

# Terms of Reference: Understanding informality and Expanding social security coverage in Lao PDR

A study on drivers to informality; needs and behaviours of informal workers and households; willingness and ability to pay for social security; and what needs to change

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*The ILO/Korea Partnership Programme on Social Protection in Lao PDR is looking for a service provider (team of national and international consultants) to conduct research on the informal economy and expanding social security coverage in Lao PDR.*

## 1. Context

Lao PDR is primarily an agrarian country. Around 4.9 million people (70.5% of the population) live in rural areas. An estimated 551,000 people (35.8% of the labour force) work in agriculture, forestry and fishing, almost all of it being in the informal economy. An additional estimated 1.5 million engage in subsistence agriculture. This leads to low and irregular household incomes, greatly depending on environmental and climate conditions, with most households active in both farm and non-farm work during the year. People living in rural areas are mostly characterised by low incomes, poor income security and working conditions, and no social protection should they lose their incomes.<sup>1</sup>

Most of the Lao workforce is in informal employment, which has a share of 82.9% in total employment. This share is slightly higher among women (85.9%) than men (79.9%).<sup>2</sup> High informality presents a significant administrative and financial challenge for the extension of social insurance<sup>3</sup> coverage. This is because workers in the informal economy have irregular and unrecorded incomes, and it is difficult to enforce tax and social security compliance.

The social security scheme under the Lao Social Security Organisation (LSSO) covers most of the public sector and, to a lesser extent, the formal private sector and self-employed workers. The scheme covers workers for medical benefits, pensions, employment injury, occupational disease and non-work-related disease (including long-term disability), sickness, maternity, unemployment, and survivorship. However, the beneficiary group only accounts for a small part of the population, as the formal economy constitutes only 17.3% of the workforce.<sup>4</sup> The majority of the Lao workforce (83%) comprises self-employed workers and workers in non-standard forms of employment and of them, only around 11,000 workers (less than 1%) voluntarily enrol in the scheme.

Social welfare programmes in Lao PDR 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, the Government of Lao PDR is piloting cash transfers for pregnant women and children in the poorest districts of the country, thereby covering at least the first 1,000 days of life. This is

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<sup>1</sup> UNCT Policy Note (2020): Developing a Shock-Responsive National Social Protection System to Respond to the COVID-19 Crisis in Lao PDR

<sup>2</sup> Labour Force Survey 2017

<sup>3</sup> The terms social security and social insurance are used interchangeably through the document.

<sup>4</sup> ILO (2017): Summary report assessment-based national dialogue on social protection Lao PDR

expected to be a crucial step in the development of a comprehensive, shock-responsive social protection system.

The ILO/Korea Partnership Programme “Supporting the Implementation of Sustainable Social Protection Floors for Workers and their Families in ASEAN – Phase III” supports the Government of Lao PDR, particularly LSSO, to create conditions to gradually build a comprehensive and sustainable social protection system. It does so by supporting measures to expand coverage and contributing to improving the efficiency and operations of the system. In addition, it also supports ASEAN member states (governments and social partners) to increase understanding and awareness of social protection, ultimately aiming to protect more vulnerable people better.

## 2. Objectives

The objective of this study is to provide a wider and deeper understanding of informality for policymakers to make better-informed, evidence-based policies and decisions on regulatory issues and practices. In more detail,

- to create a wholesome yet nuanced picture of informality in Lao PDR, particularly by identifying the drivers to informality, the needs and behaviours of informal workers and households<sup>5</sup>, as well as analysing the characteristics of such workers, households and SMEs; and
- to explore ways of expanding social security coverage in Lao PDR, by studying the willingness and ability of people to pay for social security and what needs to change on the demand side (i.e., promoting awareness and incentivisation) and the supply side (i.e., improvements to the design, policy and operational framework).

## 3. Methodology

The study will comprise:

- An overall assessment of informality and social security coverage in the entire country, based on literature review, data analysis and key informant interviews (KIIs).
- A detailed assessment of workers, households and SMEs in 3-4 select areas of the country,<sup>6</sup> with existing LSSO offices and without, primarily based on data gathered by national experts travelling to those areas and conducting KIIs and focus group discussions (FGDs) based on a pre-determined sample size.

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<sup>5</sup> Many households in Lao PDR work as a unit, such as in subsistence farming and fishing, with different household members participating as contributing family workers. Thus, in addition to individual workers and SMEs, the study should consider households as work units where feasible.

<sup>6</sup> The areas will be identified during the inception phase. Tentatively, this would portray a range of sectors (such as coffee, tea, hospitality, automobile, retail, or other major sectors) and a range of geographical areas (Vientiane Capital, Bolaven Plateau, or others).

