneficiaries, their total benefits shall not exceed 50%. The total of all types of survivors’ benefits must not exceed 80% of earnings.

*9. Unemployment Benefit*

Unemployment benefit is an income replacement benefit payable monthly to an insured person, who is unemployed in any given period of time. For the enterprise sector, it is calculated as 60% of the average insurable earnings within the last 6 months prior to unemployment. The duration of the benefit varies between 3, 6, 8 or 12 months depending on the period for which contributions were paid.

1. Note that the LSSO refers to the 3 worker categories as the 3 schemes of the NSSF. The benefit schemes (e.g., unemployment, pension, maternity, etc.) are usually simply referred to as ‘benefits’. [↑](#footnote-ref-1)