The study will be based on:

- **literature review** of existing publications, policies and legislation;
- **quantitative analysis of latest survey data** such as Labour Force Survey 2017 and LECS-6 as well as smaller surveys conducted by LNCCI, to analyse the characteristics of workers and SMEs (such as by gender, age, geographical location, household composition, employment status, income level, sector of activity, size of enterprise, and so on) covered or not covered by social security;
- **KIIs and FGDs** with key stakeholders in the government and among development partners, workers and SMEs;
- one **workshop** to present, discuss and validate the findings.

#### 4. Products and activities

Product 1 – Inception report, explaining the methodology for the study and a detailed outline of the final report

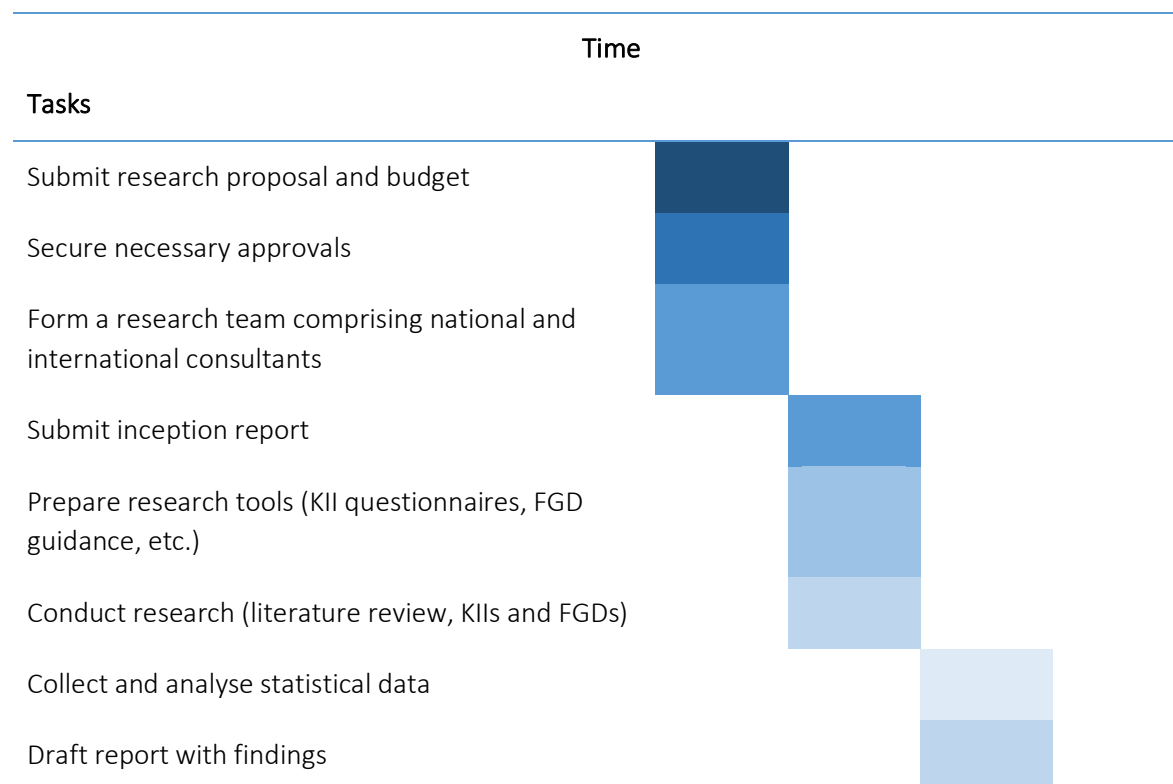
Product 2 – Draft report with findings and recommendations

Product 3 – PowerPoint Presentation at a workshop

Product 4 – Final report, incorporating the feedback (not exceeding 75 pages)

#### 5. Timeline

The study is expected to be completed in approximately 12 months, according to the tentative plan below.



Present at a workshop	
Submit final report	
Translate and publish report	

## 6. Research team

The service provider should ideally consist of a team of national (Lao-based) and international experts. They should have knowledge and experience in social protection, employment formalisation and quantitative/data analysis skills. They should be familiar with the Asia-Pacific regional context.

Competencies of consultants:

- Advanced degrees in social sciences
- Knowledge of social protection policies and practices and informal economy
- Ability to conduct quantitative data analysis
- Strong analytical and writing skills
- Preferred experience of working in Lao PDR or similar countries

As Lao PDR has closed international travel due to the COVID-19 pandemic, the presence of Lao-based expert(s) is considered crucial. Should the restrictions ease and borders open for travel, provisions (including travel costs) will be made for the international experts separately.

Please submit your technical and financial proposal to [del@ilo.org](mailto:del@ilo.org) by 30th September 2021.

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## 7. Annex: Illustrative questions to define the scope and topics of the study

The scope/topics under the research can include some but not be limited to the guiding points/questions listed below. It is anticipated that the precise scope and topics will be finalised between LSSO, ILO and the research team based on the technical and financial proposal and inception phase discussions.

### A. Behavioural study

- How important do people in Lao PDR consider it to be “formal” with regard to labour contracts, nature of enterprise, tax and social security?
- What are the main driving factors (environmental, legal, social, cultural, financial) towards informality?
- What are the differences in perceptions of formality/informality between different groups of people (disaggregated by age, gender, geographical location, household composition, educational attainment, type of work, etc.)?
- How important and necessary do people think it is to be protected from risks, vulnerabilities and shocks?
- Which lifecycle risks or shocks are considered the most critical by people?
- What are the main forms of risk coping mechanisms practised, including familial, social and community networks?
- What is the level of understanding of social security and how it works i.e., the idea of paying a small periodic contribution to receive financial support during risks and shocks, disaggregated according to age, gender, region, type of employment, type of enterprise, etc.?
- How aware are people about their social security rights and the existing provisions, disaggregated according to age, gender, region, type of employment, type of enterprise, etc.?
- How crucial do people think it is to be a member of social security, provided they are aware of it?
- Where have SMEs, informal workers, and household members learned about social security? Consider various media such as Facebook, physical banners, information sessions by village heads or employers, word of mouth, and so on and disaggregate the data by age, gender, region, etc.
- Do workers and enterprises consider it worthy to be a member of social security (cost versus benefit)?
- To what extent are people willing to pay for social security benefits, disaggregated by social security branch?
- What is the level of trust in public services, disaggregated according to age, gender, region, type of employment, type of enterprise, etc.?
- What are the main reasons for lack of public trust among people?

- In the context of high fluidity in LSSO membership, what are the main reasons why:
  - (i) self-employed workers/voluntarily insured members enrol in social security?
  - (ii) self-employed workers/voluntarily insured members drop out of social security?
  - (iii) SMEs enrol in social security?
  - (iv) SMEs drop out of social security?
- What possible incentives/nudges in scheme design, implementation and communication could encourage people to enrol and continue paying contributions?

#### **B. Quantitative data analysis**

- Analyse the data from the most recent surveys (i.e., Labour Force Survey 2017, LECS-6, COVID-19 or other surveys conducted by LNCCI) and present the findings, with the objective of exploring correlations between (i) workers' characteristics such as gender, age, geographical location, household composition, employment status, type of employment, income level, sector of activity, and so on, and (ii) registration in social security including active/inactive contributors, duration of enrolment, and so on.
- Analyse the most recent survey data and present the findings, with the objective of exploring correlations between (i) enterprise characteristics such as size of enterprise, sector of activity, and so on, and (ii) registration in social security, including active/inactive contributors, duration of enrolment, and so on.
- Are there any trends or dominant characteristics that become evident in the relations between workers and enterprises and labour brokers where applicable?

#### **C. National policy analysis**

- How does the overall policy environment, e.g., NSEDP, national commissions and sector working groups, support or inhibit the extension of social security coverage?
- Do current policies and plans, especially the National Social Protection Strategy and LSSO's 5-year plan, adequately support the extension of social security coverage?
- Is there sufficient guidance in existing laws and regulations to ensure smooth, consistent and robust implementation of the social security scheme by local LSSO staff?

#### **D. Analysis of the social security scheme design**

- Are the contribution amounts feasible for Lao workers and SMEs?
- To what extent are people able to pay for social security benefits, in comparison with their income levels?
- Is the contribution schedule feasible and attractive?

## **E. Analysis of organisation and delivery structures**

- Is it easy or burdensome to acquire the necessary documentation?
- Do administrative procedures constitute a barrier to participation and how critical is it?
- Do travel time and costs constitute a barrier to participation and how critical is it?
- What are the preferred methods of payment of contributions and benefits, disaggregated by age, gender, geographical location, type of work, etc.?
- To what extent would technology-based solutions in enrolment, payment and information processes help to increase participation, all other factors remaining constant?
- If yes, what kind of solutions/partnering agents are preferred for service delivery and payments?
- What kind of organisation/collectivism among workers, households and SMEs could help to facilitate enrolment and payment procedures?
- What kind of organisation/association among workers, households and SMEs could help to promote understanding of social protection and information about the existing scheme?
- Are there existing forms of professional organisation (e.g., cooperatives, associations, producers, sellers) having contacts with public administrations or local governments (including business registration and tax authorities) that could serve as partnering agents to facilitate access to social security?

## **F. Recommendations**

- What should be improved at the overall policy level?
- What can be improved at the policy level concerning other related sectors such as taxation, agriculture, SMEs, and so on?
- What should be improved in the design of the social security scheme to make it more feasible and attractive to informal workers, households and enterprises?
- What can be changed in financing, especially with regard to subsidisation for low-income people and households?
- What can be improved in the operations and delivery mechanisms?
- What innovative, technological solutions can be realistically adopted?
- What incentives and behavioural nudges can be included in the scheme design or delivery to increase participation?
- What could be the next steps in the select areas with existing LSSO offices?
- What could be the next steps in the select areas without existing LSSO offices?